

Rhode Island Lottery

An Enterprise Fund of the State of Rhode Island



Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2020



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2020

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Introductory Section



Rhode Island Department of Revenue

Lottery Division

December 23, 2020

The Honorable Gina M. Raimondo, Governor
James Thorsen, Director of Revenue

We are pleased to present to you the **COMPREHENSIVE ANNUAL FINANCIAL REPORT** of the Rhode Island Lottery (the Lottery), an enterprise fund of the State of Rhode Island for the fiscal year ended June 30, 2020. 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.

About Us



Located at 1425 Pontiac Avenue in Cranston, Rhode Island, the Rhode Island Lottery employs 100 employees to oversee all aspects of Lottery operations and gaming in the State of Rhode Island. The employees perform operational, regulatory, compliance, and oversight procedures to ensure compliance with statutory requirements for all levels of operations and product lines.

The Rhode Island Lottery is the largest voluntary source of income for the State, benefiting all who live, work and visit the Ocean State.

The Lottery began operations in May 1974 with its first drawing. In 1975, RI became the first state to have a weekly lottery television program. The Numbers Game was introduced in February 1976 and still continues today. The first instant ticket game was introduced in 1976, with On-line games starting in February 1978.

With the formation of the Multi-State Lottery Association (MUSL) in 1988, games like PowerBall®, April 1992, and Mega Millions®, January 2010, were introduced by the Lottery.

Keno was introduced in the State in September 1992. Around the same time, Video Lottery (VLT's) operations were introduced at the State's two licensed facilities.

In June 2013, Table Game Operations began at the Lincoln, Rhode Island licensed facility, followed by the Tiverton, Rhode Island facility in 2018.

In late 2018, retail sportsbooks were opened at both licensed facilities. A remote sportsbook application was launched in September 2019. In April 2020 iLottery was introduced to the State, with initial offerings of eInstants and iLottery.

The major purpose of the Lottery is to generate revenue for transfer to the State's General Fund in accordance with the General Laws of the State of Rhode Island for each Lottery line of business.

Since 1974, the Lottery has transferred more than \$7.4 billion to the State's General Fund, which supports almost every aspect of life in our State, from education and health care to public safety and the environment. Generally, as Lottery revenues increase for each line of business, the amount of prizes and commissions, as well as the remaining net income transfers to the General Fund also increase. So, you don't have to play the Lottery to reap its rewards.

In addition to the money generated for the General Fund, there are the sales commissions paid to the hard-working Lottery Retailers; those business establishments, restaurants, and small stores across the State where Lottery products are sold. The Lottery generates and collects revenues for traditional lottery and monitor game sales from more than 1,100 licensed lottery retailers located throughout the State of Rhode Island.

The success of the Rhode Island Lottery would not be possible without the commitment of the Rhode Island Lottery Retailers, our employees, and most of all our players. We encourage everyone to Play Responsibly and continue to enjoy the Lottery as it was intended when it started in 1974 - a fun, positive way to generate additional revenue for the State of Rhode Island.



Rhode Island Lottery Product Offerings

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



Instant (or scratch) tickets are played by scratching the covering on the play area of a ticket. In order to win, the player must match or beat numbers or match symbols. Instant ticket offerings in Rhode Island include card games, sports, money, whimsical and holiday themes. Also offered are extended play games including Crossword, Super Crossword, Loteria, and Bingo. Some games may offer second chance drawings for additional cash and merchandise prizes.



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 Sunday through Saturday at 7:29 p.m. Weekly and 30-day purchase options are available to players.

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 was introduced in September of 1992 and quickly proved to be a very popular game. Players choose from one (1) to ten (10) spots, 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. Keno Overtime started in July 2017, and the Overtime round begins after each Keno draw and offers players an extra chance of winning higher prizes up to \$500,000.



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® is a Multi-State Lottery Association game offered in forty-five 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.” 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. 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. In April 2020, due to the global Covid-19 pandemic, guaranteed starting jackpots and minimum jackpot increases were eliminated. Following the April 8, 2020 drawing, guaranteed starting PowerBall® jackpots and minimum jackpot increases were eliminated, and future jackpots are based on game sales and interest rates effective at the time.



