



Rhode Island Department of Revenue  
Lottery Division

# **Comprehensive Annual Financial Report**

For the Fiscal Year Ended June 30, 2016

Prepared by the Finance Department



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2016

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# Introductory Section

# Rhode Island Department of Revenue Lottery Division

December 5, 2016

The Honorable Gina M. Raimondo, Governor  
Robert S. Hull, Director of Revenue

We are pleased to present to you the COMPREHENSIVE ANNUAL FINANCIAL REPORT of the Rhode Island Lottery (the Lottery) for the fiscal year ended June 30, 2016. This report has been prepared by the Finance Department of the Lottery. The Lottery is responsible for the accuracy of the financial data and the completeness and fairness of the presentation, including all disclosures.

The Lottery is a division of the Department of Revenue of the State of Rhode Island, and its financial statements are included in the State's Comprehensive Annual Financial Report. This report presents Lottery activity in a single enterprise fund. Only the activity of the Lottery, and no other data or information related to any other State agency or fund, is included in this report.

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Lottery's MD&A can be found immediately following the report of the independent auditors.

The Lottery was created by Constitutional Amendment passed on November 6, 1973. The legislation to create the Lottery was passed in March of 1974, and the Lottery began in May of 1974. The Lottery is operated like a business within the framework of State laws and regulations. Like any business, the Lottery's goal is to maximize income. As a State agency, however, the challenge lies in accomplishing this while maintaining the trust and best interest of the citizens of Rhode Island. It is our goal to achieve both.

# History of the Lottery Industry

State run lotteries have long represented to governments an attractive alternative to other taxation methods, since their profits were returned to the public through community works, cultural activities, or financing of various projects. Two examples are the Vatican Museums and the Rialto Bridge in Venice.

To fully understand the history of lotteries in America, one must recognize the fact that the American colonies, at the time of their founding, lacked the capital, both in the public and private sector, needed to start the process of economic and cultural development.

As the English settled in America, the model of development that stressed private rather than public investment motivated them. Royalty in England were simply unwilling to spend their own money or tax their subjects to subsidize the development of the colonies, and lotteries became an important method of raising capital for both the public and private initiatives. In fact, the “Great Standing Lottery” held in London in 1612, was staged to help bail the Virginian Company, the corporation in charge of the settlement of Virginia, out of debt. A notable outcome for the first drawing of this lottery was that Anglican churches held two of the three winning tickets.

Perhaps one of the most poignant lottery stories is that of the abortive attempts to bail Thomas Jefferson out of an \$80,000 debt by holding a lottery on his behalf on the 50<sup>th</sup> anniversary of the adoption of the Declaration of Independence, an anniversary that coincided with the precise day of his death.

In the 1700s, many other founding fathers also supported American lotteries and used them for projects such as the financing of cannons for the Revolutionary War (Benjamin Franklin), the rebuilding of historic Faneuil Hall in Boston (John Hancock) and the financing of construction on the Mountain Road, which opened westward expansion from Virginia (George Washington).

The period from 1740 to 1820 witnessed an explosion of public works construction, such as roads, bridges, and canals, much of which was financed by lottery proceeds.

Many of America’s elite, private universities, Yale, Princeton, Harvard, University of Pennsylvania, and Columbia, have buildings funded through the proceeds of lotteries. The fact of the matter was that lacking the endowments built up over centuries by places like Oxford and Cambridge, American higher education had no choice but to resort to lotteries.

Many of the principal religious denominations of America (ironically, many of those which would, in the middle part of the 19<sup>th</sup> Century, lead the fight against lotteries) actually depended heavily on lotteries to get their start.

While very few people in America would have denied there was a need to raise money to build colleges, bridges, roads, or churches, then as now, America differed over whether lotteries were the appropriate way to raise those funds. The arguments for and against lotteries have not changed significantly over the course of the 200 years, from the 17<sup>th</sup> Century Puritan and Quaker denunciations of all games of chance, to those similarly voiced by fundamentalist Protestant religious groups in the 19<sup>th</sup> and 20<sup>th</sup> Centuries.

The concern about gambling, however, was often overwhelmed by the recognition that the lottery was a means that enabled the accomplishment of useful public projects. William Ames, a Cambridge teacher of many of the leaders of the Massachusetts Bay colony, denounced the playing of the lottery solely for the purpose of gain, but defended lotteries as long as they were intended for some pious end. The settlers of New England would find many virtuous purposes toward which to direct lottery proceeds. During the colonial period, the

New England colonies authorized more lotteries than any other region of the country, which benefited colleges, churches, and every other manner of public works construction one could think of.

By the time of the Revolution, most every American colony joined the New England colonies in using lotteries as a primary method for financing both public works and private economic development. This reliance on lotteries was the result of the coming together of two powerful forces, a desperate need for capital to fight the war against Great Britain and the reluctance to impose taxes. It is during this time in history that some of America's most respected statesmen publicly campaigned for lotteries as a means of raising revenues. The two most well-known for this were Thomas Jefferson and Alexander Hamilton.

Thomas Jefferson described a lottery as a "salutary instrument . . . where men run small risks for the chance of obtaining a high prize." It was, he said, a "tax laid only on the willing," and was therefore more accepted than any other form of direct taxation. Alexander Hamilton described lotteries as a means by which an ordinary man could "hazard a trifling sum for the chance of considerable gain." Hamilton offered advice, which has been relevant to every lottery organizer since that time. He said there were two cardinal rules for a successful lottery: keep it simple, so that everyone understands the rules, and keep the tickets cheap, so that everyone could afford to participate.

The period of time from 1800 to the Civil War was the most active time for lotteries. There were an incredible number of lotteries in America during this period, some held for public purposes, some for a mixture of public and private purposes, and some for private purposes as entrepreneurs attempted to raise money for their own projects. It was at this time in history that charges of fraud and deception, which coincided with a resurgence of religious opposition to lotteries as being sinful, began.

By the 1820s, there was a vast array of lotteries being conducted, sometimes at the same time on the same day, and although the lottery ticket sellers became increasingly clever in their efforts (P.T. Barnum was a lottery agent), the market was overwhelmed. Because of that, there were many instances where the proceeds from the lottery were not sufficient to pay the prizes, a problem that often resulted in lottery organizers leaving town with the money in hand before the drawing could be held.

Charges of fraud and deception surrounded lotteries of the 19<sup>th</sup> Century, and the two most commonly believed reasons for these were dishonest lottery promoters and increasing religious opposition. There were, however, many other factors, including the growth of the banking institution, which offered an alternative means for entrepreneurs to raise money; an economic boom in the 19<sup>th</sup> Century which created sources of excess capital that could be used for investment in public works; and lastly, the willingness of state governments to step in and raise taxes to finance worthwhile public projects.

The full history of the decline of the lottery in America lasted from the Civil War until the resumption of the lottery in 1964 when New Hampshire established a state-run lottery for the purpose of raising money for education. New York, which had been the State to pass the first constitutional prohibition of lotteries in the United States in the 1820s, followed New Hampshire's return into the lottery business in 1967. In 1971, the State of New Jersey started their lottery and introduced a computer-based weekly game, which offered inexpensive tickets (50 cents), convenience of sale, and a weekly prize of \$50,000. In its first year of operation, the New Jersey Lottery grossed \$142.5 million and set the trend for the lottery industry. New York and New Hampshire revamped their systems, and other states introduced lotteries utilizing New Jersey's operation as a model.

Lotteries, through the years, have become more diversified. The vast array of lottery games in existence today caters to a variety of consumer tastes. These changes are largely attributable to the work of marketing experts. With greater selections, come increased sales. Considerable changes and new possibilities were introduced in

lotteries through major technological innovations such as centralized on-line computer systems (1971) and magnetic strip tickets (1992).

By developing and tailoring products to the needs of clientele, the lottery has established itself as an everyday element in today's society.

## **History of the Rhode Island Lottery**

In 1744, Rhode Island's first lottery raised money for a bridge at Weybosset Street in Providence. Tickets cost about \$12 each and raised approximately \$6,500 for the bridge. Several other lotteries were conducted throughout the 1700s including a lottery used to partially finance the building of a brick Colony House, which became Rhode Island's first State House following the Declaration of Independence. One of the most successful lotteries in Rhode Island was the one authorized to build Thames Street in Newport. It paid over \$1 million in prizes and was so popular that the people of Newport were able to build, pave and extend streets throughout the city.

On November 6, 1973, more than a three to one margin passed a Constitutional Amendment to create a lottery in Rhode Island. The amendment mandated that the General Assembly prescribe and regulate all future lotteries in Rhode Island. Legislation was passed to start the Lottery in March 1974, and it began two months later in May. The original purpose of the Rhode Island Lottery was to make up for the revenue lost from allowing the value of a trade-in automobile toward the sales tax liability on a new automobile.

The Lottery's first drawing was held at the State House on May 30, 1974. This weekly 50-cent game had a top prize of \$50,000. Rhode Island was the first state to televise a live lottery drawing in January of 1975, at no expense to the Lottery, which is still the case today. That same year Rhode Island became the first state to have a weekly lottery television program. The Numbers Game began on February 13, 1976 and continues today.

The first instant ticket game, Play Ball, was introduced on May 11, 1976. Since that time an additional 889 instant ticket games have been introduced.

On-line games started in February of 1978, and Lottery sales doubled with this new addition. The 4/40 Game began in the spring of 1981, with variations to that game being made throughout the years.

The Multi-State Lottery Association (MUSL) was formed in 1988 for the purpose of affording small states the opportunity to offer games with a higher jackpot than their population alone would generate. Along with Rhode Island, the initial members were the District of Columbia, Iowa, Oregon, Kansas and West Virginia. The first such game was called Lotto-America, which was replaced with PowerBall® on April 22, 1992. In February of 1998, Rhode Island replaced the Multi-State Daily Millions Game with the introduction of its own lotto game called Roll Down. This lotto game was succeeded by Easy Win in March 2000, Money Roll in November 2000 and the current game of Wild Money in January 2002. The Rhode Island Lottery began offering Mega Millions® on January 30, 2010 through its participation in the Multi-State Lottery Association.

Keno was introduced in the State on September 13, 1992, becoming the second U.S. Lottery (Oregon was first) to do so. Around this same time, Video Lottery Terminals (VLTs) went on-line at the State's two pari-mutuel facilities.

On July 1, 2005, due to the separation of powers law previously passed, the Rhode Island Lottery Commission was disbanded, and the Division of Lotteries of the Rhode Island Department of Administration was formed. On July 1, 2006, the Division of Lotteries became the State Lottery Division of the State of Rhode Island Department of Revenue.

In June 2013, casino table gaming opened at Twin River in Lincoln, Rhode Island, having passed statewide and local referenda in November 2012. The casino began offering nine different table games including black jack, craps, roulette, Pai Gow poker, Spanish 21, three card poker, mini baccarat, let it ride, and a big six wheel. In December 2015, the casino added poker to the mix of table games offered.

## **History of Lottery Games**

### **Lotto Games**

The Germans were the first to bring the modern lotto game to the market. Norwest Lotto in northwestern Germany launched the first game on October 9, 1955. Players simply marked 6 figures out of a total of 49 on their coupon. The idea quickly took off, and many other countries soon followed the Germans' lead.

With the "quick pick" feature, players can have the computer generate their numbers at random. Most lotteries offer this option.

Alexandre Fichet (1799-1862), who designed a system to replace manual draws using balls, developed technology for lotto drawings in France. He invented a way to carry out lottery drawings using wheels with numbers from 1 to 9 around the rim. At the end of the wheel's rotation, the winning number was clearly shown through a window.

In 1985, the launch of Tri-State Lotto, the first multi-state lottery, linked Maine, New Hampshire and Vermont state lotteries.

### **Instant Tickets**

The first instant lottery ticket was marketed in 1974 in the Commonwealth of Massachusetts, which became the first state lottery to develop and sell an instant game. Today, all state lotteries offer instant tickets, and this type of lottery game is recognized as one of the most popular lottery offerings in North America.

### **Video Lottery**

Although the invention of the "slot" machine dates back to 1890, it was only in 1976 that the first black and white video technology was developed. Color video terminals were launched on the market several months later.

Initially, video lottery machines were only associated with casinos; however, in 1985, the State of Nebraska changed its legislation and allowed the Nebraska Lottery to test a video lottery that was not linked to a central system. The experiment was terminated that same year.

Several years later, when the South Dakota Lottery was searching for new sources of revenue, it took up the idea of video lottery. In March of 1989, legislation allowing the establishment of the first server-connected video lottery was approved. In the fall of 1990, South Dakota offered the first operational video lottery in all of the United States. On June 30, 1992, the Rhode Island Division of State Lottery received authorization to conduct video lottery games at pari-mutuel facilities in operation on that date. By the end of calendar year 1992, Oregon, Rhode Island, and Louisiana had video lottery terminals up and running in their respective states.

## Table Games

The precise origin of casino gambling is unknown, but it is generally believed that gambling in some form or another has existed in most societies in history. The first known European gambling house was established in Italy in 1638. In American history, early gambling establishments were called saloons and were popular in cities such as New Orleans, Chicago, San Francisco, and St. Louis. Casino gambling as we know it today was legalized in Nevada in 1931, and America's first legal casinos were set up there. In 1978, New Jersey allowed casino gaming, and Atlantic City became America's second largest gambling city.

Casino gambling began in New England in 1986. In 2012, legislation was enacted in Rhode Island authorizing State operated table games to be conducted at Twin River, the State's largest video lottery facility. In June 2013, traditional card and dice games were added to video lottery terminals already at the facility. In December 2015 poker was added to the mix of table games offered.

## Keno

Keno originated in China more than 2,000 years ago. Legend has it that this game financed the Great Wall of China. The original Chinese game was played with characters from the “Thousand Character Classic”, an ancient poem of luck by Confucius. Keno subsequently spread far beyond the borders of China and was well established in both Europe and the United States by the turn of the 20<sup>th</sup> Century. Today, Keno is a very popular lottery offering because of its flexibility in the number of spots that can be played, which in effect means there are actually several games going on at the same time all with different odds of winning a prize. Daily Keno drawings have proven more successful than those held two or three times a week. Rhode Island is one of only a handful of lotteries offering a new Keno draw every 4 minutes.

## Rhode Island Lottery Product Offerings

The Rhode Island Lottery provides the opportunity to participate in the following games:

### Instant Tickets

Instant (or scratch) tickets are played by scratching the latex covering off the play area on the ticket. In order to win, the player must match two or three of a kind, match or beat your numbers to the winning numbers, get like symbols or wild features. Instant ticket offerings in Rhode Island include card games, as well as whimsical, sports, money, as well as other methods, holiday themes, and others. Also offered are extended play games with second chance drawings for additional cash and merchandise prizes on various licensed and branded games, including Patriots prize packs and season tickets and a trip to Hollywood to play Wheel of Fortune<sup>®</sup>.

## Daily Numbers

The Daily Numbers game has been very popular in Rhode Island since its inception in 1976. Players can wager on 2, 3, or 4 digits. Wagers on 3 and 4 digits can be played in exact or any order. Players can select their own numbers or utilize the computer “quick pick.” The Daily Numbers drawing is televised live Monday through Saturday at 7:00 p.m. and at 6:30 p.m. on Sunday.

The Lottery added an Instant Match feature to the Daily Numbers game in September 2002. Instant Match offers the player the chance to win up to \$500 instantly on a Daily Numbers ticket, for an additional \$1 per wager.

In May 2014, the midday drawing was added offering additional wagers to the evening drawing. The midday drawing is held daily at 1:30 p.m., and players may view it on YouTube™ or on the Lottery’s website.

## Keno

Keno was introduced in September of 1992 and quickly proved to be a very popular game. Rhode Island Keno has a 10 of 20 of 80 matrix, with a \$100,000 top prize. Players can wager on 1 to 10 numbers (spots) utilizing their own number selection or a computer “quick pick.” In January of 2000, Keno drawings increased from every 5 minutes to every 4 minutes. These Keno drawings occur from 5:00 a.m. to 12:45 a.m., Monday through Saturday and 7:00 a.m. to 12:45 a.m. on Sunday. In April of 2001, Keno Plus was introduced. Players have the option to purchase this feature that could increase their winnings by ten times, thus giving Keno players the potential to win up to \$1,000,000. Multi Chance Keno started in April 2011, and offers players a chance to win free bonus games and higher prizes up to \$500,000.

## Bingo

Bingo is a monitor game that was introduced to the Rhode Island Lottery on October 14, 2012. The game is played on a traditional bingo style board, where players must make one of eight patterns to win a prize. For each drawing, 30 numbered balls are drawn. Players can wager \$1, \$2, \$5, or \$10 per board, with a top prize of \$100,000.

## PowerBall®

PowerBall® is a Multi-State Lottery Association game offered in 44 states (including Rhode Island), plus the District of Columbia, Puerto Rico, and U.S. Virgin Islands. For \$2, players select “5 out of 69” numbers and a PowerBall® “1 out of 26.” Players can select their own numbers or utilize a computer “quick pick.” Jackpots start at \$40 million and grow by a minimum of \$10 million for each drawing not producing a jackpot winner. Televised drawings are shown on Wednesday and Saturday at 10:59 p.m. For an additional \$1, players can choose the PowerPlay® option to increase their non-jackpot prizes. As of October 2015, the PowerPlay® feature is now a random multiplier whereby players are able to win up to 10X the value of set prizes on lower prizes below Match 5. The 10X multiplier is available for advertised annuity jackpots up to \$150 million. The \$1 million prize for matching 5/5 white balls increases to a maximum of \$2 million when you purchase the PowerPlay®. The multiplier does not apply to the grand prize jackpot.

## Mega Millions<sup>®</sup>

The Rhode Island Lottery began offering Mega Millions<sup>®</sup> on January 30, 2010 through its participation in the Multi-State Lottery Association. Players select “5 out of 75” numbers and a Mega Ball “1 out of 15.” Players can select their own numbers or utilize a computer “quick pick.” Jackpots start at \$15 million and grow by a minimum of \$5 million for each drawing not producing a jackpot winner. Drawings are held on Tuesday and Friday at 11:00 p.m. Megaplier<sup>®</sup>, which is a multiplier option for Mega Millions<sup>®</sup> winnings, allows players who choose this option on their Mega Millions<sup>®</sup> ticket to have the chance to increase their winnings by up to 5 times including the \$1 million prize for matching 5/5 white balls. The multiplier does not apply to a jackpot win.

## Wild Money

Wild Money is an on-line game with a starting jackpot of \$20,000 that continues to grow until a player matches 5 numbers selected out of a field of 35. Its first jackpot of \$315,869 was won on April 13, 2002 and the highest was \$601,207 on March 25, 2006. Drawings are held Tuesday, Thursday, and Saturday at 7:30 p.m.

## Lucky for Life<sup>®</sup>

Lucky for Life<sup>®</sup> expanded to twenty lotteries in fiscal year 2016. Players select "5 out of 48" numbers and a Lucky ball "1 out of 18" and have a chance to win \$1,000 a day for life. There is also a second chance prize to win \$25,000 a year for life. Drawings are held Monday and Thursday at 10:38 p.m. in Connecticut and can be viewed at [www.neluckyforlife.com](http://www.neluckyforlife.com).

## Video Lottery

Video Lottery debuted in Rhode Island in September of 1992. There are a total of 5,365 video lottery terminals (VLTs) located in the State's two pari-mutuel facilities, Twin River and Newport Grand. As of June 30, 2016, Twin River has 4,268 VLTs and Newport Grand has 1,097 VLTs. Various virtual and multi-layer display games are offered on the VLTs.

## Table Games

Table gaming opened in Rhode Island in June 2013 at the Twin River Casino in Lincoln, Rhode Island. There are currently 108 tables available at the Twin River Casino offering traditional card and dice games, including poker which was added in December 2015.

## Pull Tabs

Rhode Island General Laws mandate that pull tab tickets be sold only by non-profit organizations. The Rhode Island Lottery oversees the sale of pull tab tickets to these groups.

## **Rhode Island Economic Outlook**

Rhode Island's population remained approximately the same over a twelve month period at 1.05 million as of July 1, 2016. As of June 2016, the unemployment rate was 5.5%; which was above the national rate of 4.9%.

## **Lottery Industry Economic Outlook**

Despite current economic conditions, the United States Lottery Industry experienced growth in fiscal year 2016. Based on unaudited figures from the North American Association of State & Provincial Lotteries (NASPL), sales increased from \$73.9 billion in fiscal year 2015 to \$80.5 billion in fiscal year 2016, up 9.04%.

## **Highlights of Fiscal Year 2016**

- For fiscal year 2016, PowerBall® sales increased to \$10.3 million or 39.4% over fiscal 2015. The increase was due in part to a record \$1.6 billion jackpot won in January 2016.
- Table games at Twin River casino generated net table game revenue of \$125.8 million an increase of \$19.2 million or 18.0% for fiscal year 2016. The number of tables available increased to 108 offering traditional card and dice games including black jack, craps, roulette, and various card games, including poker which was added in December 2015.
- In fiscal year 2016, the Lottery achieved the NASPL (North American Association of State & Provincial Lotteries) NSI verification in the areas of Quality Insurance and Best Practices.

## **GFOA Certificate of Achievement**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Rhode Island Lottery for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2015. This was the nineteenth consecutive year that the Lottery has achieved this prestigious award (1997 through 2015). In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR. This report must comply with both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Rhode Island Lottery received a certificate on its first submission, in May of 1998, and on each subsequent attempt. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

## **Accounting Systems and Procedures**

The Rhode Island Lottery operates the Lottery fund, an enterprise fund that, like a private business, utilizes the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recognized when earned; and expenses are recognized at the time the related liabilities are incurred.