The Rhode Island Lottery began offering Mega Millions® on January 30, 2010 through its participation in the Multi-State Lottery Association. As of October 2017, each board costs \$2 without the Megaplier® option or \$3 with the Megaplier® option. Game enhancements include bigger average jackpots with faster rolls, and improved odds for winning the second prize level of \$1 million. Players select “5 out of 70” numbers and a Mega Ball “1 out of 25.” Players can select their own numbers or utilize a computer “quick pick.” Drawings are held on Tuesday and Friday at 11:00 p.m. Megaplier®, which is a multiplier option for Mega Millions® winnings, allows players who choose this option on their Mega Millions® 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 the jackpot win. In April 2020, due to the global Covid-19 pandemic, guaranteed starting jackpots and minimum jackpot increases were eliminated. Following the April 3, 2020 drawing, Mega Millions® jackpots and minimum jackpot increases were eliminated, and future jackpots and increases are based on game sales and interest rates.



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. On July 12, 2020, Wild Money changed from three (3) drawings per week to a daily drawing.



The Lucky for Life[®] game is offered by twenty-six state lotteries, including Rhode Island. 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. Each play board costs \$2. Drawings are held Monday and Thursday at 10:38 p.m. in Connecticut and can be viewed at www.neluckyforlife.com.



Video Lottery debuted in Rhode Island in September of 1992. There are a total of 5,107 video lottery terminals (VLTs) located in the State's two gaming facilities, Twin River Casino Hotel and Tiverton Casino Hotel. In August 2018, the State's pari-mutuel license with Newport Grand was transferred to Tiverton Casino Hotel. Due to the COVID-19 pandemic, both Twin River Casino Hotel and Tiverton Casino Hotel were closed on March 14, 2020, thereby suspending all video lottery gaming until June 8, 2020,

when the casinos were reopened, at a limited capacity, per State guidelines. Twin River Casino Hotel reopened offering 1,577 video lottery terminal (VLT) machines and Tiverton Casino Hotel reopened offering 378 VLT machines. As of June 30, 2020, Twin River had 1,578 VLTs open and Tiverton Casino Hotel had 379 VLTs open. Various virtual and multi-layer display games are offered on the VLTs.



Table gaming opened in Rhode Island in June 2013 at Twin River. There are currently 125 tables available at Twin River offering traditional card and dice games, including poker, which was added in December 2015. Tiverton Casino Hotel opened in August 2018 offering 32 traditional card and dice table games. Hybrid stadium gaming was operating at Twin River and Tiverton Casino Hotel in

September 2018 and October 2018, respectively. There are currently 48 terminals at Twin River and 18 at Tiverton Casino Hotel. Hybrid stadium gaming consists of electronic wagering terminals in a stadium seating configuration allowing blackjack, roulette and mini-baccarat to be played concurrently with a live dealer. Due to the global pandemic, both casinos closed March 14, 2020 and VLT operations resumed on June 8, 2020, at limited capacity, and table game operations resumed on June 30, 2020, at limited capacity.



Sports wagering in Rhode Island commenced in November 2018 at Twin River, and in December 2018 at Tiverton Casino Hotel. Presently, patrons can wager in the Sportsbook or at wagering terminals throughout the casino floors at both venues. Wagers can be placed on professional and college teams for various sporting events. The types of wagers accepted are based on industry standards for each sporting event, such as; money line, points spreads, total points, teasers, round robins and futures. Also, in-game/in-play bets and propositions are also offered. The sportsbook online application began on September 4, 2019 offering players the option of placing wagers and receiving payouts via their mobile device and/or their computer provided they are gambling within the State boundaries. Due to the COVID-19 pandemic, beginning on March 11, 2020, major sporting events were cancelled or postponed. Also, on March 14, 2020, the on-premise Sportsbook at both Twin River Casino Hotels were closed. Beginning on June 8, 2020, the casinos began a phased opening under State and Health Department guidelines. The two casinos reopened the on-premise Sportsbook on July 22, 2020.



The iLottery mobile application launched in April 2020 with iKeno and eInstant games being offered to players within the State of Rhode Island's borders. The iLottery Keno game is the same Keno game available at retail locations. Players choose from one (1) to ten (10) spots. Twenty (20) numbers are drawn from a field of eighty (80), with drawings taking place every four (4) minutes. Wagers range from one dollar (\$1) to ten dollars (\$10) per draw. The traditional add-on features, Keno Plus and Keno Multi-Chance, are available. There are twelve (12) different eInstants available for purchase. These games "play" in the same manner as traditional Instant Ticket offerings. Each eInstant game is available at prices ranging from one dollar (\$1) to twenty dollars (\$20).



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.

Economic Outlook

The Lottery's fiscal year 2020 revenues were materially affected by the global COVID-19 pandemic. The two State operated casinos closed at 12:01 a.m. on March 14, 2020, followed by restaurants, bars and taverns in the State on March 17, 2020. Prior to that, beginning on March 11, 2020, major sporting events in the United States were cancelled or postponed, including, the cancellation and elimination of professional and college sporting events. The closures of the two casinos resulted in all video lottery, table game, and retail on-premise sportsbook operations to cease until further notice. The closure of restaurants, bars and taverns, and stay at home regulations, significantly reduced traditional Lottery revenues, specifically Keno and national draw games. Beginning on June 8, 2020, the casinos began a phased opening under State and Health Department guidelines, to a limited number of invited patrons for video operations. The global COVID-19 pandemic have reduced expected revenues in the new fiscal year beginning July 1, 2020.

The Lottery transferred \$283.9 million to the State's General Fund in fiscal 2020, an amount significantly reduced from the prior year due to the global COVID-19 pandemic.

Rhode Island Economic Outlook

Rhode Island's population has remained relatively constant over a twelve month period at 1.05 million as of July 1, 2020. As of June 2020, the unemployment rate was 12.4%; which was above the national rate of 11.2%.

Lottery Industry Economic Outlook

The United States Lottery Industry experienced a decrease in fiscal year 2020. Based on unaudited figures from the North American Association of State & Provincial Lotteries (NASPL), sales decreased from \$90.9 billion in fiscal year 2019 to \$89.7 billion in fiscal year 2020, a 1.46% decrease.

Accomplishments

The Lottery's fiscal year 2020 revenues were materially affected by the global COVID-19 pandemic. Despite the pandemic the following was noted:

- The Lottery transferred \$283.9 million to the State's General Fund in fiscal 2020.
- Instant games revenue through March 2020 (pre-pandemic) increased by 5% when compared to the first nine months of fiscal 2019. Instant games were less impacted by the pandemic than other Lottery games during fiscal 2020 experiencing an overall increase in revenue of more than 9% over the prior fiscal year.
- Sportsbook revenue increased 172% for fiscal 2020 compared to fiscal 2019; however, sportsbook was only operational for seven months in fiscal 2019. Fiscal 2020 sportsbook revenue was limited by the impact of the global pandemic due to reduced betting options for patrons from the cancellation of sporting events. Mobile sportsbook wagering, which began in fiscal 2020, contributed to the fiscal 2020 increase and offset the negative impact on in-person sportsbook wagering due to the temporary casino shutdowns.
- Sportsbook mobile and computer applications launched in September 2019 enabling wagers on sporting events within the State of Rhode Island. Mobile and online sports betting revenue through June 30, 2020 totaled \$3.8 million.
- iLottery mobile application launched in April 2020 enabling iKeno and eInstant games. Total iLottery revenue through June 30, 2020 was \$1.3 million.

Future Projects

- The expansion of additional product offerings for the iLottery platform are under consideration.
- An anticipated game change for Lucky for Life®, to a daily drawing commencing July 2021.
- Discussion of adding a third drawing each week for PowerBall® is anticipated some time in August 2021.
- The Lottery continues to explore new and exciting instant tickets including super ticket offerings which provide players with more chances to win on one ticket. The Lottery also contemplates higher prize point tickets with the chance to win higher top prizes.

Financial Information

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, 2019. This was the twenty-third consecutive year that the Lottery has achieved this prestigious award (1997 through 2019). 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 Policies

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. Lottery financial management monitors actual expenditures for compliance with operational requirements, and with statutory expenditures and other statutes.

The Revenue Estimating Conferences continue 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 meet the objectives that assets are protected from loss, theft, or misuse and that the accounting systems allow for complete, accurate and timely recording and reporting of financial information executed in accordance with management's authorization, in conformity with generally accepted accounting principles, and free of material misstatement. 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. Internal control over financial reporting is also designed to reduce to an acceptable level, the risk that errors or irregularities in amounts that would be material in relation to financial statements may occur and not be prevented, detected or corrected within a timely period by management or employees in the normal course of performing their assigned functions. Management believes the Lottery's internal control structure meets these objectives.

The Lottery operates and regulates video lottery activity, table gaming, and sports wagering at the State's two casinos in Lincoln and Tiverton, controls the disbursements of prizes, and manages a valuable ticket inventory; the following steps are taken to ensure the integrity and security of operations:

- Employing an Information Technology Security Manager.
- Employing specialized security and law enforcement personnel.
- 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.
- Providing a variety of access and other controls in Information Technology systems and environments.
- Maintaining operating policies and procedures.
- 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.
- Implementation of financial, operational, and compliance minimum internal control requirement standards for casino management.

The Lottery currently has 100 employees, 48 of whom are located at the headquarters in Cranston, Rhode Island. Additionally, 30 employees are located at the Twin River facility in Lincoln, Rhode Island and 22 employees are located at the Twin River Tiverton facility, each location operating and regulating table games to ensure compliance with Rhode Island statutory requirements and Lottery rules and regulations.