## **Budgetary Controls**

The operating budget of the Rhode Island Lottery is submitted to the State Budget Office, through the Department of Revenue, for inclusion into the Governor's State Budget to the General Assembly. The State Budget is ultimately legally enacted by the General Assembly.

The Revenue Estimating Conference continues to adopt revenue estimates for the Lottery, which are incorporated into the State Budget.

## **Internal Control Environment**

Management of the Lottery is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft, or misuse and to ensure that the accounting system allows for recovery of complete, accurate and timely financial information. The structure is designed to provide reasonable assurance, rather than absolute assurance, that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires estimates and judgments by management.

Since the Lottery manages a valuable ticket inventory, controls the disbursement of prizes, operates and regulates video lottery activity at the State's two pari-mutuel facilities, and operates and regulates table gaming at the Twin River Casino, the following steps are taken to ensure the operations remain honest and secure:

- Employing an Information Technology Security Manager.
- Employing specialized security staff.
- Maintaining secure Lottery facilities and limiting access to them.
- Performing background checks on retailers, vendors, and employees.
- Printing lottery tickets with special security features.
- Independent Information Technology security audits of Lottery networks.
- Implementing additional Information Technology security control requirements over each video lottery facility's system to protect the integrity of the data within the systems and the financial data used by the Lottery.
- Providing a variety of access and other controls in Information Technology systems and environments.
- Implementing a Video Lottery System Monitoring Plan to ensure the integrity of video lottery games and to ensure that control procedures are operating as designed.
- Monitoring video lottery terminals on a daily basis and reconciling to a cash management system.
- Processing daily transaction data of all retailer activity by Lottery personnel using the Lottery's internal control system programs and reconciling transactions to reports generated by the on-line system.

- Implementation of comprehensive information security objectives for the Lottery's on-line and video lottery systems as provided by its central system provider.
- Monitoring regulated casino procedures and controls over net table game revenue.
- Assignment of table games compliance inspectors and investigators to assess potential violations of regulatory and compliance requirements and game play, and to determine grounds for turning over to law enforcement.
- Continuous monitoring of table games cash and chip management, required financial documents, and surveillance of games in play.
- Implementation of financial, operational, and compliance minimum internal control requirement standards for casino management.

The Lottery currently has 79 employees, 47 of whom are located at the headquarters in Cranston, Rhode Island. Separated from the headquarters, the drawing studio is located at the Twin River pari-mutuel facility. Additionally, 32 employees are located at the Twin River facility operating and regulating table games to ensure compliance with Rhode Island statutory requirements and Lottery rules and regulations.

## **Future Initiatives**

Recent legislation authorizes a statewide and local referendum to offer state-operated video lottery terminals and state-operated table games at Twin River – Tiverton, in Tiverton, Rhode Island upon passage. The referendum is expected to be included on the ballot in November 2016. Upon passage of the referendum, the license to operate a facility in Newport, Rhode Island will terminate and be issued to Twin River – Tiverton.

A new Lottery website is being developed which will be a fully responsive site which will allow players to view the site on any size screen. The site will be built using the latest hardware and software to improve the overall performance of the website. With the updated site, Keno and Bingo game animations will play on a phone or tablet, in addition to desktop computers, and additional player tools will be available to increase website interaction. The new hardware and software supporting the site will allow the Lottery to implement future changes that will provide the best possible player experience while on the site. In addition to the new site, an updated email marketing solution will be implemented to support and build the VIP Club program. This will allow for targeted email communications and promotional offers.

The Lottery received notification of its acceptance into the North American Association of State and Provincial Lotteries/National Council on Problem Gambling's Responsible Gaming Verification Program. Rhode Island is one of six Lotteries selected to be a part of this program. The Verification Program process is expected to be completed in July 2017.

In addition to the Lottery's on-going Play Responsibly Program and the Lottery-sponsored 24-hour Problem Gambling Helpline, the legislation that passed allowing for the implementation of Table Games in Rhode Island requires the Lottery to establish additional problem gambling programs, with annual reimbursement of expenses by Twin River and Newport Grand of no less than \$100,000 in aggregate. The Lottery's contract with CODAC in Rhode Island has resulted in a gambling treatment services program, called "Problem Gambling Services of Rhode Island", which is administered by CODAC and offers treatment at locations around the state for all individuals regardless of insurance coverage. The Lottery continues to serve on the Rhode Island Council on Problem Gambling and maintains its memberships with the National Council on Problem Gambling, the Northeast Consortium of Problem Gambling Councils, and the Association of Problem Gambling Service Administrators. Marketing campaigns are conducted throughout the year promoting the Helpline, and Treatment Services, and the overall Play Responsibility Program.

The Twin River and Newport Grand video lottery terminal facilities continue to coordinate their regular promotions with their promotional points programs. Both facilities also plan to continue providing entertainment to complement their marketing programs and generate additional revenue. Additionally, reimbursement for certain marketing expenses are paid to the facilities after specific statutory requirements are met, for those marketing expenses as authorized and allowed by the Lottery.

## Independent Audit

The Rhode Island General Laws require an annual audit to be performed by the State Auditor General. The fiscal year 2016 audit of the financial statements has been completed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. The Independent Auditor's Report on the Lottery's financial statements is included in the financial section of this report. In accordance with *Government Auditing Standards*, the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, was issued by the Auditor General.

## Acknowledgements

Preparation of this report was accomplished with the significant efforts of Sandra Lee, Anissa Colson, Kevin San, and Margaret Carlson.

This Comprehensive Annual Financial Report reflects our commitment to maintain the Rhode Island Lottery's financial statements and record keeping systems in compliance with the highest standards of accountability.

Respectfully submitted,



Gerald S. Aubin  
Director



Daniel R. Sarro  
Finance Administrator



Government Finance Officers Association

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Presented to

**Rhode Island Lottery**

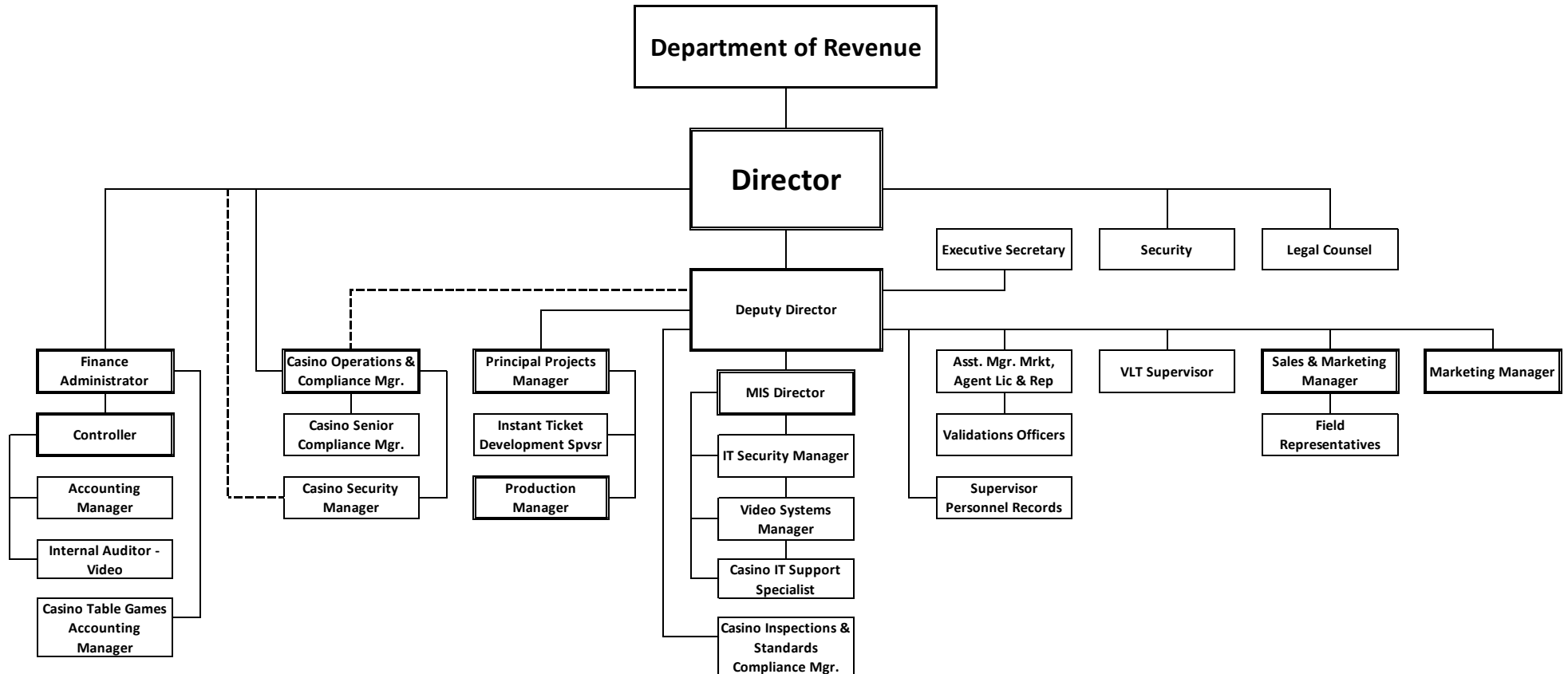
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

A handwritten signature in black ink, reading "Jeffrey R. Egan". The signature is written in a cursive, flowing style.

Executive Director/CEO

**Rhode Island Lottery  
Organizational Chart  
June 30, 2016**



## **PRINCIPAL OFFICIALS**

**GERALD S. AUBIN  
DIRECTOR**

**MARGARET D. ROSE  
DEPUTY DIRECTOR**

**DANIEL R. SARRO  
FINANCE ADMINISTRATOR**

**SANDRA M. LEE  
CONTROLLER  
(IN MEMORIAM)**

**JOSEPH R. SANTURRI  
DIRECTOR OF MANAGEMENT INFORMATION SYSTEMS**

**KEITH J. TUCKER  
CASINO OPERATIONS AND COMPLIANCE MANAGER**

**DONALD J. CATALDI  
SALES AND MARKETING MANAGER**

**MELISSA JUHNOWSKI  
MARKETING MANAGER**

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# Financial Section



## Office of the Auditor General

State of Rhode Island and Providence Plantations - General Assembly  
**Dennis E. Hoyle, CPA - Auditor General**

[oag.ri.gov](http://oag.ri.gov)

33 Broad Street • Suite 201 • Providence, RI • 02903-4177  
tel: 401.222.2435 • fax: 401.222.2111

### **INDEPENDENT AUDITOR'S REPORT**

Joint Committee on Legislative Services, General Assembly,  
State of Rhode Island and Providence Plantations:

#### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the Rhode Island Lottery (Lottery), an enterprise fund of the State of Rhode Island and Providence Plantations, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Lottery as of June 30, 2016, and the respective changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matters**

As discussed in Note 13(b), the Lottery's ability to generate income for transfer to the State's General Fund could be adversely impacted by current or planned gaming activities of competitors in neighboring states.

As discussed in Note 2(b), the financial statements present only the Lottery enterprise fund and do not purport to, and do not, present fairly the financial position of the State of Rhode Island and Providence Plantations, as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our opinion is not modified with respect to these matters.

**Other Matters****Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 19 through 29, Schedule of the Lottery's Proportionate Share of the Net Pension Liability – Employees' Retirement System Plan on page 61, and the Schedule of the Lottery's Contributions – Employees' Retirement System Plan on page 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Lottery's basic financial statements. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

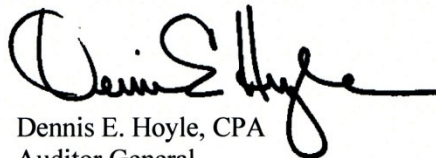
Schedule 1 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the

underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedule 1 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory and Statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2016 on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal control over financial reporting and compliance.



Dennis E. Hoyle, CPA  
Auditor General

September 28, 2016

# RHODE ISLAND LOTTERY

## Management's Discussion and Analysis

Management of the Lottery provides this *Management's Discussion and Analysis* of their financial performance for the readers of the Lottery's financial statements. This narrative provides an overview of the Lottery's financial activity for the fiscal year ended June 30, 2016. This analysis is to be considered in conjunction with the financial statements to provide an objective analysis of the Lottery's financial activities based on facts, decisions, and conditions currently facing management.

### Understanding the Lottery's Financial Statements

The Lottery, a division of the Department of Revenue of the State of Rhode Island and Providence Plantations (State), is accounted for as an enterprise fund that reports all assets and liabilities using the accrual basis of accounting, much like a private business entity. In accordance with accounting principles generally accepted in the United States of America, this report consists of a series of financial statements, along with notes to the financial statements and a supplementary schedule detailing operating revenue and the cost of gaming operations for each lottery game. The financial statements immediately follow this *Management's Discussion and Analysis* and are designed to highlight the Lottery's net position and changes in net position resulting from Lottery operations.

The most important relationship demonstrated within the Lottery's financial statements is the requirement that the Lottery transfer net income to the State's General Fund. Accordingly, the primary focus of these financial statements is determining net income available for payment to the State's General Fund rather than the change in net position of the Lottery. It is also important to note that most financial statement balances have a direct relationship to revenue. Generally, as lottery revenues increase for a particular game, the related amount paid to the State's General Fund also increases. Similarly, increases in revenue for a particular lottery game result in direct increases to the related prize awards and commissions expense.

Most assets included on the Statement of Net Position represent current amounts such as cash and accounts receivable from Lottery retailers. Most current liabilities represent prize awards owed, vendor commission payments, and amounts due to the State's General Fund. Current assets approximate the amounts required to satisfy current liabilities at year-end.

The deficit in net position of \$18.3 million reported at June 30, 2016 relates to the Lottery's previous sale of its exclusive rights to operate its gaming systems and the Lottery's proportionate share of the net pension liability as a participating employer in the Employees' Retirement System Plan. In fiscal 2003, the Lottery sold the exclusive right to operate its current gaming systems for a 20-year period at a cost of \$12.5 million and immediately paid the proceeds to the State's General Fund. According to the terms of the agreement, if for any reason, this contract is voided prior to its completed term; the Lottery will be required to refund a pro-rata share of the sales price to the gaming system provider. In accordance with generally accepted accounting principles, the Lottery recognizes the revenue related to this transaction over the 20 year life of the contract. The deficit net position at June 30, 2016 includes the remaining balance of \$4.4 million representing unearned contract revenue. The balance of \$13.9 million mostly represents the Lottery's proportionate share of the net pension liability as of June 30, 2016, as a participating employer of the Employees' Retirement System of RI. Further details of the Lottery's net pension liability can be found in the notes to the financial statements.

# RHODE ISLAND LOTTERY

## Management's Discussion and Analysis

### Financial Highlights

- The Lottery transferred \$369.8 million to the State's General Fund in fiscal 2016. The transfer amount is \$12.2 million or (3.2%) less than fiscal year 2015. Due in large part to competition from a nearby Massachusetts casino which opened in June 2015, video lottery net revenue decreased during fiscal 2016. The decrease in revenue, however, was significantly less than anticipated.
- PowerBall® sales increased by \$10.3 million or 39.4% in fiscal year 2016. During fiscal year 2016, there were six jackpots exceeding \$100 million, including a record jackpot of \$1.6 billion won in January 2016. Higher jackpots generally result in increased sales.
- Instant ticket sales increased by \$5.8 million or 6.4% in fiscal year 2016. During fiscal year 2016, the Lottery continued with the successful family of games, "X" times the money, and introduced another family of games called "7". The Lottery also introduced another higher dollar denomination instant ticket with a significant top prize amount.
- Keno sales increased by \$3.2 million or 4.0% in fiscal year 2016. Improved economic conditions including maintaining the retailer base, and the addition of new retailers resulted in additional sales.
- Net table game revenue at Twin River increased \$19.2 million or 18.0%. This resulted in net income of \$15.6 million from operations after the payment of related commissions and Lottery operating expenses. The addition of 12 table games in August 2015 and 16 poker tables in December 2015 in conjunction with marketing efforts enhanced net table game revenue.

# RHODE ISLAND LOTTERY

## Management's Discussion and Analysis

### Analysis of Comparative Financial Position

The Lottery's net position (deficit) at June 30, 2016 and June 30, 2015 is summarized below:

	June 30, 2016	June 30, 2015
<b>Assets:</b>		
Current assets		
Cash and cash equivalents	\$ 20,964,715	\$ 19,719,804
Accounts receivable, net	5,500,685	5,422,615
Due from RI Capital Plan Fund	444,458	
Other	1,317,151	954,132
Total current assets	28,227,009	26,096,551
Long-term assets		
Capital assets, net	368,149	455,395
Total assets	28,595,158	26,551,946
<b>Deferred outflows of resources</b>	1,398,829	1,183,029
<b>Liabilities:</b>		
Current liabilities		
Due to State's General Fund - net income from operation	\$ 1,408,964	\$ 1,062,175
Due to State's General Fund - operating expenses	269,596	331,090
Accounts payable	12,123,494	14,263,901
Prize obligations	7,308,112	5,580,128
Compensated absences	233,053	205,303
Other liabilities	7,544,737	5,433,555
Total current liabilities	28,887,956	26,876,152
Long-term liabilities		
Compensated absences	332,203	300,794
Net Pension liability	15,073,593	13,315,141
Unearned contract revenue	3,750,000	4,375,000
Total long-term liabilities	19,155,796	17,990,935
Total liabilities	48,043,752	44,867,087
<b>Deferred inflows of resources</b>	300,202	1,165,997
<b>Net Position:</b>		
Net investment in capital assets	368,149	455,395
Unrestricted	(18,718,116)	(18,753,504)
Total net position (deficit)	\$ (18,349,967)	\$ (18,298,109)

The majority of the Lottery's assets represent current resources necessary to pay the current liabilities owed to vendors, prize winners, video lottery participants, and ultimately the State's General Fund. At June 30, 2016, the Lottery's assets included \$21.0 million in cash and cash equivalents as compared with \$19.7 million at June 30, 2015. The Lottery's accounts receivable approximated \$5.5 and \$5.4 million, respectively, at June 30, 2016 and 2015.

# RHODE ISLAND LOTTERY

## Management's Discussion and Analysis

The Lottery's current liabilities included at the balance sheet date are amounts owed for vendor payables, prize obligations and a residual amount owed to the State's General Fund for June net operations and operating expenses. The amount owed to the General Fund for June net operations approximated \$1.4 million at June 30, 2016 and \$1.1 million at June 30, 2015. At June 30, 2016, vendor payables, made up largely of commissions due to video lottery participants, and prize obligations, attributable mostly to instant ticket games were \$12.1 million and \$7.3 million, respectively. In comparison, vendor payables and prize obligations at June 30, 2015 were \$14.3 million and \$5.6 million, respectively.

The deficit in net position reported at June 30, 2016, as previously explained, relates to the Lottery's immediate transfer, in a prior fiscal year, to the State's General Fund, of all proceeds received from the sale of its exclusive rights over the operation of its gaming systems. At June 30, 2016, a deficit balance of \$4.4 million remains relating to deferred contract revenue to be recognized proportionately over the remaining term of the Master Contract with its gaming systems provider. Additionally, the Lottery recognizes its proportionate share of the net pension liability as a participating employer in the cost-sharing multiple employer Employees' Retirement System plan.

### Lottery Operations

	June 30, 2016	June 30, 2015
Revenue:		
On-line games	\$ 164,552,117	\$ 152,565,645
Instant games	96,281,087	90,526,129
Video lottery, Net	488,690,835	516,262,400
Table games	125,837,949	106,640,942
Other income	1,101,861	1,058,965
Total revenue	876,463,849	867,054,081
Expenses:		
Cost of gaming operations	(495,603,519)	(474,010,858)
Operating expenses	(11,595,766)	(10,282,674)
Total expenses	(507,199,285)	(484,293,532)
Income before transfers	369,264,564	382,760,549
Transfers to State's General Fund	(369,760,880)	(381,935,511)
Transfers from RI Capital Plan Fund	444,458	-
Increase (decrease) in net position	(51,858)	825,038
Total net position (deficit), beginning of year	(18,298,109)	(19,123,147)
Total net position (deficit), end of year	\$ (18,349,967)	\$ (18,298,109)

# RHODE ISLAND LOTTERY

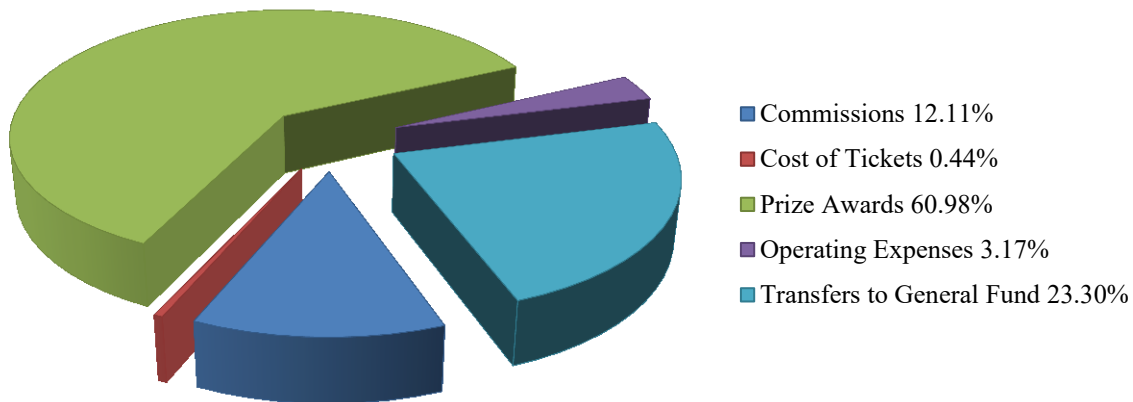
## Management's Discussion and Analysis

### Revenue

#### Traditional Lottery

- Traditional Lottery games consist of on-line and instant ticket games. Distribution of the year's traditional lottery revenue was as follows:

### **Traditional Lottery**

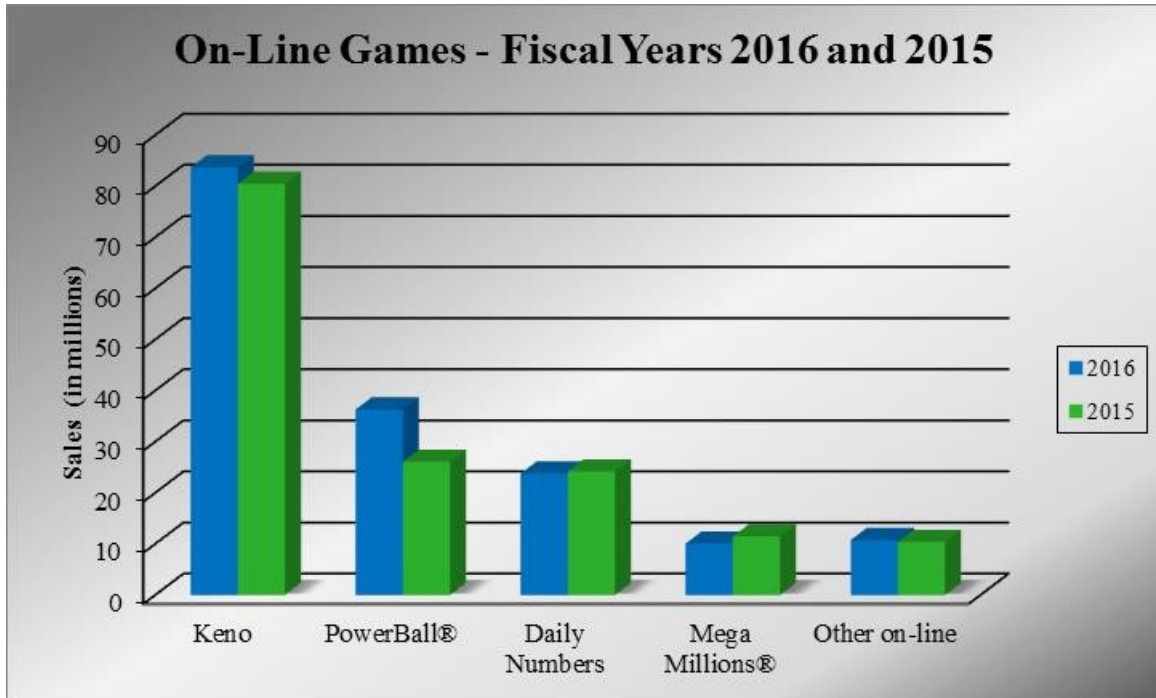


- On-line games offered were PowerBall®, Mega Millions®, Keno, Bingo, Daily Numbers, Wild Money and Lucky for Life® during fiscal 2016. In total, on-line revenue increased by \$12.0 million. Significant changes in on-line game revenue from the prior year included:
  - Revenue from Keno sales increased \$3.2 million over the prior year. Improved economic conditions including maintaining the retailer base and the addition of new organizations as retailers resulted in additional sales.
  - Revenue from Powerball® increased \$10.3 million for fiscal 2016 over the prior year in large part from higher rolling jackpots including a record \$1.6 billion jackpot won in January 2016.
  - Revenue from Mega Millions® decreased \$1.4 million for fiscal 2016 from the prior year due in large part from higher rolling jackpots throughout most of the prior year.
- Instant ticket revenue for the fiscal year ended June 30, 2016 increased \$5.8 million over the preceding fiscal year. During fiscal year 2016, the Lottery continued with the successful family of games offering “X” times the prize money, and introduced another family of games called “7”. The Lottery also introduced another high price point ticket with a significant dollar top prize amount.

# RHODE ISLAND LOTTERY

## Management's Discussion and Analysis

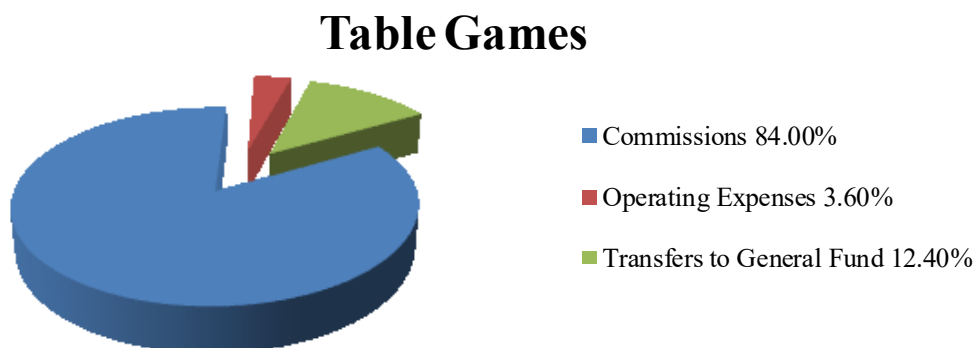
The following graph depicts the Lottery's on-line sales for the fiscal years ended June 30, 2016 and 2015.



### Table Games

- For the fiscal year ending June 30, 2016, net table game revenue was \$125.8 million, an increase of 18.0%. During the fiscal year ending June 30, 2016, the number of available gaming tables increased from 80 to 108. The addition of 12 table games in August 2015 and 16 poker tables in December 2015, in conjunction with continuing targeted marketing efforts, resulted in increased net table game revenue.

Distribution of the year's net table game revenue was as follows:



# RHODE ISLAND LOTTERY

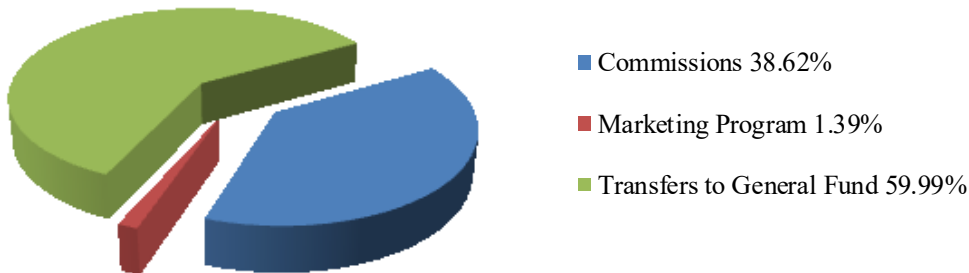
## Management's Discussion and Analysis

### Video Lottery

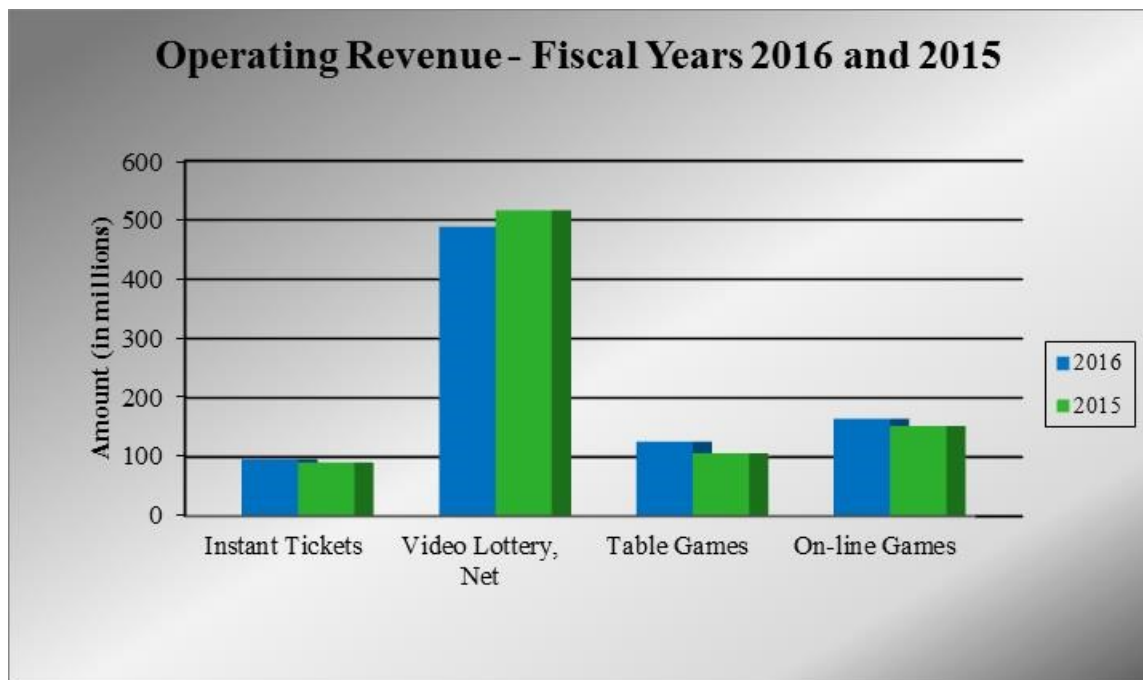
- Video lottery net revenue decreased \$27.6 million or 5.3% over the prior fiscal year. Net terminal income at Twin River totaled \$443.8 million, a 5.7% decrease compared to fiscal 2015. Net terminal income at Newport Grand totaled \$44.9 million, a 1.3% decrease compared to fiscal 2015. Net terminal income decreased over the prior fiscal year due to increased competition from a nearby Massachusetts casino; however the loss in net terminal income was less than anticipated. Increased marketing and promotional efforts were implemented to minimize the impact of gaming competition on the Lottery's operations.

Distribution of the year's video lottery revenue was as follows:

### **Video Lottery**



The following graph depicts the Lottery's operating revenue for instant tickets, video lottery, table games, and on-line games for the fiscal year ended June 30, 2016 in comparison to fiscal year ended June 30, 2015.

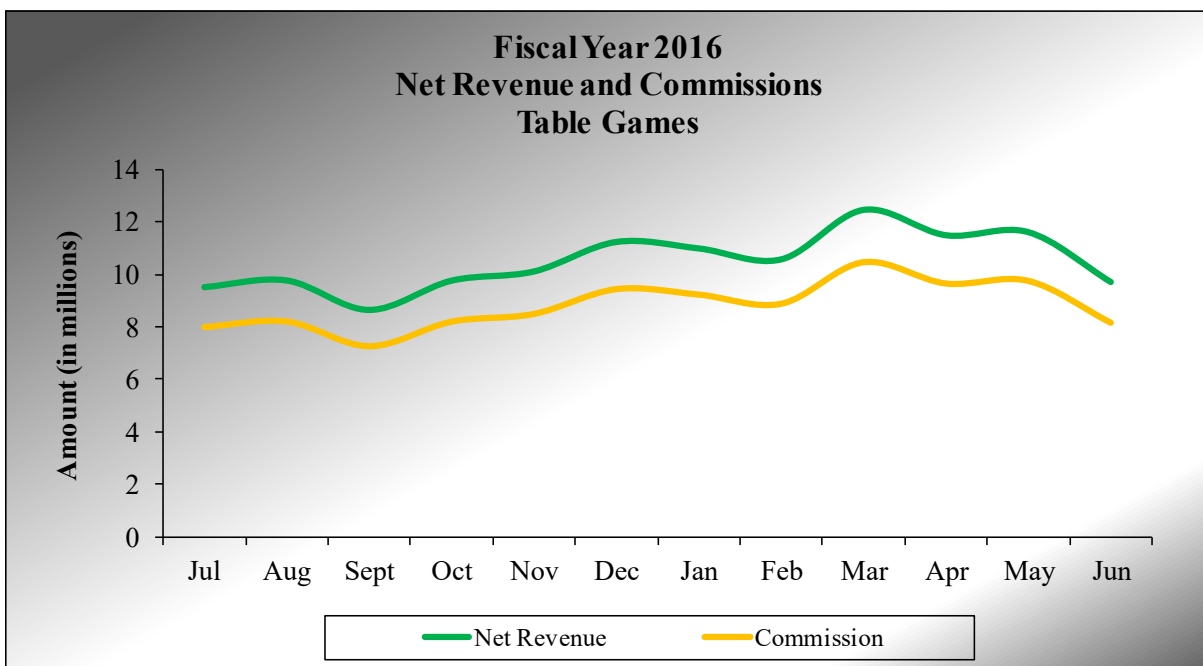
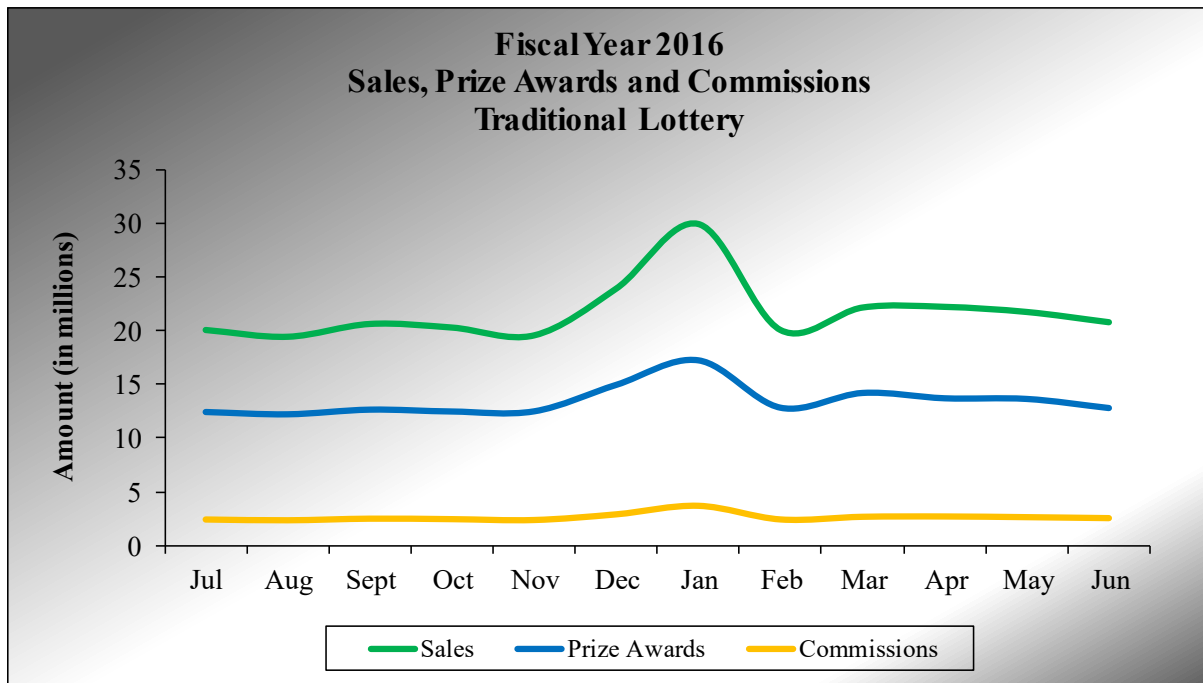


# RHODE ISLAND LOTTERY

## Management's Discussion and Analysis

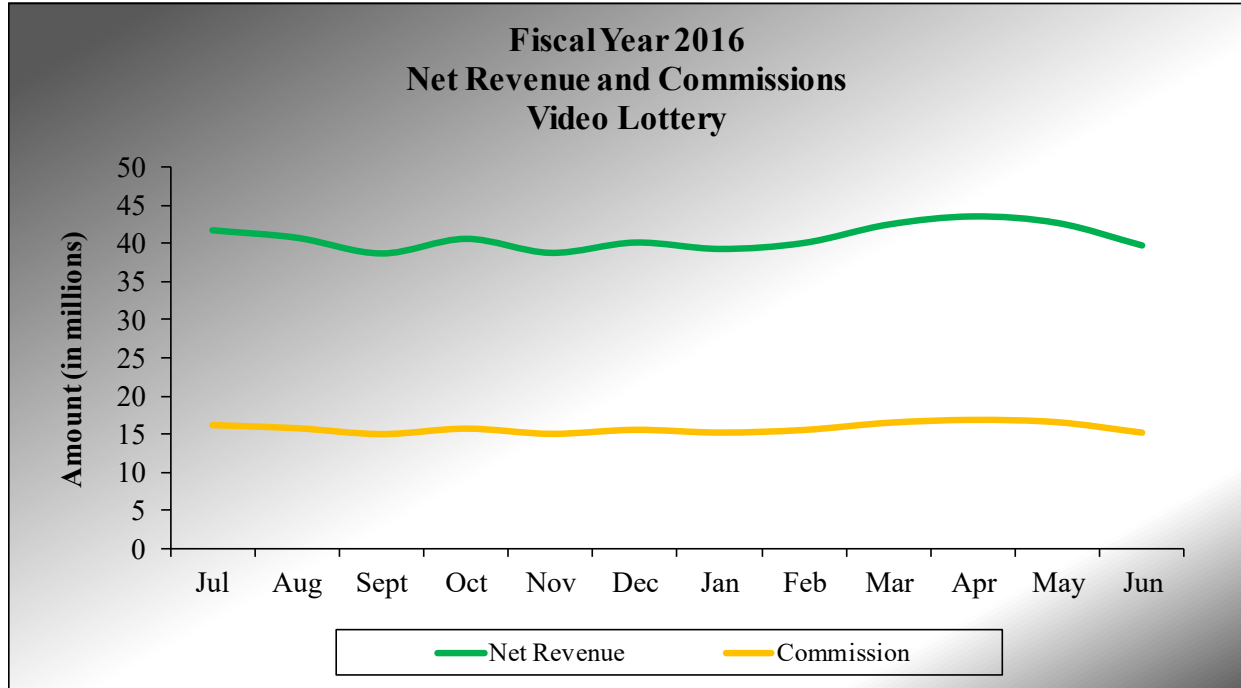
### Commissions and Prize Awards Expense

As the following graphs depict, the Lottery's most significant expenses (commissions and prize awards) are predictable because they have a direct correlation to sales. As lottery revenues increase, so do the related prizes and commissions paid by the Lottery. While each Lottery game has a designed prize payout structure, the overall amount paid as prize awards expense is consistent in relation to sales. The second and third graphs compare table game net revenue and video lottery net revenue to their related commissions.



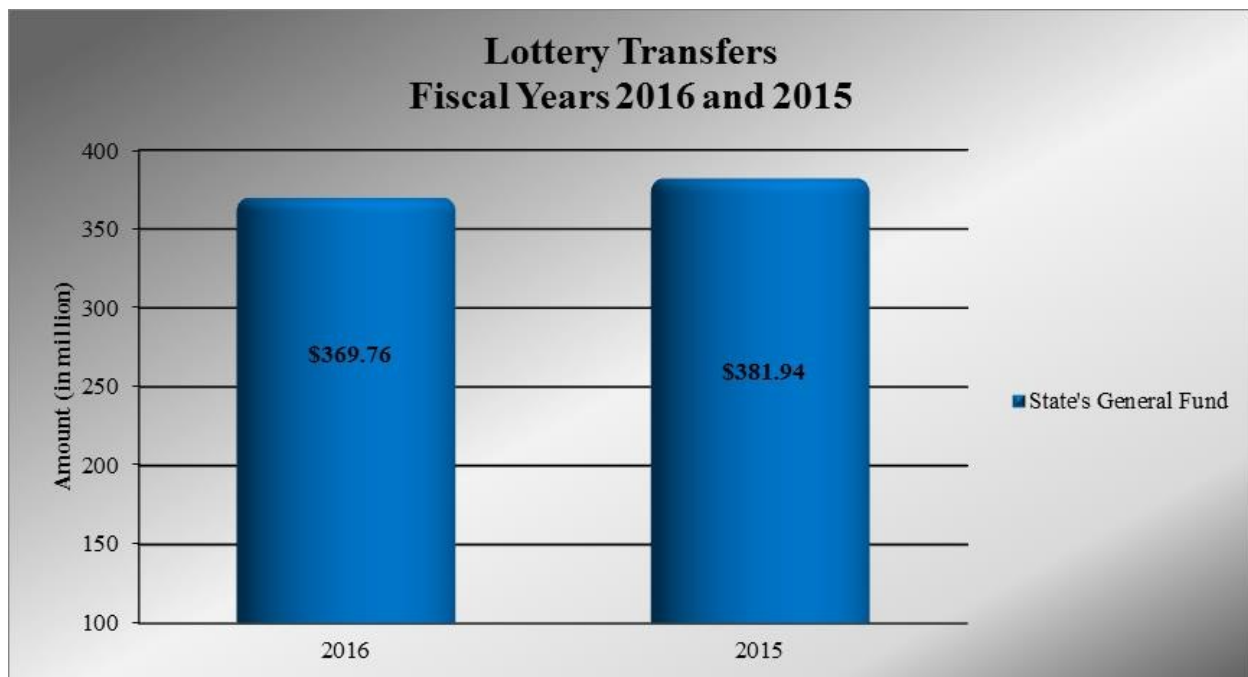
# RHODE ISLAND LOTTERY

## Management's Discussion and Analysis



### Lottery Transfers

Net income transferred by the Lottery for the fiscal years ended June 30, 2016 and June 30, 2015 was \$369.76 million and \$381.94 million, respectively. All fiscal 2016 transfers were made by the Lottery directly to the State's General Fund, as required by the General Laws.



# RHODE ISLAND LOTTERY

## Management's Discussion and Analysis

### Debt Administration

Jackpot prizes awarded under PowerBall® and Mega Millions® are satisfied through investments purchased by the Multi-State Lottery Association (MUSL). MUSL purchases U.S. government obligations, which are held in irrevocable trusts established by MUSL for the benefit of participating state lotteries. Accordingly, the Lottery does not record an obligation for PowerBall® and Mega Millions® jackpot awards which are payable in installments from funds provided by MUSL.

The Lucky for Life® game offers top and second prize winners an annuity or cash option payment. If selected by the winner, the Lucky for Life® game requires each selling lottery to purchase an insurance annuity to fully fund the top and second prizes won in that state. All participating lotteries share in the cost of the insurance annuity or cash option, however, the selling lottery is responsible for settling the top and second prize liabilities. Annuities shall be purchased in accordance with the applicable laws of the state purchasing the annuity. Qualified insurance companies must meet the minimum rating requirements established by each participating state. Rhode Island has not had a top prize winner to date but plans to purchase its annuities for any future top prize winners through MUSL from an insurance company with an AM Best rating of A or better. Rhode Island has purchased its second prize winners' annuities through MUSL in accordance with insurance company rating requirements.

### Capital Assets

The Lottery purchases and maintains property and equipment necessary to sell lottery products, pay prizes and perform other lottery operations.

For further information, refer to Notes to Financial Statements, Note 4.

### Potential Factors Impacting Future Operations

The Lottery's mission is to maximize revenues for the purpose of maximizing payments to the State's General Fund. A continuous assessment of the State's financial environment and the Lottery's own product lines and operations are essential to accomplish this mission. The following considerations have been presented to inform those interested in the Lottery's operations about potential factors that could affect future operations:

- Newport Grand, one of the State's video lottery gaming facilities, was purchased in July 2015, by Premier Entertainment II, LLC., whose principal owners are the Twin River Management Group, which owns the State's only other gaming facility. The acquisition placed both gaming facilities under a common ownership and management group. This ownership group is interested in building a new gaming facility in Tiverton, RI and relocating the gaming operations from Newport. Recent legislation authorizes a statewide and local referendum to be included on the ballot in November 2016 to allow for the relocation of the Newport gaming facility to Tiverton. A new gaming facility located in Tiverton, RI is widely considered to be better positioned to compete with future gaming competition expected in nearby Massachusetts.

# RHODE ISLAND LOTTERY

## Management's Discussion and Analysis

- Master video lottery contracts and amendments thereto with its video lottery facilities, Twin River and Newport Grand, include provisions for the continued operation of promotional play programs where the facilities reward patrons with free video terminal play up to an amount authorized by the Lottery. These agreements also require the Lottery to reimburse the facilities for its net terminal income share of certain qualified marketing and promotional expenses. These agreements provide significant incentives for the facilities to continue to invest appropriately in the promotion of their facilities and the Lottery's video and table games activities. See Note 12 to the financial statements for details regarding these agreements.
- The Lottery's gaming operations currently compete with casinos in nearby Connecticut and Massachusetts. In addition, both neighboring States have already approved or are considering additional casino expansion likely to increase gaming competition in New England. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.
- In October 2015, changes to the Powerball<sup>®</sup> game structure designed to increase the frequency of larger jackpot drawings were implemented. In July 2016, changes were implemented to ensure adequate funding for all prize levels. Such changes are designed to generate an increase in game play and overall sales. The Lottery, in conjunction with their gaming partners, continuously explores new games and modifications to existing games to maximize revenue.

### Contacting the Lottery's Financial Management

This financial report is designed to provide a general overview of the Lottery's financial activity for all those interested in the Lottery's operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Administrator, Rhode Island Lottery, 1425 Pontiac Avenue, Cranston, RI, 02920.

## RHODE ISLAND LOTTERY

### Statement of Net Position

June 30, 2016

#### Assets

##### Current assets:

Cash and cash equivalents (note 3)	\$	20,964,715
Accounts receivable-less allowance for doubtful accounts of \$98,374		5,500,685
Deposits with Multi-State Lottery Association (MUSL) (note 1)		42,393
Due from RI Capital Plan Fund		444,458
Ticket inventory		1,274,758
Total current assets		28,227,009
Capital assets, net (note 4)		368,149
Total assets		28,595,158

#### Deferred outflows of resources (note 9)

1,398,829

#### Liabilities

##### Current liabilities:

Due to State's General Fund - net income from operations (note 5)	\$	1,408,964
Due to State's General Fund - operating expenses (note 5)		269,596
Accounts payable		12,123,494
Obligation for unpaid prize awards		7,308,112
Accrued expenses		6,524,446
Compensated absences (note 7)		233,053
Advances for future drawings		313,253
Unearned contract revenue (note 8)		625,000
Other current liabilities		82,038
Total current liabilities		28,887,956

##### Long-term liabilities:

Compensated absences (note 7)		332,203
Net Pension liability (note 9)		15,073,593
Unearned contract revenue (note 8)		3,750,000
Total long-term liabilities		19,155,796
Total liabilities		48,043,752

#### Deferred inflows of resources (note 9)

300,202

#### Net Position

Net position, net investment in capital assets (note 8)		368,149
Unrestricted (deficit) (note 8)		(18,718,116)
Total net position (deficit)	\$	(18,349,967)

See accompanying notes to financial statements.

# RHODE ISLAND LOTTERY

## Statement of Revenue, Expenses and Changes in Net Position

Year Ended June 30, 2016

### Operating Revenue (schedule 1):

On-line games	\$ 164,552,117
Instant games	96,281,087
Video lottery (note 2)	488,690,835
Table games (note 2)	<u>125,837,949</u>
Total operating revenue	<u>875,361,988</u>

### Cost of gaming operations (schedule 1):

Commissions (note 6)	326,350,733
Prize awards, online and instant games	161,650,780
Incentive programs, video lottery	6,802,349
Advertising	1,916,270
Unclaimed prize recovery	(2,271,719)
Cost of tickets	<u>1,155,106</u>
Total cost of gaming operations	<u>495,603,519</u>
Gross profit	<u>379,758,469</u>

### Operating expenses:

Personal services	10,300,568
Contract services	18,624
Depreciation and amortization	111,393
Other	<u>1,165,181</u>
Total operating expenses	<u>11,595,766</u>
Operating income	368,162,703

### Non-operating income (expenses):

Investment income	163,373
Other income (expenses)	<u>938,488</u>
Income before transfers	369,264,564

Transfer to State's General Fund (note 5) (369,760,880)

Transfer from RI Capital Plan Fund 444,458

Decrease in net position (51,858)

Total net position (deficit), beginning of year (18,298,109)

Total net position (deficit), end of year (note 8) \$ (18,349,967)

See accompanying notes to financial statements.

## RHODE ISLAND LOTTERY

### Statement of Cash Flows

Year Ended June 30, 2016

Cash flows from operating activities:

Receipts from lottery sales, online and instant games	\$ 260,846,176
Receipts from video lottery operations	488,690,835
Receipts from table games	125,837,949
Receipts from problem gambling program	200,000
Receipts from sale of other tickets	55,971
Other receipts	271,998
Payments for on-line and instant ticket prizes	(157,651,019)
Payments for commissions - retailers	(10,266,937)
Payments for commissions - video lottery	(190,957,016)
Payments for commissions - table games	(104,844,750)
Payments to facilities - video lottery incentive program	(4,970,820)
Payments for commissions - on-line games contractor	(22,429,985)
Payments to suppliers for goods and services	(4,718,289)
Payments to employees for services	<u>(9,544,337)</u>
Net cash provided by operating activities	<u>370,519,776</u>

Cash flows from noncapital financing activities:

Transfers to State's General Fund	<u>(369,414,091)</u>
Net cash used for noncapital financing activities	<u>(369,414,091)</u>

Cash flows from capital and related financing activities:

Purchase of capital assets	<u>(24,147)</u>
Net cash used for capital and related financing activities	<u>(24,147)</u>

Cash flows from investing activities:

Interest income	<u>163,373</u>
Net cash provided by investing activities	<u>163,373</u>
Net increase in cash and cash equivalents	1,244,911

Cash and cash equivalents at July 1, 2015	<u>19,719,804</u>
Cash and cash equivalents at June 30, 2016	<u><u>\$ 20,964,715</u></u>

See accompanying notes to financial statements.

Continued.

# **RHODE ISLAND LOTTERY**

## **Statements of Cash Flows (Continued)**

**Year Ended June 30, 2016**

Reconciliation of operating income to net cash provided by  
operating activities:

Operating income \$ 368,162,703

Adjustments to reconcile operating income to net cash  
provided by (used for) operating activities:

Depreciation and amortization 111,393

Miscellaneous receipts classified as operating activities 41,272

Rental income and other receipts 272,217

(Increase) decrease in assets and deferred

outflows of resources:

Accounts receivable (78,070)

Deposits with MUSL (218)

Inventory (362,801)

Deferred outflows of resources (215,800)

Increase (decrease) in liabilities and deferred

inflows of resources:

Due to State's General Fund - operating expenses (61,494)

Accounts payable (2,140,404)

Obligation for unpaid prize awards 1,727,984

Accrued expenses and other 2,083,295

Net pension liability 1,758,452

Advances for future drawings 87,042

Deferred inflows of resources (865,795)

Total adjustments 2,357,073

Net cash provided by operating activities \$ 370,519,776

See accompanying notes to financial statements.

# RHODE ISLAND LOTTERY

## Notes to Financial Statements

### (1) Organization

The Lottery was created in 1974 under the General Laws of the State of Rhode Island (General Laws) to establish and operate lottery games for the purpose of generating resources for the State's General Fund. The Lottery is a division of the Department of Revenue of the State of Rhode Island (the State).

The Lottery offers the following games to the public:

(A) On-line (lottery drawing) games that include:

- i) Traditional in-state drawing games including Daily Numbers – Midday and Evening, Keno, Bingo, and Wild Money. The drawings for these games are administered by the Rhode Island Lottery and offer patrons set prize amounts or smaller progressive jackpots. Keno and Bingo are considered monitor games where drawings are held every 4 and 8 minutes, respectively, on “monitors” in sales locations across the State.
- ii) Multi-state games, which include Powerball<sup>®</sup>, and Mega Millions<sup>®</sup> are operated in accordance with rules and agreements established by the Multi-State Lottery Association (MUSL). These games offer jackpot prize awards to patrons in participating states. Specific details regarding the operations of these games are as follows:

(a) *PowerBall<sup>®</sup>*

The Lottery sells PowerBall<sup>®</sup> tickets, collects all revenues, and remits prize funds to MUSL net of low-tier prize awards. Jackpot prizes are payable in either a lump-sum cash distribution or annual installments. Annual installments are satisfied through investments purchased by MUSL. MUSL purchases U.S. government obligations, which are held in irrevocable trusts established by MUSL for the benefit of participating state lotteries. Accordingly, the Lottery does not record an obligation for jackpot awards which are payable in installments from funds provided by MUSL.

The prize pool for PowerBall<sup>®</sup> is 50% of each drawing period's ticket sales. MUSL may place up to 5% of each drawing period's ticket sales for PowerBall<sup>®</sup>, included as part of each member's prize liability, in prize reserve funds. The prize reserve deduction begins at 2% when an annuity jackpot exceeds \$120 million and 4% when an annuity jackpot exceeds \$250 million. The maximum balance on the prize reserve funds for PowerBall<sup>®</sup> is \$140 million. Once the prize reserve funds exceed this designated amount, the excess becomes part of the prize pool. The prize reserve funds serve as a contingency reserve to protect MUSL from unforeseen prize liabilities, and these reserve funds are to be used at the discretion of the MUSL Board of Directors. The prize reserve funds are refundable to MUSL members if MUSL disbands or if a member leaves MUSL. Members leaving MUSL must wait one year before receiving their remaining share, if any, of prize reserve funds.

# RHODE ISLAND LOTTERY

## Notes to Financial Statements

### (1) Organization - (Continued)

Effective with the drawing held on July 2, 2016, at any time that the Grand Prize Carry Forward Pool (GPCFP) is below forty-five million dollars (\$45,000,000) prior to a drawing, the GPCFP deduction from a Party Lottery's Grand Prize Pool (GPP) contribution for that drawing shall be equal to a maximum of four percent (4%) of a Party Lottery's sales when the annuity Grand Prize exceeds one hundred twenty million dollars (\$120,000,000). The GPCFP percentage shall be reduced by the percentage of sales being actually contributed to the Set-Aside Pool (SAP), Set Prize Reserve Account (SPRA) or the Prize Reserve Account (PRA). At any time that the GPCFP exceeds forty-five million dollars (\$45,000,000) prior to a drawing, there shall be no GPCFP deduction for that drawing.

At June 30, 2016, the prize reserve funds for the PowerBall<sup>®</sup> game reported a balance of \$111.4 million of which the Lottery's share was \$1.2 million. The Lottery records amounts, which are placed into the prize reserve funds, as prize awards expense when the related sales occur.

All investment earnings relating to the prize reserve funds are credited to an unreserved account for each member state. This account can be utilized to offset operating costs or for the promotion of any MUSL game as approved by the MUSL Board of Directors. The Lottery has recorded all income and operating expenses related to its unreserved account and has reported the balance of \$42,393 at June 30, 2016 on the Statement of Net Position as "Deposits with MUSL".

### (b) *Mega Millions*<sup>®</sup>

MUSL participates as a member (or party) lottery of the Mega Millions<sup>®</sup> Product Group (a group of lotteries participating under an agreement between the Mega Millions<sup>®</sup> lotteries and MUSL to offer the Mega Millions<sup>®</sup> game within their State jurisdictions). The Rhode Island Lottery participates as a member of MUSL, in the sale of tickets, payment of prizes, and associated activities related to the Mega Millions<sup>®</sup> lottery game. As such, the Lottery sells Mega Millions<sup>®</sup> tickets, collects all revenues, and remits prize funds to MUSL net of low-tier prizes. Jackpot prizes are payable either in a lump-sum cash distribution or annual installments. Annual installments are satisfied through investments purchased by MUSL. MUSL purchases U.S. government obligations, which are held in irrevocable trusts established by MUSL for the benefit of participating lotteries. Accordingly, the Lottery does not record an obligation for jackpot awards which are payable in installments from funds provided by MUSL.

The prize pool for Mega Millions<sup>®</sup> shall consist of up to 51% of each drawing period's ticket sales. An amount of up to 1% of each drawing period's ticket sales may be placed in one or more prize pool reserve accounts. The maximum prize reserve account is \$45 million.

At June 30, 2016, the prize reserve account for the Mega Millions<sup>®</sup> game reported a balance of \$38.5 million of which the Lottery's share was \$433,447.

## RHODE ISLAND LOTTERY

### Notes to Financial Statements

#### (1) Organization - (Continued)

iii) Lucky for Life<sup>®</sup>, which expanded to twenty lotteries in fiscal year 2016, operates under an agreement between the six New England states ("New England Lotteries") and the Arkansas Scholarship Lottery, the Delaware Lottery, the D.C. Lottery & Charitable Games Board, the Idaho Lottery, the Iowa Lottery Authority, the Kentucky Lottery Corporation, the Michigan Lottery, the Minnesota State Lottery, the Missouri Lottery, the Montana Lottery, the North Carolina Lottery, the Ohio Lottery Commission, the South Carolina Education Lottery, and the West Virginia Lottery (collectively referred to as the "Licensee Lotteries) to offer the Lucky for Life<sup>®</sup> game with a top prize of \$1,000 per day for life. The Lottery sells Lucky for Life<sup>®</sup> tickets, collects all revenues, and pays prizes based on its share of total sales, as a party lottery operating the game. The party lotteries have entered into an agreement with MUSL to administer certain aspects of the game. MUSL communicates and collects the share of prize amounts owed by each party lottery. The top prize and second prize is paid in accordance with official game rules and is shared based on each state's percentage of sales in proportion to the total top prize liability. Total low-tier prizes are shared based on a percentage of sales in proportion to the total low-tier prize liability.

#### Top Prize Settlement

All top prizes are funded through the purchase of insurance annuities with an alternative cash option. For the annuity option, top prizes are based on a \$365,000 deferred annuity paid annually based on the winner's natural life with a minimum payment period of 20 years. If there is more than one top prize winner, up to 14 winners, the annuitized prize will be split equally, including the number of top prize winners exercising the cash option, with a minimum value of \$500 per week to each winner exercising the annuity option.

For top prizes claimed in Rhode Island, the Lottery will utilize MUSL to purchase insurance annuities to satisfy the prize liability. The Lottery has adopted the following minimum qualification requirements for insurance companies providing insurance annuities for top prize winners:

- An AM Best rating of A or better;
- At least \$100 million in capital and surplus;
- At least \$1 billion in assets per the balance sheet of the company's most recently audited financial statements prepared by an independent certified public accountant; and
- A National Association of Insurance Commissioners' (NAIC) risk based capital (RBC) rating of 200% or greater.

# RHODE ISLAND LOTTERY

## Notes to Financial Statements

### (1) Organization - (Continued)

In the event of default on an insurance annuity for a Rhode Island winner, the Lottery may be contingently liable for any remaining prize amounts due the winner.

As an alternative to the annuitized payment option, the top prize winner may request the top prize cash option payment of \$5,750,000. If there is more than one top prize winner, the top prize cash option will be divided by the total number of prize winners, including top prize winners selecting the annuitized payment option.

If more than 14 top prize winners, the top prize liability will be split equally among all top prize winners and paid in one lump sum cash payment, without an annuitized option.

#### Second Tier Prize Settlement

For up to 20 second prize winners, including those who exercise the cash option, the annuity payment option will be \$25,000 per year for life to second prize winners exercising the annuity option. For up to 20 second prize winners, including those who exercise the annuity option, the cash option will be \$390,000 to each second prize winner exercising the cash option.

If more than 20 second prize winners, the second prize liability is capped and will be split equally among all second prize winners and paid in one lump sum cash payment, without an annuitized option.

All low-tier prizes (all levels except the top prize and second prizes) are paid in one lump sum cash payment through the Selling Lottery. There is a reconciliation by the Game Administrator for both low-tier and unclaimed expired prizes (prize levels 2-10) when a party lottery varies from its projected prize liabilities and its unclaimed expired prizes.

In fiscal year 2016, Lucky for Life<sup>®</sup> sales expanded to twenty lotteries. A new prize structure offers larger low-tier prizes and better odds.

- (B) Instant (or scratch) ticket offerings sold through licensed lottery retailers include a wide array of themed games where patrons must match two or three of a kind, get like symbols or wild features, or meet other game requirements to win the prize shown.
- (C) Video lottery games are operated through 5,365 video lottery terminals (VLTs) at two licensed facilities, Twin River Casino and Newport Grand. Video lottery offers various virtual and multi-layer display games, hosting a wide array of card and theme games to the public.

# RHODE ISLAND LOTTERY

## Notes to Financial Statements

### (1) Organization - (Continued)

- (D) Table games are operated at Twin River Casino in Lincoln, Rhode Island. Chapter 42-61.2 of the General Laws authorizes the State to operate casino gaming, and the Lottery Division to promulgate rules and regulations and set policy for table gaming. This chapter stipulates the allocation of net table game revenue. Consistent with the General Laws, net table game revenue derived from Twin River is deposited in the State Lottery Fund for administrative purposes with commissions distributed to Twin River, the Town of Lincoln, RI, and the balance being remitted to the General Fund. During fiscal 2016, commissions to Twin River and the Town of Lincoln were 83% and 1%, respectively.
- (E) Prize payout percentages and amounts required to be paid to the State's General Fund as stipulated in the General Laws are summarized below for the various games operated by the Lottery.

<b><u>Game</u></b>	<b><u>Prize Payout</u></b>	<b><u>Mandated Payments to the State</u></b>
Daily Numbers Instant Ticket Games PowerBall® Mega Millions® Wild Money Lucky for Life® Bingo	Not less than 45% or more than 65% of sales	Payments to the General Fund – net of prizes, commissions, administrative and operating expenses.
Keno	Not less than 45% or more than 72% of sales	Payments to the General Fund – net of prizes, commissions, administrative and operating expenses.
Video Lottery	Prize payout not established by law	Payments to the General Fund - net terminal income (video lottery credits purchased less credits redeemed or redeemable, including prize contributions to multi-state video lottery progressive jackpots) minus commission payments and incentive program reimbursements.
Table Games	Prize payout not established by law	Payments to the General Fund - net table game revenue minus commission payments and table game administrative and operating expenses.

# RHODE ISLAND LOTTERY

## Notes to Financial Statements

### (2) Summary of Significant Accounting Policies

#### *(a) Basis of Accounting*

The financial records of the Lottery, an enterprise fund, are accounted for using the economic resources measurement focus and are maintained on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the related liabilities are incurred. The Governmental Accounting Standards Board (GASB) has the responsibility for establishing generally accepted accounting principles for governmental proprietary fund type activities.

#### *(b) Reporting Entity*

The Lottery, a division of the Department of Revenue of the State of Rhode Island and Providence Plantations (State), is accounted for as an enterprise fund for financial reporting purposes.

Accordingly, its annual financial statements are included in the State's Comprehensive Annual Financial Report (CAFR). The accompanying financial statements are not intended to present the financial position and results of operations of the State.

#### *(c) Revenues and Expenses*

The Lottery defines all revenues and expenses deriving from on-line, instant ticket, video lottery, and table games as operating. The Lottery accrues for the maximum prizes payable. Prize obligations, other than those relating to prizes payable in installments, that remain unclaimed one year after the drawing date are reported as a reduction to cost of sales.

Revenue from the sale of lottery tickets, video lottery, and table games and expenses for prizes and commissions are recognized as follows:

1. On-line lottery games with specific drawing dates - when the related drawings are held. For the Mega Millions<sup>®</sup> and Powerball<sup>®</sup>, prize awards expense is recorded equal to the required contributions to the jackpot pool and low-tier prizes won. For the Lucky for Life<sup>®</sup> game, prize awards expense is recorded equal to the estimated cost of actual prizes won. Prize awards expense is subsequently adjusted based on the Lottery's share of purchased annuities for the top prize and a settlement for actual low tier prizes won in all participating states.
2. Instant ticket lottery games - when ticket packets are charged to retailers. Prize expense is recognized in proportion to the number of tickets sold based on the stated prize structure for a specific instant ticket game.

# RHODE ISLAND LOTTERY

## Notes to Financial Statements

### (2) *Summary of Significant Accounting Policies* – (Continued)

3. Video lottery games - are reported on a net basis. Gross revenue is recognized when game credits are purchased via cash or credit redemption at the terminal (gross terminal inputs). Related prizes are recognized when game credits are issued by a video lottery terminal making them redeemable as credits in another video terminal or for cash by a patron (gross terminal outputs).

The gross video lottery terminal inputs and outputs for fiscal 2016 and reported video lottery net revenue are detailed in the following schedule:

Schedule of Video Lottery Net Revenue For the Fiscal Year Ended June 30, 2016	
<b>Video Terminal Cash-In (Gross Terminal Inputs):</b>	
Cash collected from video lottery terminals	\$1,485,242,956
Plus: Credit vouchers redeemed for play in video lottery terminals	<u>1,772,567,259</u>
Total cash in reported by video lottery terminals	3,257,810,215
<b>Less:</b>	
<b>Video Terminal Cash-out (Gross Terminal Outputs):</b>	
Video lottery credit vouchers issued by video lottery terminals	2,768,972,396
Plus: Contributions to progressive video jackpots from patron play	<u>146,984</u>
Total cash-out amounts reported by video lottery terminals	<u>2,769,119,380</u>
Video lottery revenue, net	<u>\$ 488,690,835</u>

4. Table games, with the exception of poker, are reported on a net table game (win) basis from the Twin River facility. Net table game revenue, calculated daily at each table, is cash in the drop box, plus front money (patron funds left on deposit with the facility that are drawn for chips at a table), plus markers (credit extended at a table to patrons in exchange for chips), less fills, plus credits, less beginning chip inventory, plus ending chip inventory, plus one-half of match play coupons redeemed. Poker games revenue is reported on a gross fee basis, referred to as poker rake, from the Twin River Facility. Poker rake calculated daily at each table is based upon a percentage of each poker pot or a direct fee charged to each player in proportion to the time spent playing at the poker table.

# RHODE ISLAND LOTTERY

## Notes to Financial Statements

### (2) Summary of Significant Accounting Policies – (Continued)

The State, through the Division of State Lottery, has operational control and regulating authority to collect casino gaming gross receipts, allocate receipts according to statute, define and limit the rules of play and odds of authorized games including minimum and maximum wagers and payouts for each game. Amounts required by statute to be paid to Twin River are reported as commissions. The statute further stipulates that the Division of State Lottery establish rules and regulations and set policy for table games. These policies and regulations (promulgated in accordance with the Lottery's established minimum control standards and federal and State statute) stipulate that the table games retailer (Twin River) be responsible for obtaining approved equipment (tables, dice, cards, etc.) and bearing all risk for the management, security, and monitoring of authorized table games. Twin River is also responsible for marketing table games and all related expenses. The Lottery Division incurs operating and administrative costs relating to the oversight and regulation of casino operations which are netted against the State's statutory share of net table game revenue prior to transferring the balance to the State's General Fund.

All expenses directly attributable to providing or promoting lottery games to the public are considered costs of gaming operations and are reported as such on the Lottery's Statement of Revenue, Expenses, and Changes in Net Position. These expenses predominantly include commissions to lottery retailers, gaming facilities, video lottery terminal providers, gaming system operators, and the cities/towns that host the Lottery's gaming facilities, in addition to advertising, marketing and promotional expenses.

All other expenses directly attributable to the Lottery's support and oversight of gaming activities are reported as operating expenses. Operating expenses mostly consist of personnel costs, contract services, depreciation/amortization expenses, and other expenses associated with the maintenance of the Lottery's headquarters and internal computer network.

All other revenues and expenses are defined as non-operating. Non-operating revenues include income from pull tab tickets (the Lottery is not responsible for prizes won), rental income, and refunds from the Multi-state Lottery Association.

# RHODE ISLAND LOTTERY

## Notes to Financial Statements

### (2) *Summary of Significant Accounting Policies* – (Continued)

#### (d) *Capital Assets*

Capital assets are stated at historical cost. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets. Asset and useful lives are as follows:

<u>Asset Category</u>	<u>Useful Life</u>	<u>Threshold</u>
Buildings	50 years	\$1,000,000
Building Improvements	20 years	\$1,000,000
Computer Equipment	5 years	\$5,000
Furniture and Equipment	5 years	\$5,000
Automobiles	5 years	\$5,000

In addition, the Lottery capitalizes certain intangible assets and amortizes those assets over their expected benefit period. The Lottery adheres to the State's capitalization thresholds and estimated useful lives for capital asset categories.

#### (e) *Cash Equivalents*

Cash equivalents consist of highly liquid investments with a maturity date of three months or less at the time of purchase and are stated at cost plus accrued interest which approximates fair value.

#### (f) *Investments*

Investments are recorded at fair value except for certain money market investments that have a remaining maturity at the time of purchase of one year or less, which are recorded at a net asset value reflective of amortized cost which approximates fair market value.

#### (g) *Ticket Inventory*

Inventory consists of the cost of tickets for the instant games, which is expensed as a percentage of sales from instant ticket games.

#### (h) *Advances for Future Drawings*

Tickets can be purchased in advance of scheduled drawing dates. Revenue from advance ticket sales is recognized during the period in which the related drawing is held.

#### (i) *Unearned Contract Revenue*

Unearned contract revenue relates to the sale of the exclusive rights to the operation of the Lottery's gaming systems. The revenue is recognized ratably over the life of the contract.

# RHODE ISLAND LOTTERY

## Notes to Financial Statements

### (2) Summary of Significant Accounting Policies – (Continued)

#### *(j) Incentive Programs – Video Lottery*

The Lottery reimburses its contracted video lottery facilities for the State's share (net terminal income percentage) of certain marketing and promotional expenses incurred by the facilities. Complete details of the Lottery's reimbursement are disclosed in Note 12, Commitments.

#### *(k) Compulsive and Problem Gambling Program*

Pursuant to section 42-61.2-14 of the Rhode Island General Laws, the Lottery is required to establish a program for compulsive and problem gamblers in conjunction with Twin River and Newport Grand to include awareness, player self-exclusion, and promotion of a problem gambling hotline. The program is funded through aggregate reimbursements made by Twin River and Newport Grand totaling not less than \$100,000 annually. The Lottery received \$200,000 from gaming facility providers toward the operation of its compulsive and problem gambling program. At June 30, 2016, the Lottery included \$82,038 in other current liabilities representing the unexpended portion of the annual reimbursements from the facilities for the compulsive and problem gambling program.

#### *(l) Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System ("ERS") and the additions to/deductions from ERS' fiduciary net position have been determined on the same basis as they are reported by ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### *(m) Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those amounts.

#### *(n) New Accounting Pronouncements*

The Lottery has considered the impact and requirements of newly effective GASB Statements in the preparation of these financial statements. For fiscal 2016, the Lottery implemented GASB Statement No. 72, *Fair Value Measurement and Application*.

# RHODE ISLAND LOTTERY

## Notes to Financial Statements

### (3) Deposits and Investment Risk

#### *(a) Deposits*

The Lottery's cash deposit balances at June 30, 2016 totaled \$2,183,905, with corresponding bank balances totaling \$2,214,561. The bank balances consisted of \$1,177,434 in demand deposit accounts and \$1,037,127 in collateralized deposit investment accounts.

All deposits were in the custody of the State General Treasurer. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Lottery's (or State's) name.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to 100% of deposits, regardless of maturity. None of the cash deposits of the Lottery were required to be collateralized at June 30, 2016 pursuant to Chapter 35-10.1 of the General Laws. However, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the uninsured deposit amounts. Of the total bank deposit balance totaling \$2,214,561 at year end, the entire amount was either covered by federal depository insurance or collateralized by securities held by an independent third party custodian.

#### *(b) Investments - Fair Value Measurements*

All investments, principally cash equivalent type investments, are made by the State General Treasurer in accordance with guidelines established by the State Investment Commission (SIC), which is responsible for the investment of all State funds. Pursuant to Chapter 35-10 of the General Laws, the SIC may, in general, "invest in securities as would be acquired by prudent persons of discretion and intelligence in these matters who are seeking a reasonable income and the preservation of their capital."

The Lottery categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

# RHODE ISLAND LOTTERY

## Notes to Financial Statements

### (3) Deposits and Investment Risk– (Continued)

At June 30, 2016, the Lottery had a single investment consisting of \$18,780,810 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The Lottery's investment accounted for less than 2% of the total investment in OSIP at June 30, 2016. Agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State may invest in OSIP. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue - 2<sup>nd</sup> Floor, Warwick, RI 02886.

OSIP has met the criteria outlined in GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants* to permit election to report its investments at amortized cost which approximates fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP transacts with its participants at a stable net asset value (NAV) per share. Investments reported at the NAV are not subject to the leveling categorization as described above. There are no participant withdrawal limitations.

Custodial Credit Risk: Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the government and are held by either: a) the counterparty or b) the counterparty's trust department or agent but not in the government's name.

Pursuant to guidelines established by the SIC, securities purchased, or underlying collateral, are required to be delivered to an independent third party custodian.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Based on SIC policy, the State's short-term investment portfolio, whenever possible, will be structured to minimize interest rate risk, by matching the maturities of investments with the requirements for funds disbursement. The Lottery's investments are typically money market mutual funds or investments with maturities less than 30 days thereby minimizing the Lottery's exposure to interest rate risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The SIC has adopted policies regarding acceptable short-term investment types. Credit risk is mitigated by the SIC's minimum rating criteria policy, collateralization requirements, and limiting the maximum participation by any one issuer to 35% of the State's total short-term investment portfolio. Credit risk policies have been developed for investments in commercial paper.

Concentration of Credit Risk: The SIC has adopted limitations as to the maximum percentages of the State's total short-term investment portfolio that may be invested in a specific investment type or with any one issuer of securities.

# RHODE ISLAND LOTTERY

## Notes to Financial Statements

### (3) Deposits and Investment Risk– (Continued)

Cash deposits, including interest-bearing investment deposit accounts	\$ 2,183,905
Investments classified as cash equivalents	<u>18,780,810</u>
Cash and cash equivalents	<u><u>\$ 20,964,715</u></u>

### (4) Capital Assets

Lottery headquarters are situated on land owned by the State of Rhode Island. The State has assigned custody, control and supervision of the land to the Lottery at no cost. However, since title to such land remains vested in the State, it is not recorded in the statement of net position.

A summary of capital assets follows:

	<u>Estimated Useful Life</u>	<u>Balance at June 30, 2015</u>	<u>2016 Additions</u>	<u>2016 Disposals</u>	<u>Balance at June 30, 2016</u>
<u>Cost</u>					
Building	50	\$ 1,437,912			\$ 1,437,912
Building improvements	20	1,944,601			1,944,601
Ticket production equipment	5	11,486			11,486
Office equipment	5	101,237			101,237
Furniture and fixtures	5	90,856			90,856
Lottery drawing equipment	5	117,352			117,352
Automobiles	5	410,228			410,228
Computer equipment	5	187,233	24,147		211,380
Trucks	5	22,445			22,445
Intangible Assets	7	175,424			175,424
Total		<u>\$ 4,498,774</u>	<u>\$ 24,147</u>	<u>\$ -</u>	<u>\$ 4,522,921</u>

#### Less: Accumulated Depreciation and Amortization

Building	\$ 1,437,912			\$ 1,437,912
Building improvements	1,851,000	7,954		1,858,954
Ticket production equipment	11,486			11,486
Office equipment	101,235			101,235
Furniture and fixtures	90,856			90,856
Lottery drawing equipment	100,927	3,851		104,778
Automobiles	193,421	67,051		260,472
Computer equipment	169,357	7,476		176,833
Trucks	22,445			22,445
Intangible Assets	64,740	25,061		89,801
Total	<u>\$ 4,043,379</u>	<u>\$ 111,393</u>	<u>\$ -</u>	<u>\$ 4,154,772</u>

Capital assets, net	<u>\$ 455,395</u>	<u>\$ (87,246)</u>	<u>\$ -</u>	<u>\$ 368,149</u>
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# RHODE ISLAND LOTTERY

## Notes to Financial Statements

### (5) Transfers to the State

- (a) The Lottery is required to transfer net proceeds from the Lottery's games in accordance with RI General Laws sections 42-61-15 and 42-61.2-7. Transfers to the State's General Fund for fiscal 2016 are reported as follows in the Lottery's financial statements:

Due to State's General Fund, beginning of year	\$ 1,062,175
Transfers to State's General Fund	369,760,880
Cash paid during fiscal year	(369,414,091)
Due to State's General Fund, end of year	<u>\$ 1,408,964</u>

The Lottery transfers net income to the State's General Fund based on the Lottery's actual pension contributions (which is the actuarially determined contribution required to be made by law) to the State Employees' pension plan. Pension expense reported in the Lottery's financial statements in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* will be a different amount reflecting the change in the net pension liability during the fiscal year. The table below details the amount transferred to the General Fund as required by RI General Laws:

<u>Description</u>	<u>Amount</u>
Income before Transfers	\$ 369,264,564
Add: Expenses reimbursed by Transfers from RI Capital Plan Fund	444,458
Add: Pension expense in accordance with GASB Statement No. 68	1,896,067
Less: Pension contributions made subsequent to measurement date	(1,219,209)
Less: Contract revenue recognized in 2016 transferred to the General Fund in prior period	(625,000)
Transfers to State's General Fund	<u>\$ 369,760,880</u>

- (b) The Lottery also reimburses the State's General Fund for certain operating expenses associated with personnel costs, information technology resources, utilities, etc. Amounts owed to the General Fund at year-end for operating expenses totaled \$269,596. This amount is reported on the Statement of Net Position separate of amounts due to the State's General Fund - net income from operations.

# RHODE ISLAND LOTTERY

## Notes to Financial Statements

### (6) Commissions

The Lottery pays commissions to ticket retailers and its on-line games contractor based on a percentage of gross ticket sales. Video lottery commissions, as specified in the General Laws, are paid to the facility operators, technology providers (video lottery terminal providers), the central communications provider and others based on various percentages of net terminal income (video lottery credits purchased less credits redeemed or redeemable plus progressive jackpots). Table games commissions, as specified in the General Laws, are paid to Twin River and the Town of Lincoln, RI.

The General Laws provide for reductions of certain video lottery commissions. The amount reduced is to be credited to the State's Distressed Communities Relief Fund, which is part of the State's General Fund. The Lottery has reflected the actual video commissions paid as an expense. The amount to be credited to the Distressed Communities Relief Fund is included in the payments to the State's General Fund.

### (7) Compensated Absences

The Lottery accrues an estimated liability for vested benefits relating to future compensated absences. This includes an expected obligation in connection with vacation credits, pay reduction credits, and accumulated vested sick pay for those employees eligible for retirement. The liability for compensated absences was approximately \$565,256 as of June 30, 2016 and is recorded as a liability in the Statement of Net Position. The current portion of \$233,053, as reported, was estimated based on a four year average of employee utilization.

Changes in the reported liability for compensated absences for fiscal 2016 are as follows:

	Balance at July 1, 2015	Increase	Decrease	Balance at June 30, 2016
Liability for Compensated Absences	\$506,097	\$386,174	\$327,015	\$ 565,256

## RHODE ISLAND LOTTERY

### Notes to Financial Statements

#### (8) Net Position - (Deficit)

##### Components of Unrestricted (Deficit):

- *Balance of prior year advance to the General Fund prior to contract revenue recognition*  
- On May 12, 2003, the Lottery entered into a 20-year contract, effective July 1, 2003, with its gaming system provider. The contract granted the provider the right to be the Lottery's exclusive vendor of hardware and software, together with the related services necessary for the operation of the Lottery's computerized games, through June 30, 2023. In return, the provider made a one-time payment of \$12.5 million to the Lottery as consideration for this exclusive contract right. The Lottery recorded unearned contract revenue in the amount of \$12.5 million and transferred the cash to the State's General Fund on June 30, 2003. This prior year transfer of unearned contract revenue resulted in a deficit in net position at June 30, 2016 of \$4.4 million. As the contract revenue is recognized over the twenty-year life of the contract, the deficit in net position will be reduced by \$625,000 per year. Accordingly, the Lottery has recognized \$625,000 as the current portion of unearned revenue as of June 30, 2016.
- *Proportionate share of Net Pension Liability in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions* – the Lottery recognizes its proportionate share of the State's net pension liability for the Employees' Retirement System Plan of RI. The Lottery's net pension liability at June 30, 2016 was \$15,073,593, which constitutes a significant portion of the unrestricted deficit reported on the Statement of Net Position at June 30, 2016.

##### Net investment in capital assets:

- *The Lottery's net position (deficit) at June 30, 2016 also includes its net investment in capital assets. The Lottery had no debt related to capital assets at June 30, 2016.*

#### (9) Retirement Plans

##### *General Information about the Pension Plan*

*Plan description* - Employees of the Lottery participate in a cost-sharing multiple-employer defined benefit pension plan – the Employees' Retirement System Plan - administered by the Employees' Retirement System of the State of Rhode Island (the "System"). Under a cost sharing plan, pension obligations for employees of all employers are pooled and plan assets are available to pay the benefits of the employees of any participating employer providing pension benefits through the plan, regardless of the status of the employers' payment of its pension obligation to the plan. The plan provides retirement and disability benefits and death benefits to plan members and beneficiaries.

## RHODE ISLAND LOTTERY

### Notes to Financial Statements

#### (9) Retirement Plans- (Continued)

The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at <http://www.ersri.org>.

*Benefit provisions* - The level of benefits provided to participants is established by Chapter 36-10 of the General Laws, which is subject to amendment by the General Assembly. Member benefit provisions vary based on service credits accumulated at dates specified in various amendments to the General Laws outlining minimum retirement age, benefit accrual rates and maximum benefit provisions. In general, members accumulate service credits for each year of service subject to maximum benefit accruals of 80% or 75%. For those hired after June 30, 2012, the benefit accrual rate is 1% per year with a maximum benefit accrual of 40%. Members eligible to retire at September 30, 2009 may retire with 10 years of service at age 60 or after 28 years of service at any age. The retirement eligibility age increases proportionately for other members reflecting years of service and other factors until it aligns with the Social Security Normal Retirement Age, which applies to any member with less than 5 years of service as of July 1, 2012. Members are vested after 5 years of service.

The plan provides for survivor's benefits for service connected death and certain lump sum death benefits. Joint and survivor benefit provision options are available to members.

Cost of living adjustments are provided but are currently suspended until the collective plans covering state employees and teachers reach a funded status of 80%. Until the plans reach an 80% funded status, interim cost of living adjustments are provided at four-year intervals.

The plan also provides nonservice-connected disability benefits after five years of service, and service-connected disability benefits with no minimum service requirement.

*Contributions* - The funding policy, as set forth in the General Laws, Section 36-10-2, provides for actuarially determined periodic contributions to the plan. For fiscal 2016, Lottery employees, with less than 20 years of service as of 7/1/2015, were required to contribute 3.75% of their annual covered salary. Employees with more than 20 years of service as of 7/1/2015 were required to contribute 11% of their annual covered salary. The Lottery is required to contribute at an actuarially determined rate; the rate was 23.64% of annual covered payroll for the fiscal year ended June 30, 2016. The Lottery contributed \$1,219,209, \$1,183,029 and \$1,127,463 for the fiscal years ended June 30, 2016, 2015 and 2014, respectively, equal to 100% of the required contributions for each year.

# RHODE ISLAND LOTTERY

## Notes to Financial Statements

### (9) Retirement Plans - (Continued)

#### *Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources*

At June 30, 2016, the Lottery reported a liability of \$15,073,593 for its proportionate share of the net pension liability related to its participation in ERS. The net pension liability was measured as of June 30, 2015, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015. The Lottery's proportion of the net pension liability was based on its share of contributions to the ERS for fiscal year 2015 relative to the total contributions of all participating employers for that fiscal year. At June 30, 2015, the Lottery's proportion was 0.75882896%.

For the year ended June 30, 2016, the Lottery recognized pension expense of \$1,896,066. At June 30, 2016, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

#### **Deferred Outflows of Resources**

Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 179,620
Contributions subsequent to measurement date	<u>1,219,209</u>
<b>Total Deferred Outflows of Resources</b>	<b>\$ <u>1,398,829</u></b>

#### **Deferred Inflows of Resources**

Difference between expected and actual experience	\$ 174,386
Change of assumptions	113,410
Net difference between projected and actual investment earnings	<u>12,406</u>
<b>Total Deferred Inflows of Resources</b>	<b>\$ <u>300,202</u></b>

# RHODE ISLAND LOTTERY

## Notes to Financial Statements

### (9) *Retirement Plans* - (Continued)

Contributions of \$1,219,209 are reported as deferred outflows of resources related to pensions resulting from the Lottery's contributions in fiscal year 2016 subsequent to the measurement date, and will be recognized as a reduction of the net pension liability for the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b><u>Year ended June 30:</u></b>	<b><u>Net Deferred Outflows (Inflows) of Resources:</u></b>
2017	(100,069)
2018	(100,069)
2019	(100,069)
2020	179,623
2021	-
Thereafter	-

### *Actuarial Assumptions*

The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.50% to 6.50%
Investment rate of return	7.50%

Mortality rates were based on 115% (males) and 95% (females) of the RP-2000 combined healthy mortality tables with white collar adjustments projected with scale AA from 2000.

The actuarial assumptions used in the June 30, 2014 valuations rolled forward to June 30, 2015 and the calculation of the total pension liability at June 30, 2015 were consistent with the results of an actuarial experience study performed as of June 30, 2013.

# RHODE ISLAND LOTTERY

## Notes to Financial Statements

### (9) *Retirement Plans* - (Continued)

The long-term expected rate of return best-estimate on pension plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of pension plan investment expense and inflation) for each major asset class, based on a collective summary of capital market expectations from 23 sources. The June 30, 2015 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following table:

Type of Investment	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	38.0%	
U.S. Equity		6.93%
International Developed		7.32%
International Emerging Markets		9.52%
Equity Hedge Funds	8.0%	3.98%
Private Equity	7.0%	9.99%
Core Fixed Income	15.0%	2.18%
Absolute Return Hedge Funds	7.0%	3.98%
Infrastructure	3.0%	5.70%
Real Estate	8.0%	4.85%
Other Real Return Assets:	11.0%	
Master Limited Partnerships		4.51%
Credit		4.51%
Inflation Linked Bonds		1.24%
Cash, Overlay and Money Market	3.0%	0.78%
	<hr/> 100%	

These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall long-term expected rate of return best-estimate on an arithmetic basis.

#### *Discount rate*

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# RHODE ISLAND LOTTERY

## Notes to Financial Statements

### (9) Retirement Plans - (Continued)

#### *Sensitivity of the net pension liability (asset) to changes in the discount rate*

The following presents the net pension liability (asset) calculated using the discount rate of 7.5 percent as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

<b>1.00% Decrease (6.50%)</b>	<b>Current Discount Rate (7.50%)</b>	<b>1.00% Increase (8.50%)</b>
\$18,687,969	\$15,073,593	\$12,114,712

#### *Pension Plan Fiduciary Net Position:*

As noted earlier, ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at <http://www.ersri.org>. The report contains detailed information about the pension plan's fiduciary net position.

#### *Defined Contribution Plan:*

*Plan Description* – Certain employees participating in the defined benefit plan (those with less than 20 years of service as of 7/1/2015), as described above, also participate in a defined contribution plan of the Employees' Retirement System as authorized by General Law Chapter 36-10.3. The defined contribution plan is established under IRS section 401(a) and is administered by TIAA-CREF. The Retirement Board is the plan administrator and plan trustee. The Employees may choose among various investment options available to plan participants. The State Investment Commission is responsible for implementing the investment policy of the plan and selecting the investment options available to members.

*Plan contributions* – Certain employees (those with less than 20 years of service as of 7/1/2015) contribute 5% of their annual covered salary and employers contribute at the following percentages of annual covered salary for these employees based on their years of service as of July 1, 2015:

<b><u>Years of Service As of 7/1/2015</u></b>	<b><u>Employer Contribution Rate</u></b>
15 - 20 Years	1.50%
10 - 15 Years	1.25%
0 - 10 Years	1.00%

## RHODE ISLAND LOTTERY

### Notes to Financial Statements

#### (9) Retirement Plans - (Continued)

Employee contributions are immediately vested while employer contributions are vested after three years of contributory service. Contributions required under the plan by both the employee and employer are established by the General Laws of the State of Rhode Island, which are subject to amendment by the General Assembly.

The Lottery contributed and recognized as pension expense \$52,081 for the fiscal year ended June 30, 2016, equal to 100% of the required contributions for the fiscal year.

*Plan vesting and contribution forfeiture provisions* – The total amount contributed by the member, including associated investment gains and losses, shall immediately vest in the member's account and is non-forfeitable. The total amount contributed by the employer, including associated investment gains and losses, vests with the member and is non-forfeitable upon completion of three (3) years of contributory service. Non-vested employer contributions are forfeited upon termination of employment. Such forfeitures can be used by employers to offset future remittances to the plan.

*Retirement benefits* – Benefits may be paid to a member after severance from employment, death, plan termination, or upon a deemed severance from employment for participants performing qualified military service. At a minimum, retirement benefits must begin no later than April 1 of the calendar year following the year in which the member attains age 70½ or terminates employment, if later.

The System issues a publicly available financial report that includes financial statements and required supplementary information for plans administered by the system. The report may be obtained at <http://www.ersri.org>.

#### (10) Postemployment Healthcare Plan

##### *Plan Description:*

The Lottery contributes to the State Employees' defined benefit post-employment health care plan, a cost sharing multiple employer plan administered through the Rhode Island State Employees' and Electing Teachers OPEB System (OPEB System). The State of Rhode Island OPEB Board (Board) was authorized, created and established under Chapter 36-12.1 of the RI General Laws. The Board was established to independently hold and administer, in trust, the funds of the OPEB system. The plan provides medical benefits to certain retired employees of participating employers including the Lottery.

A trust has been established to accumulate assets and pay benefits and other costs associated with the system.

The OPEB system issues a stand-alone financial report. A copy can be obtained from the State Controller's Office, 1 Capitol Hill, Providence, RI 02908.

# RHODE ISLAND LOTTERY

## Notes to Financial Statements

### (10) Postemployment Healthcare Plan (Continued)

#### *Funding Policy*

RIGL Sections 36-12.1, 36-12-2.2, and 36-12-4 govern the provisions of the OPEB System. The contribution requirements of plan members, the State, and other participating employers are established and may be amended by the General Assembly. Active employees make no contribution to the OPEB plan. Employees who retired after October 1, 2008 must contribute 20% of the annual estimated benefit cost (working rate) or annual premium for Medicare supplemental coverage. Employees retiring before October 1, 2008 have varying co-pay percentages ranging from 0% to 50% based on age and years of service at retirement. Further information about the contributions of plan members can be found in the financial report of the OPEB System.

For fiscal 2016, employers were required to contribute 5.97% of covered payroll. The employer required contribution rate is determined on an actuarially determined basis consistent with a funding approach outlined in the General Laws and as adopted by the OPEB System Board. The Lottery fully funded its required contribution to the plan for the years ended June 30, 2016, 2015 and 2014 which were \$307,993, \$342,283 and \$345,821 respectively.

### (11) Deferred Compensation

Employees of the Lottery may participate in a deferred compensation plan offered by the State. Required disclosures are reported in the State's CAFR.

### (12) Commitments

#### (a) Gaming Systems Provider – International Game Technology (IGT)

During May 2003, the Lottery entered into a 20-year master contract with its gaming systems provider granting them the right to be the exclusive provider of information technology hardware, software, and related services for all lottery games. This contract is effective from July 1, 2003 through June 30, 2023, and amends all previous agreements between the parties.

As consideration for this exclusive right, the gaming systems provider paid the Lottery \$12.5 million. In the event that the contract term is not fulfilled, the Lottery will be obligated to refund a pro-rata share of this amount to the gaming systems provider (\$4.4 million at June 30, 2016).

# RHODE ISLAND LOTTERY

## Notes to Financial Statements

### (12) Commitments - (Continued)

The contract mandates commission percentages as detailed in the following chart.

Commission Percentages	
On-Line and Instant Tickets	
Total Lottery Sales in the Year	Percent Thereof
\$0 - \$275 Million	5.00%
Over \$275 Million - \$400 Million	1.00%
Over \$400 Million	5.00%
Video Lottery Central System	
Total net Terminal Income for the Year	Percent Thereof
\$0 - \$500 Million	2.50%
Over \$500 Million - \$1 Billion	1.00%
Over \$1 Billion	2.50%

The Lottery also leases to the vendor a portion of its headquarters to house the computer hardware and office space necessary for the operation of the Lottery's games. The term of the lease is five (5) years, commencing October 19, 2012 and the square footage leased is 5,101 square feet. The annual lease amount for the first year approximated \$117,000 and the four (4) remaining years will increase by four percent (4%) per annum, effective October 19. The tenant has one (1) four (4) year term renewal option. The base rate for the renewal options will be an increase of four percent (4%) per annum unless a mutually acceptable rate is negotiated.

On July 1, 2016, the Lottery entered into a Sixth Amendment to the Master Contract with IGT. Under this amendment, IGT will provide instant ticket printing services under the same terms and conditions as the Lottery's most recent contract, including pricing, through June 30, 2023. In addition, IGT will provide a redesigned, enhanced website. By mutual agreement, IGT will provide courier service for the delivery of instant ticket products, four licensed instant ticket games, and the new website at no cost to the Lottery (total value of \$2,691,000); and the Lottery will waive IGT's obligations under Section 6.3 of the Master Contract (minimum employment mandates) through December 31, 2017.

#### (b) Video Lottery Facility – UTGR, Inc. (Twin River)

On July 18, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with UTGR, Inc. (UTGR), the owners of Twin River, to manage one of the State's licensed video lottery facilities. The contract entitles UTGR to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility. UTGR and the Lottery extended the contract and signed the first five-year extension term commencing on July 18, 2010. The second term commenced on July 18, 2015. Certain extensions are contingent on UTGR's compliance with full-time employment mandates.

## RHODE ISLAND LOTTERY

### Notes to Financial Statements

#### (12) Commitments - (Continued)

The Master Contract has been amended in recent years to reflect the statutory authorization of a promotional points program at Twin River. In fiscal 2016, Twin River was authorized and issued approximately \$49 million in promotional points to facility patrons.

The Master Contract has also been amended to reflect the statutory requirement that the Lottery reimburse UTGR for certain allowable marketing expenses. The Lottery is currently obligated to reimburse UTGR for allowable marketing expenses as follows:

<u>Marketing Expense Level</u>	<u>Lottery Reimbursement Percentage</u>
\$1 up to \$4,000,000	0%
\$4,000,001 up to \$10,000,000	State Share of NTI
\$10,000,001 up to \$14,000,000	0%
\$14,000,001 up to \$17,000,000	State Share of NTI

Most recent statute and contract amendments require the Lottery to reimburse UTGR for allowable marketing expenses incurred between \$4 million and \$10 million and between \$14 million and \$17 million at the same percentage as the Lottery's share of net terminal income for the fiscal year (60.88% for 2016). The Lottery reimbursed UTGR for \$5,479,200 in marketing expenses for fiscal 2016.

#### (c) Video Lottery Facility – Premier Entertainment II, LLC. (Newport Grand)

On November 23, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with Newport Grand to continue to manage one of the State's licensed video lottery facilities. Newport Grand and the Lottery extended the contract and signed the first five-year extension term of the contract commencing on November 23, 2010. The second term, which commenced on November 23, 2015, is contingent on Newport Grand's compliance with full-time employment mandates specified in the 2010 law. The contract, as amended, entitles Newport Grand to compensation equal in percentage of net terminal income to that of Twin River. In addition, Newport Grand is entitled to an increased percentage of net terminal income of 1.9% to be used for approved marketing expenses at Newport Grand.

The Master Contract has been amended in recent years to reflect the statutory authorization of a promotional points program at Newport Grand. In fiscal 2016, Newport Grand was authorized and issued approximately \$5.3 million in promotional points to facility patrons.

The Master Contract has also been amended to reflect the statutory requirement that the Lottery reimburse Newport Grand for certain allowable marketing expenses. The Lottery is currently obligated to reimburse Newport Grand for allowable marketing expenses as follows:

# RHODE ISLAND LOTTERY

## Notes to Financial Statements

### (12) Commitments - (Continued)

<u>Marketing Expense Level</u>	<u>Lottery Reimbursement Percentage</u>
\$1 up to \$560,000	0%
\$560,001 up to \$1,400,000	State Share of NTI

Most recent statute and contract amendments require the Lottery to reimburse Newport Grand for allowable marketing expenses incurred between \$560,000 and \$1.4 million at the same percentage as the Lottery's share of net terminal income for the fiscal year (61.35% for 2016). The Lottery reimbursed Premier Entertainment II, LLC. for \$472,655 in marketing expenses for fiscal 2016.

### (13) Contingencies

- (a) The Lottery's master contracts with its video lottery facilities contain revenue protection provisions in the event that existing video lottery facilities incur revenue losses caused by new gaming ventures within the State.
- (b) The Lottery's gaming operations currently compete with casinos in nearby Connecticut and Massachusetts. In addition, both neighboring States have already approved or are considering additional casino expansion likely to increase gaming competition in New England. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states. Recent legislation authorizes a statewide and local referendum to be included on the ballot in November 2016 to allow for the relocation of the Newport gaming facility to Tiverton. A new gaming facility located in Tiverton, RI is widely considered to be better positioned to compete with future gaming competition expected in nearby Massachusetts.
- (c) The Narragansett Indian Tribe filed a complaint against the State of Rhode Island in the Rhode Island Superior Court on or about September 28, 2011, challenging, *inter alia*, the constitutionality of the Rhode Island Casino Gaming Act ("Act") on the grounds that it would not be "state-operated" and the Act "delegates unconstitutional authority to a private corporation". On or about June 29, 2012, the Rhode Island Superior Court found that the Narragansett Indian Tribe had not sustained their burden of proof beyond a reasonable doubt that the Act is facially unconstitutional. The Narragansett Indian Tribe filed a notice of appeal of that decision with the Rhode Island Supreme Court. On or about March 4, 2015, the Rhode Island Supreme Court issued a decision upholding the Superior Court's decision. The remaining issues in the case relating to whether the State "operates" Twin River and Newport Grand facilities remain pending in the Superior Court.
- (d) In the event of default on an insurance annuity contract for a Rhode Island winner of the Lucky for Life<sup>®</sup> jackpot prize award, the Lottery may be contingently liable for any remaining prize amounts due the winner.

## RHODE ISLAND LOTTERY

### Notes to Financial Statements

#### *(14) Risk Management*

The Lottery is exposed to various types of risk related to its operations. These risks can result in losses incurred from property damage or destruction, inability to operate gaming activities and worker compensation claims. The Lottery manages these risks through the purchase of commercial insurance. During fiscal 2016, the Lottery maintained its amount of purchased insurance coverage. Claims and settlements incurred for fiscal years 2016, 2015 and 2014 have not exceeded the Lottery's insurance coverage.

The Lottery participates in the health insurance program for all State employees.

# Required Supplementary Information

**RHODE ISLAND LOTTERY**  
**Schedule of the Lottery's Proportionate Share of the Net Pension Liability**  
**Employees' Retirement System Plan**

<b>Year Ended</b>	<b>June 30, 2016</b>	<b>June 30, 2015</b>
<b>Measurement Date</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
	<u><b>2016</b></u>	<u><b>2015</b></u>
Lottery's proportion of the net pension liability	0.75882896%	0.74724193%
Lottery's proportionate share share of the net pension liability	\$15,073,593	\$13,315,141
Lottery's covered-employee payroll (for year ended as of the measurement date)	\$5,070,849	\$4,891,380
Lottery's proportionate share of the net pension liability as a percentage of its covered - employee payroll	297.26%	272.22%
Plan fiduciary net position as a percentage of the total pension liability	55.03%	58.58%

**Notes:**

**1.) The amounts presented for each fiscal year were determined as of June 30 measurement date prior to the fiscal year-end.**

**2.) Schedule is intended to show information for 10 years - additional years will be displayed as they become available.**

**RHODE ISLAND LOTTERY**  
**Schedules of the Lottery's Contributions**  
**Employees' Retirement System Plan**

	<u>2016</u>	<u>2015</u>
Statutorily determined contribution	\$1,219,209	\$1,183,029
Contributions in relation to the statutorily determined contribution	1,219,209	1,183,029
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>
 Lottery's covered-employee payroll	 \$5,155,796	 \$5,070,849
Contributions as a percentage of covered-employee payroll	23.65%	23.33%

**Notes:**

***1.) Employers participating in the State Employee's Retirement System are required by RI General Laws, Section 36-10-2, to contribute an actuarially determined contribution rate each year.***

***2.) Schedule is intended to show information for 10 years - additional years will be displayed as they become available.***

# Supplementary Information

## Schedule 1 – Operating Revenue and Cost of Gaming Operations

# RHODE ISLAND LOTTERY

## Operating Revenue and Cost of Gaming Operations Year Ended June 30, 2016

### Schedule 1

	Revenue <sup>(2)</sup>	Commissions	Prize Awards Expense	Unclaimed Prize Recovery	Cost of Tickets	Advertising	Incentive Programs	Cost of Gaming Operations	Gross Profit/(Loss)
Lottery games:									
On-line games									
Keno	\$ 83,659,591	\$ 10,879,737	\$ 54,857,577	\$ (276,041)	\$ -	\$ 185,763	\$ -	\$ 65,647,036	\$ 18,012,555
Bingo	1,029,788	134,820	743,979	(4,725)	-	1,277	-	875,351	154,437
PowerBall®	36,307,849	4,720,830	17,986,528	(280,574)	-	924,273	-	23,351,057	12,956,792
Monopoly Millionaires Club™	-	-	-	(4,937)	-	(579)	-	(5,516)	5,516
Daily Numbers	23,773,865	3,092,294	11,889,800	(198,939)	-	33,810	-	14,816,965	8,956,900
Mega Millions®	10,064,697	1,309,677	5,034,754	(134,890)	-	324,200	-	6,533,741	3,530,956
Wild Money	4,317,463	560,679	2,369,419	(39,010)	-	5,428	-	2,896,516	1,420,947
Lucky for Life®	5,398,864	701,919	3,104,366	(130,194)	-	36,777	-	3,712,868	1,685,996
	164,552,117	21,399,956	95,986,423	(1,069,310)	-	1,510,949	-	117,828,018	46,724,099
Instant tickets	96,281,087	10,266,937	65,664,357	(953,257)	1,155,106	405,321	-	76,538,464	19,742,623
Video Lottery <sup>(1)</sup>	488,690,835	188,979,963	-	(249,152)	-	-	6,802,349	195,533,160	293,157,675
Table Games <sup>(3)</sup>	125,837,949	105,703,877	-	-	-	-	-	105,703,877	20,134,072
Totals	<u>\$ 875,361,988</u>	<u>\$ 326,350,733</u>	<u>\$ 161,650,780</u>	<u>\$ (2,271,719)</u>	<u>\$ 1,155,106</u>	<u>\$ 1,916,270</u>	<u>\$ 6,802,349</u>	<u>\$ 495,603,519</u>	<u>\$ 379,758,469</u>
Video Lottery Commissions - Detail									
Facilities		\$ 135,447,621							
Technology Providers		33,672,436							
Central Communications Provider		12,217,271							
City/Town		6,888,265							
Narragansett Indian Tribe		754,370							
Total		<u>\$ 188,979,963</u>							

(1) See note 2 (c) (3) for detail of gross video lottery terminal activity.

(2) See note 2 (c) for details of revenue accounting policy.

(3) Includes poker which commenced in December 2015.

# Statistical Section

## Statistical Section

This part of the Lottery's comprehensive annual financial report presents detailed information as to the context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the financial health of the State of Rhode Island, the Lottery and the lottery industry.

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Lottery Statistics – Rhode Island These schedules contain trend information to help the reader understand how the Lottery's financial performance and well-being have changed over time.	64
Rhode Island Demographics These schedules offer demographic and economic indicators to help give the reader a better understanding of the Lottery's and the State of Rhode Island's environment.	70
Lottery Statistics – National These schedules contain financial information to help the reader understand the Lottery's performance compared to the other lottery jurisdictions within the United States of America.	73

# Lottery Statistics – Rhode Island

# RHODE ISLAND LOTTERY

## Principal Revenue Sources

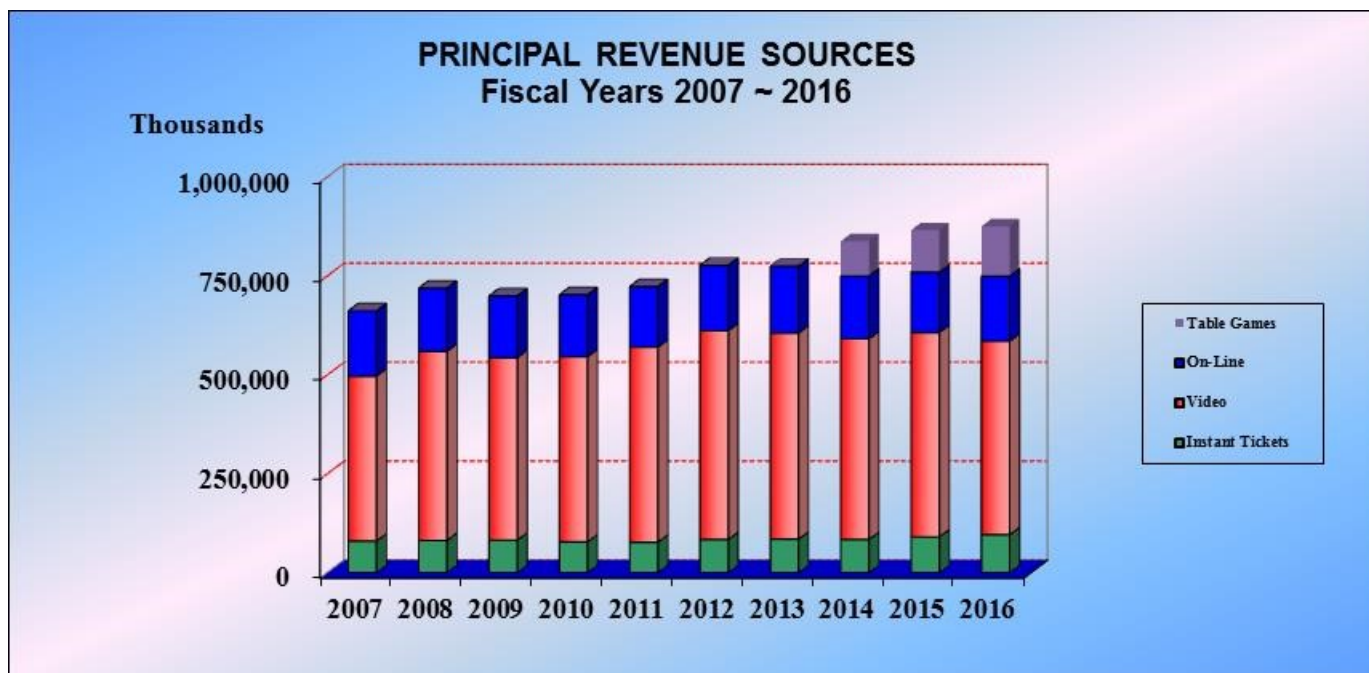
Fiscal Years 2007 through 2016

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Operating Revenue</b>										
<i>Instant tickets</i>										
Instant tickets	\$ 79,980,026	\$ 81,557,881	\$ 82,348,042	\$ 77,978,026	\$ 77,217,452	\$ 83,950,804	\$ 85,003,754	\$ 83,975,581	\$ 90,526,129	\$ 96,281,087
Percentage of total revenues	12.0%	11.3%	11.7%	11.1%	10.7%	10.8%	10.9%	10.0%	10.4%	11.0%
<i>Video</i>										
Video lottery	416,793,363	477,773,837	460,895,733	467,772,084	492,594,189	527,323,124	520,747,106	507,056,712	516,262,400	488,690,835
Percentage of total revenues	62.8%	66.3%	65.8%	66.5%	68.0%	67.8%	67.1%	60.5%	59.6%	55.7%
<i>Table games</i>										
Table games	-	-	-	-	-	-	1,881,238	88,108,367	106,640,942	125,837,949
Percentage of total revenues	-	-	-	-	-	-	0.2%	10.5%	12.3%	14.4%
<i>On-line</i>										
Keno	83,189,252	77,646,539	76,036,908	77,708,084	81,061,025	82,251,847	78,964,759	78,203,765	80,465,002	83,659,591
Bingo	-	-	-	-	-	-	1,381,565	1,094,274	949,606	1,029,788
PowerBall®	47,082,311	48,856,098	46,583,080	42,684,765	28,175,659	32,858,107	40,949,997	31,502,543	26,049,095	36,307,849
Monopoly Millionaires Club™	-	-	-	-	-	-	-	-	288,275	-
Daily Numbers	27,835,994	27,446,355	25,814,615	25,176,010	24,933,177	25,412,018	24,522,578	24,141,676	24,197,096	23,773,865
Mega Millions®	-	-	-	4,067,206	11,543,667	13,943,638	7,930,357	12,622,344	11,465,226	10,064,697
Wild Money	5,708,730	5,140,754	5,185,904	4,755,803	5,261,888	4,891,994	3,583,753	4,525,777	3,695,696	4,317,463
Lucky for Life	-	-	-	-	-	3,774,422	8,726,218	6,719,790	5,455,649	5,398,864
Hot Trax®	48,097	-	-	-	-	-	-	-	-	-
Rhody Poker™	1,003,564	590,426	109,943	-	-	-	-	-	-	-
Raffle	-	-	2,399,740	2,254,980	2,399,880	2,399,940	2,301,580	-	-	-
Total on-line	164,867,948	159,680,172	156,130,190	156,646,848	153,375,296	165,531,966	168,360,807	158,810,169	152,565,645	164,552,117
Percentage of total revenues	24.8%	22.1%	22.3%	22.3%	21.2%	21.3%	21.7%	18.9%	17.6%	18.8%
<b>Total revenue</b>	<b>661,641,337</b>	<b>719,011,890</b>	<b>699,373,965</b>	<b>702,396,958</b>	<b>723,186,937</b>	<b>776,805,894</b>	<b>775,992,905</b>	<b>837,950,829</b>	<b>865,995,116</b>	<b>875,361,988</b>
<i>Non-operating income</i>										
Investment income	1,412,256	1,404,108	445,149	98,194	76,759	92,061	114,980	108,350	106,509	163,373
Net pull tab sales	155,177	130,736	116,311	98,594	70,582	65,891	63,322	44,672	44,851	37,272
Contract revenue	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000
Miscellaneous	443,289	354,257	402,289	206,708	396,278	162,823	406,683	353,407	282,605	276,216
<b>Total non-operating revenues</b>	<b>2,635,722</b>	<b>2,514,101</b>	<b>1,588,749</b>	<b>1,028,496</b>	<b>1,168,619</b>	<b>945,775</b>	<b>1,209,985</b>	<b>1,131,429</b>	<b>1,058,965</b>	<b>1,101,861</b>
Percentage of total revenues	0.4%	0.3%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
<b>Total revenues</b>	<b>\$ 664,277,059</b>	<b>\$ 721,525,991</b>	<b>\$ 700,962,714</b>	<b>\$ 703,425,454</b>	<b>\$ 724,355,556</b>	<b>\$ 777,751,669</b>	<b>\$ 777,202,890</b>	<b>\$ 839,082,258</b>	<b>\$ 867,054,081</b>	<b>\$ 876,463,849</b>

# RHODE ISLAND LOTTERY

## Principal Revenue Sources

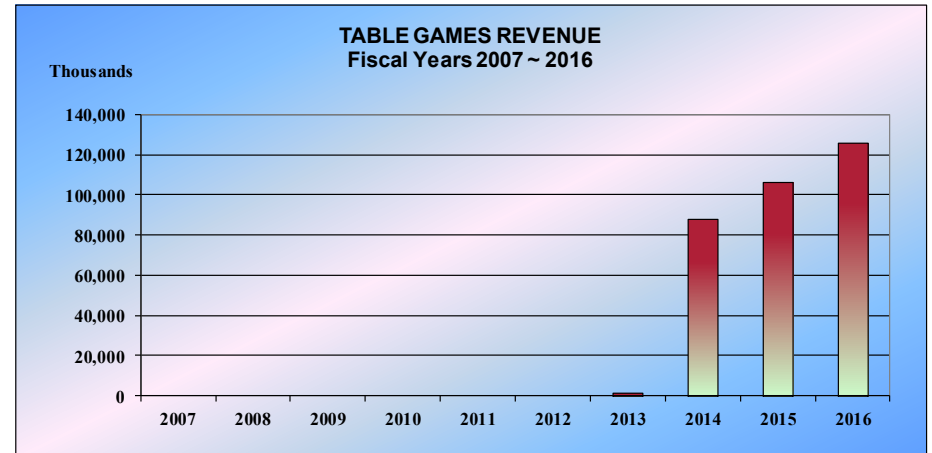
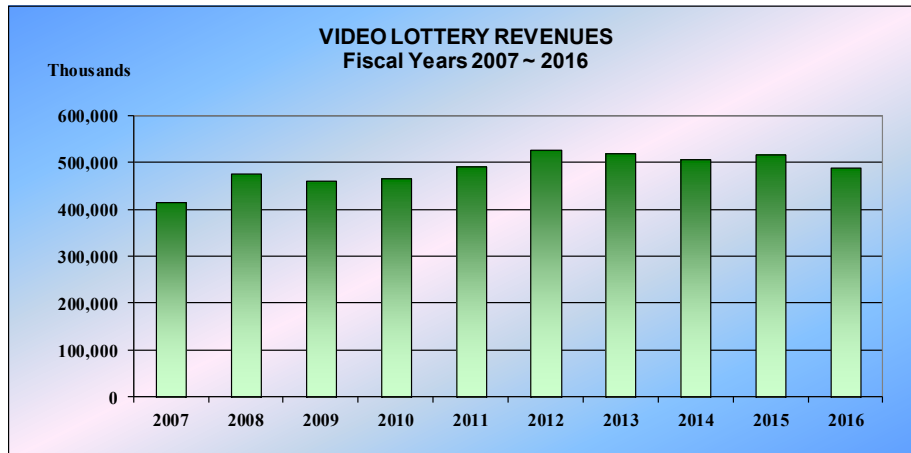
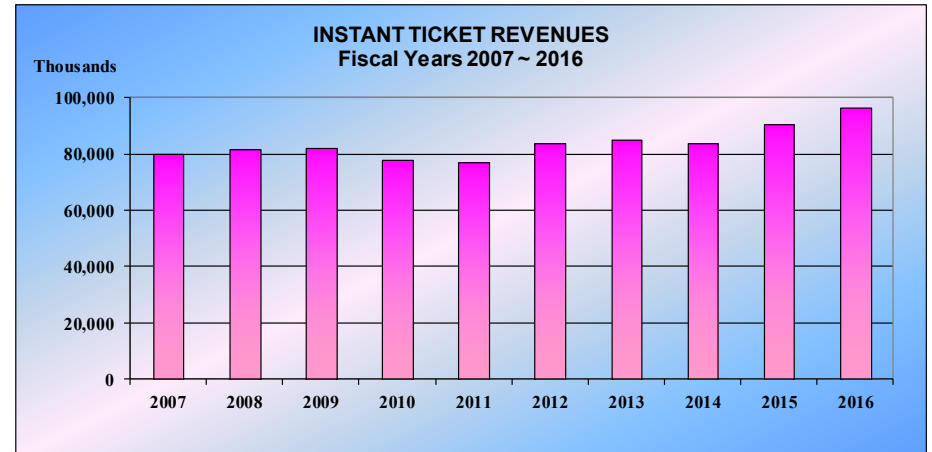
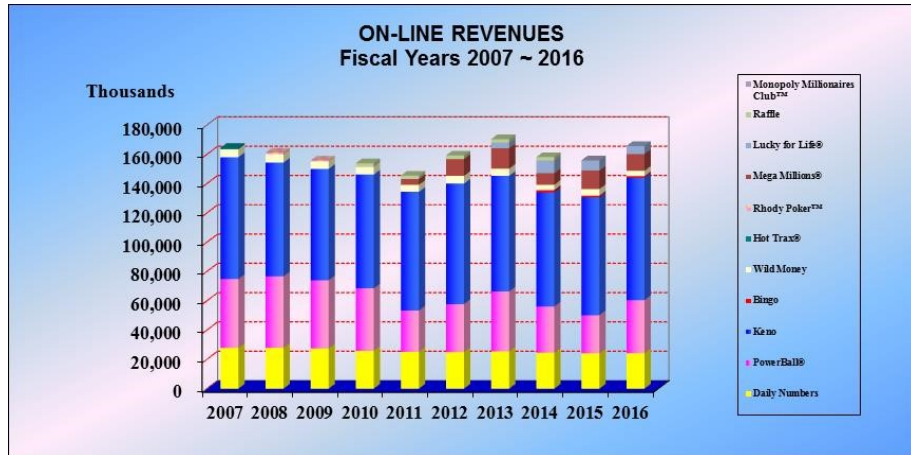
Fiscal Years 2007 through 2016



# RHODE ISLAND LOTTERY

## Revenue Sources

Fiscal Years 2007 through 2016



# RHODE ISLAND LOTTERY

## Change in Net Position

### Fiscal Years 2007 through 2016

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Operating revenues										
On-line	\$ 164,867,948	\$ 159,680,172	\$ 156,130,190	\$ 156,646,848	\$ 153,375,296	\$ 165,531,966	\$ 168,360,807	\$ 158,810,169	\$ 152,565,645	\$ 164,552,117
Instant tickets	79,980,026	81,557,881	82,348,042	77,978,026	77,217,452	83,950,804	85,003,754	83,975,581	90,526,129	96,281,087
Video lottery	416,793,363	477,773,837	460,895,733	467,772,084	492,594,189	527,323,124	520,747,106	507,056,712	516,262,400	488,690,835
Table games	-	-	-	-	-	-	1,881,238	88,108,367	106,640,942	125,837,949
Total operating revenue	661,641,337	719,011,890	699,373,965	702,396,958	723,186,937	776,805,894	775,992,905	837,950,829	865,995,116	875,361,988
Cost of gaming operations										
Retailer/vendor commissions	29,833,892	29,388,939	29,044,890	28,670,310	28,150,798	30,440,073	30,919,173	29,575,451	29,476,752	31,666,893
Video commissions	159,561,783	181,939,172	175,984,230	178,828,883	189,461,494	202,701,572	200,429,711	196,693,434	200,084,883	188,979,963
Table games commissions	-	-	-	-	-	-	1,542,615	72,248,861	89,578,391	105,703,877
Prizes	147,612,474	147,609,517	144,856,173	144,273,818	142,324,102	155,108,308	153,205,932	148,570,701	150,062,564	161,650,780
Unclaimed prize recovery	(3,979,177)	(3,315,397)	(3,198,266)	(3,270,897)	(2,368,721)	(2,619,903)	(3,328,183)	(2,611,675)	(2,618,608)	(2,271,719)
Cost of tickets	1,454,429	1,437,347	1,193,898	1,226,637	1,109,481	1,299,406	1,098,515	1,043,555	1,079,659	1,155,106
Advertising and promotion	2,361,834	2,139,525	2,203,027	2,441,014	2,088,973	2,281,816	2,159,542	2,089,016	2,227,887	1,916,270
Incentive programs, video	-	-	-	-	2,212,253	4,003,153	4,076,294	4,070,183	4,119,330	6,802,349
Total cost of gaming operations	336,845,235	359,199,103	350,083,952	352,169,765	362,978,380	393,214,425	390,103,599	451,679,526	474,010,858	495,603,519
<b>Gross Profit</b>	<b>324,796,102</b>	<b>359,812,787</b>	<b>349,290,013</b>	<b>350,227,193</b>	<b>360,208,557</b>	<b>383,591,469</b>	<b>385,889,306</b>	<b>386,271,303</b>	<b>391,984,258</b>	<b>379,758,469</b>
Operating Expenses										
Personal services	4,450,807	4,753,505	4,764,132	4,727,577	4,826,364	5,178,848	6,212,132	9,438,106	9,276,808	10,300,568
Contract services	136,973	159,549	58,480	57,509	80,732	133,469	61,413	56,822	109,948	18,624
Depreciation and amortization	261,956	245,940	240,281	246,683	234,375	220,856	151,218	114,087	101,746	111,393
Other	967,257	974,820	898,064	926,177	749,718	672,676	1,097,061	864,970	794,172	1,165,181
Total operating expenses	5,816,993	6,133,814	5,960,957	5,957,946	5,891,189	6,205,849	7,521,824	10,473,985	10,282,674	11,595,766
<b>Operating Income</b>	<b>318,979,109</b>	<b>353,678,973</b>	<b>343,329,056</b>	<b>344,269,247</b>	<b>354,317,368</b>	<b>377,385,620</b>	<b>378,367,482</b>	<b>375,797,318</b>	<b>381,701,584</b>	<b>368,162,703</b>
Non-operating income (expenses)										
Interest income	1,412,256	1,404,108	445,149	98,194	76,759	92,061	114,980	108,350	106,509	163,373
Contract revenue	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000
Other	598,466	484,993	518,600	305,302	466,860	228,714	470,005	398,079	327,456	313,488
Total non-operating income (expenses)	2,635,722	2,514,101	1,588,749	1,028,496	1,168,619	945,775	1,209,985	1,131,429	1,058,965	1,101,861
<b>Income Before Transfers</b>	<b>321,614,831</b>	<b>356,193,074</b>	<b>344,917,805</b>	<b>345,297,743</b>	<b>355,485,987</b>	<b>378,331,395</b>	<b>379,577,467</b>	<b>376,928,747</b>	<b>382,760,549</b>	<b>369,264,564</b>
Transfers from (to) State's General Fund	(320,989,831)	(354,321,087)	(337,515,478)	(344,672,743)	(354,860,987)	(377,706,395)	(379,224,717)	(376,327,120)	(381,935,511)	(369,760,880)
Transfers from (to) RI Capital Plan Fund	-	-	-	-	-	-	272,250	23,373	-	444,458
Transfers from (to) Permanent School Fund	-	(1,152,762)	(6,777,327)	-	-	-	-	-	-	-
Transfers from (to) RI Council on the Arts	-	(94,225)	-	-	-	-	-	-	-	-
<b>Increase (decrease) in Net Position</b>	<b>\$ 625,000</b>	<b>\$ 625,000</b>	<b>\$ 625,000</b>	<b>\$ 625,000</b>	<b>\$ 625,000</b>	<b>\$ 625,000</b>	<b>\$ 625,000</b>	<b>\$ 625,000</b>	<b>\$ 825,038</b>	<b>\$ (51,858)</b>

# RHODE ISLAND LOTTERY

## Net Position

June 30, 2007 through 2016

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Net Position at Year-End</b>										
Net investment in capital assets	\$ 1,138,619	\$ 908,218	\$ 808,117	\$ 690,870	\$ 469,496	\$ 266,828	\$ 402,288	\$ 460,135	\$ 455,395	\$ 368,149
Unrestricted (deficit)	(11,138,619)	(10,283,218)	(9,558,117)	(8,815,870)	(7,969,496)	(7,141,828)	(6,652,288)	(6,085,135)	(18,753,504)	(18,718,116)
<b>Total Net Position (Deficit)</b>	<u>\$ (10,000,000)</u>	<u>\$ (9,375,000)</u>	<u>\$ (8,750,000)</u>	<u>\$ (8,125,000)</u>	<u>\$ (7,500,000)</u>	<u>\$ (6,875,000)</u>	<u>\$ (6,250,000)</u>	<u>\$ (5,625,000)</u>	<u>\$ (18,298,109)</u>	<u>\$ (18,349,967)</u>

# RHODE ISLAND LOTTERY

## Changes in Cash and Cash Equivalents

### Fiscal Years 2007 through 2016

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Cash Flows from Operating Activities</b>										
Receipts from lottery sales, online and instant games	\$ 243,904,024	\$ 245,433,184	\$ 238,317,868	\$ 236,400,252	\$ 229,312,781	\$ 246,010,593	\$ 253,639,499	\$ 243,577,754	\$ 244,225,203	\$ 260,846,176
Receipts from video lottery operations	416,793,363	477,773,837	460,895,733	467,772,084	492,594,189	527,323,124	520,747,106	507,056,712	516,262,400	488,690,835
Receipts from table games	-	-	-	-	-	-	1,881,238	88,108,367	106,640,942	125,837,949
Receipts from MUSL for grand prize winners	6,245,000	8,069,149	10,095,229	3,549,000	3,293,000	249,359,349	2,333,000	2,333,000	423,000	-
Receipts from MUSL for Lucky for Life® top prize winners	-	-	-	-	-	-	-	711,604	-	-
Receipts from problem gambling program	-	-	-	-	-	-	-	100,000	100,000	200,000
Receipts from sale of other tickets	228,582	191,079	171,072	143,942	103,042	96,476	92,835	67,069	64,639	55,971
Other receipts	219,906	414,776	390,203	452,624	489,956	204,397	409,444	347,042	274,671	271,998
Payments for on-line and instant ticket prizes	(144,690,653)	(144,571,030)	(141,253,003)	(141,845,470)	(140,191,970)	(149,317,420)	(150,828,237)	(145,938,994)	(149,773,735)	(157,651,019)
Payments to MUSL grand prize winners	(6,245,000)	(8,069,149)	(10,095,229)	(3,549,000)	(3,293,000)	(249,359,349)	(2,333,000)	(2,333,000)	(423,000)	-
Payments for commissions - retailers	(8,469,884)	(8,672,377)	(8,763,660)	(8,334,037)	(8,208,460)	(8,931,584)	(9,035,425)	(8,932,729)	(9,633,389)	(10,266,937)
Payments for commissions - video lottery	(157,009,564)	(184,316,798)	(176,354,565)	(177,252,004)	(187,874,908)	(200,322,843)	(202,426,041)	(196,559,997)	(202,655,186)	(190,957,016)
Payments for commissions - table games	-	-	-	-	-	-	-	(73,602,436)	(87,465,347)	(104,844,750)
Payments to facilities - video lottery incentive program	-	-	-	-	-	(2,199,328)	(4,007,075)	(4,079,733)	(4,074,749)	(4,970,820)
Payments for commissions - on-line games contractor	(21,551,637)	(20,696,559)	(21,232,654)	(20,363,068)	(19,933,400)	(22,427,886)	(21,883,748)	(20,642,722)	(17,760,618)	(22,429,985)
Payments to suppliers for goods and services	(5,057,261)	(4,630,285)	(4,551,759)	(4,965,158)	(3,926,542)	(4,592,414)	(3,670,584)	(4,286,788)	(4,473,338)	(4,718,289)
Payments to employees for services	(4,431,229)	(4,790,432)	(4,634,479)	(4,567,917)	(4,867,093)	(5,213,577)	(6,221,555)	(9,331,812)	(9,441,122)	(9,544,337)
Net cash provided by operating activities	319,935,647	356,135,395	342,984,756	347,441,248	357,497,595	380,629,538	378,697,457	376,593,337	382,290,371	370,519,776
<b>Cash Flows from Noncapital Financing Activities</b>										
Transfers from (to) State's General Fund	(319,099,489)	(356,789,829)	(336,474,883)	(344,588,425)	(353,775,229)	(377,904,813)	(380,910,701)	(376,903,899)	(381,143,916)	(369,414,091)
Transfers from (to) RI Capital Plan Fund	-	-	-	-	-	-	272,250	23,373	-	-
Transfers from (to) from State's Permanent School Fund	-	-	(7,939,748)	9,659	-	-	-	-	-	-
Transfers from (to) RI Council on the Arts	-	(94,225)	-	-	-	-	-	-	-	-
Negative cash balance implicitly financed	-	-	-	-	-	-	-	-	-	-
Net cash used for noncapital financing activities	(319,099,489)	(356,884,054)	(344,414,631)	(344,578,766)	(353,775,229)	(377,904,813)	(380,638,451)	(376,880,526)	(381,143,916)	(369,414,091)
<b>Cash Flows from Capital and Related Financing Activities</b>										
Purchase of capital assets	(86,285)	(15,539)	(146,153)	(131,578)	(13,000)	(18,188)	(294,330)	(171,934)	(97,006)	(24,147)
Proceeds from sale of capital assets	-	16,500	-	-	-	-	7,652	-	-	-
Net cash provided by (used for) capital and related financing activities	(86,285)	961	(146,153)	(131,578)	(13,000)	(18,188)	(286,678)	(171,934)	(97,006)	(24,147)
<b>Cash Flows from investing Activities</b>										
Proceeds from maturity of investments for jackpot awards	-	-	-	-	-	-	-	-	-	-
Interest income	1,412,256	1,404,109	445,149	98,194	76,759	92,061	114,980	108,350	106,509	163,373
Net cash provided by investing activities	1,412,256	1,404,109	445,149	98,194	76,759	92,061	114,980	108,350	106,509	163,373
Net increase (decrease) in cash and cash equivalents	2,162,129	656,411	(1,130,879)	2,829,098	3,786,125	2,798,598	(2,112,692)	(350,773)	1,155,958	1,244,911
Cash and cash equivalents, beginning of year	9,925,829	12,087,958	12,744,369	11,613,490	14,442,588	18,228,713	21,027,311	18,914,619	18,563,846	19,719,804
<b>Cash and cash equivalents, end of year</b>	<b>\$ 12,087,958</b>	<b>\$ 12,744,369</b>	<b>\$ 11,613,490</b>	<b>\$ 14,442,588</b>	<b>\$ 18,228,713</b>	<b>\$ 21,027,311</b>	<b>\$ 18,914,619</b>	<b>\$ 18,563,846</b>	<b>\$ 19,719,804</b>	<b>\$ 20,964,715</b>

Source: Rhode Island Lottery

# Rhode Island Demographics

# RHODE ISLAND LOTTERY

## Rhode Island Demographics

### Rhode Island Population by County - As of July 1

Population	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Bristol County	50,138	49,979	49,878	49,542	49,864	49,273	49,223	49,254	49,047	49,084
Kent County	169,416	168,658	168,635	168,752	166,038	165,308	164,867	164,856	164,957	164,801
Newport County	83,367	81,305	80,699	80,300	83,142	83,005	82,918	82,523	82,448	82,423
Providence County	630,186	628,280	627,437	627,690	627,090	627,784	629,199	629,816	632,025	633,473
Washington County	127,089	126,787	126,853	126,925	127,085	126,486	126,186	126,407	126,430	126,517
<b>Total Rhode Island Population</b>	<b>1,060,196</b>	<b>1,055,009</b>	<b>1,053,502</b>	<b>1,053,209</b>	<b>1,053,219</b>	<b>1,051,856</b>	<b>1,052,393</b>	<b>1,052,856</b>	<b>1,054,907</b>	<b>1,056,298</b>
Percent Increase/(Decrease)	(.45%)	(.49%)	(.14%)	(.03%)	(.00%)	(.13%)	.05%	.04%	.19%	.13%

### Total Personal Income, Per Capita Personal Income and Unemployment Rate Data - Calendar Years 2006 - 2015

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Total Personal Income (in thousands)</b>	41,225,367	43,023,232	44,193,339	43,285,218	45,004,874	46,596,360	48,509,355	48,607,267	51,026,876	52,905,465
<b>Per Capita Personal Income</b>	38,884.67	40,779.97	41,949	41,098	42,731	44,299	46,094	46,167	48,371	50,086
<b>Unemployment Rate</b>	4.8%	4.8%	7.3%	10.9%	10.9%	10.5%	10.1%	8.9%	7.3%	5.7%

**Source:** U.S. Census Bureau and U.S. Department of Labor Bureau of Labor Statistics

As of result of revised census data, amounts for various calendar years may differ from the amounts presented in the same tables in the June 30, 2015 report.

### State of Rhode Island and Providence Plantations Principal Employers

2015				2006			
Rank	Employer	Employed	% of Total Employment	Rank	Employer	Employed	% of Total Employment
1	Lifespan	11,964	2.16%	1	Lifespan	10,935	1.91%
2	Care New England	8,661	1.56%	2	Care New England	6,611	1.15%
3	CVS Caremark Corporation	7,000	1.26%	3	CVS Corporation	5,683	0.99%
4	Citizens Financial Group	5,324	0.96%	4	Citizens Financial Group (Royal Bank of Scotland)	5,500	0.96%
5	Brown University	4,191	0.76%	5	Stop and Shop Supermarket Co., Inc.	4,455	0.78%
6	Stop & Shop	4,142	0.75%	6	Brown University	3,943	0.69%
7	Fidelity Investments	3,880	0.70%	7	Bank of America	3,000	0.52%
8	General Dynamics Corp	3,563	0.64%	8	Shaw's Super Market	2,240	0.39%
9	Roman Catholic Diocese of Providence	3,500	0.63%	9	General Dynamics Corp	2,200	0.38%
10	Naval Undersea Warfare Center	2,732	0.49%	10	The Jan Company	2,115	0.37%
Total employment		555,000	9.91%	Total employment		573,000	8.14%

**Source:** Rhode Island Commerce Corporation.

Some employers are not listed because they did not wish to participate.

2015 information is provided by the RI Department of Labor and Training.

# RHODE ISLAND LOTTERY

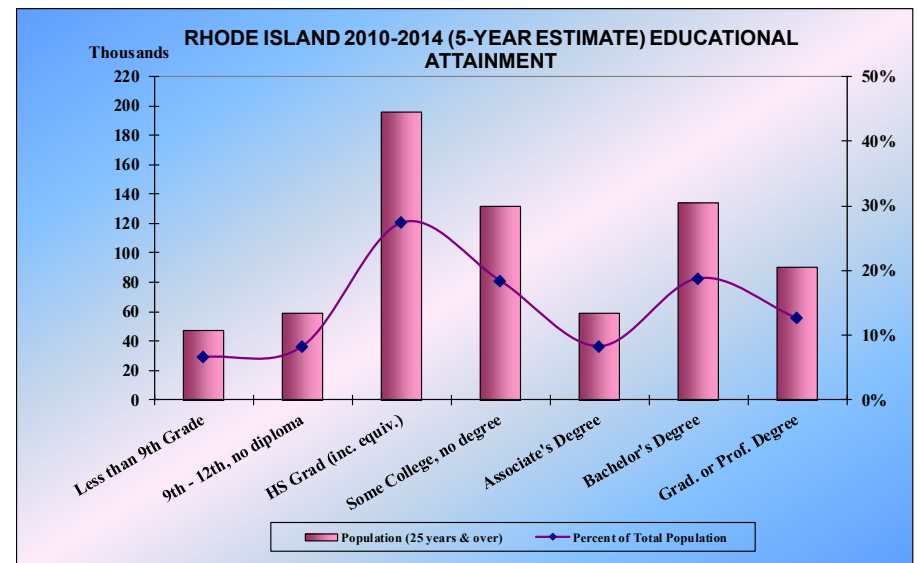
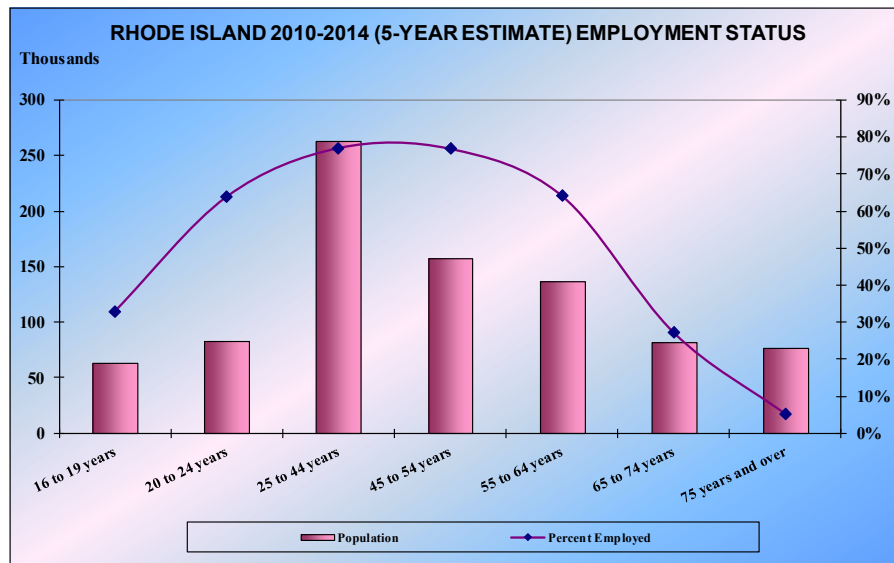
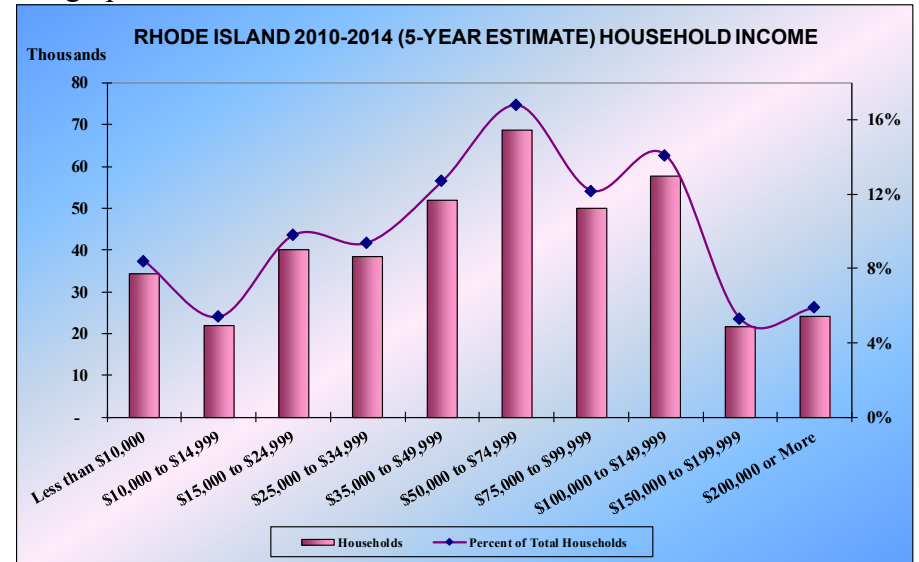
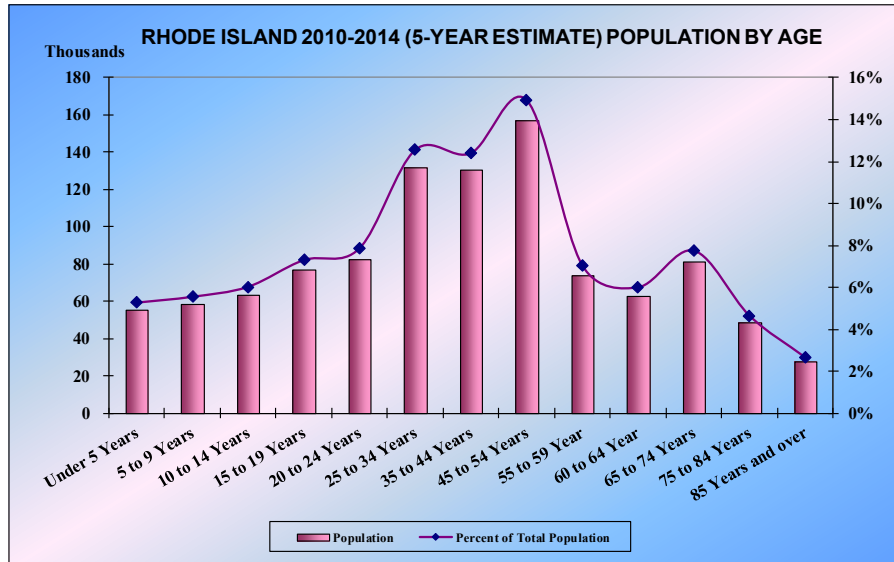
## Rhode Island Lottery Employees by Function

Categories	Total Employees									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Officials/Managers/Administrators	6	6	6	5	5	6	8	8	8	8
Professionals	13	13	12	11	12	12	19	19	16	17
Technicians	5	5	5	4	4	5	6	6	6	6
Protective Services	2	2	2	2	2	2	10	9	10	10
Para Professionals	17	17	16	17	17	16	28	29	27	27
Administrative Support	12	11	7	8	8	8	9	9	9	9
Maintenance	2	2	2	2	2	2	2	1	2	2
Total	57	56	50	49	50	51	82	81	78	79

Source: Rhode Island Lottery

# RHODE ISLAND LOTTERY

## Rhode Island Demographics



Source: U.S. Census Bureau

# Lottery Statistics – National

U.S. LOTTERIES RANKED BY FISCAL YEAR 2016 SALES				U.S. LOTTERIES RANKED BY SALES % CHANGE		
RANK	LOTTERY	FY '15 SALES (\$M)	FY '16 SALES (\$M)	RANK	LOTTERY	% CHANGE
1	New York	9,156.34	9,690.51	1	Wyoming	90.44%
2	California	5,524.85	6,275.60	2	North Dakota	31.89%
3	Florida	5,583.33	6,063.21	3	North Carolina	20.86%
4	Massachusetts	5,003.44	5,222.06	4	Missouri	16.70%
5	Texas	4,529.70	5,067.52	5	Arizona	16.13%
6	Georgia	4,195.15	4,555.89	6	Indiana	16.04%
7	Pennsylvania	3,819.64	4,135.16	7	Washington	15.75%
8	Ohio	3,665.00	3,928.52	8	South Carolina	14.18%
9	New Jersey	3,000.53	3,289.85	9	Montana	14.11%
10	Michigan	2,771.93	3,104.58	10	California	13.59%
11	Maryland	2,799.09	3,049.52	11	Iowa	12.98%
12	Illinois	2,841.45	2,859.82	12	New Mexico	12.65%
13	North Carolina	1,972.22	2,383.59	13	Idaho	12.31%
14	Virginia	1,843.88	2,006.90	14	Nebraska	12.19%
15	Tennessee	1,475.79	1,626.95	15	Louisiana	12.06%
16	South Carolina	1,401.66	1,600.38	16	Michigan	12.00%
17	Missouri	1,127.35	1,315.62	17	Texas	11.87%
18	Connecticut	1,143.97	1,230.77	18	Arkansas	11.49%
19	Oregon	1,116.86	1,229.50	19	Vermont	11.19%
20	Indiana	1,040.66	1,207.61	20	Kentucky	10.92%
21	West Virginia	1,164.00	1,136.64	21	Oklahoma	10.48%
22	Kentucky	899.12	997.32	22	Colorado	10.48%
23	<i>Rhode Island***</i>	<i>866.00</i>	<i>875.36</i>	23	Tennessee	10.24%
24	Arizona	749.97	870.95	24	Oregon	10.09%
25	Washington	600.35	694.88	25	New Jersey	9.64%
26	Delaware	598.40	631.78	26	Wisconsin	9.14%
27	Wisconsin	574.63	627.16	27	Maryland	8.95%
28	Colorado	538.03	594.41	28	Virginia	8.84%
29	Minnesota	546.87	592.85	29	Kansas	8.80%
30	Louisiana	452.45	507.04	30	Georgia	8.60%
31	Arkansas	408.66	455.60	31	Florida	8.59%
32	Iowa	324.77	366.91	32	Minnesota	8.41%
33	New Hampshire	281.13	303.34	33	Pennsylvania	8.26%
34	Maine	253.07	272.34	34	New Hampshire	7.90%
35	Kansas	250.03	272.02	35	Maine	7.61%
36	South Dakota	250.31	262.89	36	Connecticut	7.59%
37	Idaho	210.19	236.08	37	D.C.	7.45%
38	D.C.	212.35	228.16	38	Ohio	7.19%
39	Oklahoma	171.63	189.62	39	New York	5.83%
40	Nebraska	159.97	179.47	40	Delaware	5.58%
41	New Mexico	137.02	154.35	41	South Dakota	5.03%
42	Vermont	111.75	124.26	42	Massachusetts	4.37%
43	Montana	52.53	59.94	43	<i>Rhode Island***</i>	<i>1.08%</i>
44	North Dakota	27.01	35.62	44	Illinois	0.65%
45	Wyoming	17.53	33.39	45	West Virginia	-2.35%
	<b>TOTAL</b>	<b>73,870.62</b>	<b>80,545.95</b>			<b>9.04%</b>
***Above schedule reflects net VLT sales.						
Results are unofficial and unaudited						
Source: North American Association of State & Provincial Lotteries						

U.S. LOTTERIES RANKED BY FISCAL YEAR 2016 PROFIT				U.S. LOTTERIES RANKED BY PROFIT % CHANGE		
RANK	LOTTERY	FY '15 PROFIT (\$M)	FY '16 PROFIT (\$M)	RANK	LOTTERY	% CHANGE
1	New York	3,110.57	3,301.78	1	Wyoming	100.00%
2	Florida	1,496.37	1,700.00	2	North Dakota	53.55%
3	California	1,391.72	1,589.52	3	Washington	24.26%
4	Texas	1,242.70	1,392.31	4	North Carolina	20.45%
5	Pennsylvania	1,060.86	1,121.32	5	Iowa	18.13%
6	Ohio	1,095.02	1,116.11	6	Arkansas	17.10%
7	Georgia	980.50	1,097.57	7	Arizona	16.85%
8	Maryland	964.68	1,026.71	8	South Carolina	16.13%
9	Massachusetts	985.88	989.41	9	Vermont	16.05%
10	New Jersey	960.00	987.00	10	Indiana	15.99%
11	Michigan	796.49	889.90	11	Nebraska	15.30%
12	Illinois	690.34	694.39	12	California	14.21%
13	North Carolina	527.43	635.27	13	Florida	13.61%
14	Virginia	533.76	588.19	14	Tennessee	13.30%
15	Oregon	544.46	572.93	15	New Mexico	12.59%
16	West Virginia	508.33	496.67	16	Colorado	12.18%
17	South Carolina	343.52	398.91	17	Texas	12.04%
18	Tennessee	347.79	394.05	18	Georgia	11.94%
19	<b>Rhode Island</b>	<b>381.94</b>	<b>369.76</b>	19	Michigan	11.73%
20	Connecticut	322.00	339.80	20	Missouri	11.55%
21	Missouri	271.25	302.58	21	Oklahoma	10.34%
22	Indiana	242.67	281.47	22	Virginia	10.20%
23	Kentucky	236.10	253.04	23	Idaho	9.80%
24	Delaware	203.34	213.06	24	Kentucky	7.18%
25	Arizona	176.02	205.69	25	Minnesota	6.74%
26	Louisiana	184.75	177.93	26	New Hampshire	6.54%
27	Washington	141.26	175.52	27	Maryland	6.43%
28	Wisconsin	166.83	158.45	28	New York	6.15%
29	Minnesota	135.54	144.68	29	Pennsylvania	5.70%
30	Colorado	127.98	143.57	30	Connecticut	5.53%
31	South Dakota	112.07	117.65	31	Maine	5.36%
32	Iowa	74.52	88.02	32	Oregon	5.23%
33	Arkansas	72.82	85.27	33	South Dakota	4.98%
34	New Hampshire	74.32	79.18	34	Delaware	4.78%
35	Kansas	75.02	78.21	35	Kansas	4.25%
36	Oklahoma	60.86	67.16	36	Montana	4.20%
37	Maine	54.65	57.58	37	New Jersey	2.81%
38	D.C.	55.59	53.17	38	Ohio	1.93%
39	Idaho	45.08	49.50	39	Illinois	0.59%
40	New Mexico	41.12	46.30	40	Massachusetts	0.36%
41	Nebraska	37.11	42.78	41	West Virginia	-2.29%
42	Vermont	22.76	26.41	42	<b>Rhode Island</b>	<b>-3.19%</b>
43	Montana	12.37	12.89	43	Louisiana	-3.69%
44	North Dakota	6.72	10.32	44	D.C.	-4.35%
45	Wyoming	0.00	2.04	45	Wisconsin	-5.03%
	<b>TOTAL</b>	<b>20,915.12</b>	<b>22,574.06</b>			<b>7.93%</b>
Results are unofficial and unaudited						
Source: North American Association of State & Provincial Lotteries						