Independent Audit

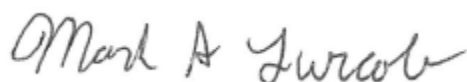
The Rhode Island General Laws require an annual audit to be performed by the State Auditor General. The fiscal year 2020 audit of the financial statements has been completed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. The 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 Anissa Colson, Kevin San, and Sarah Medeiros.

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,



Mark A. Furcolo
Director



Daniel R. Sarro
Finance Administrator



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Rhode Island Lottery

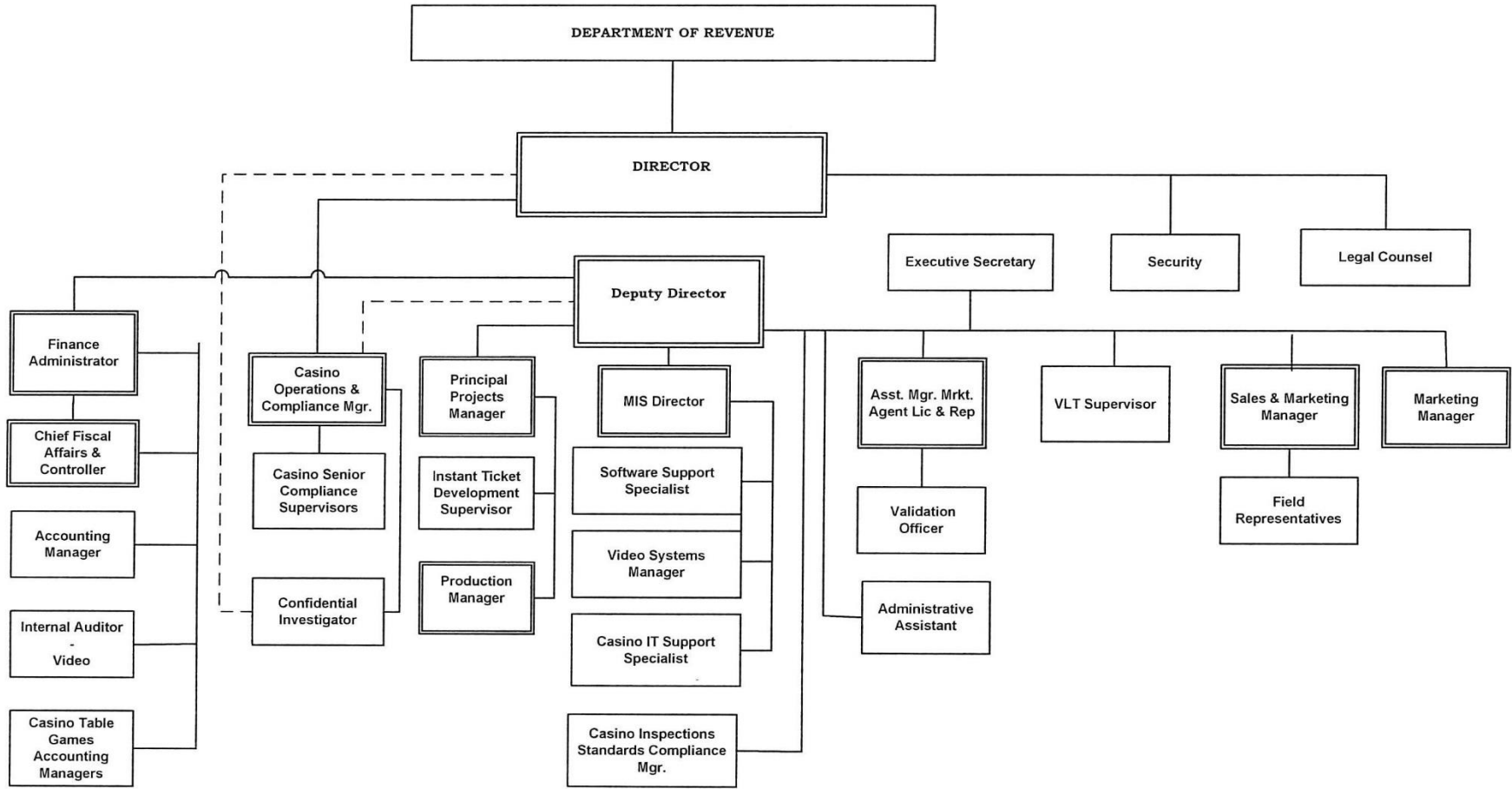
For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

Christopher P. Morrill

Executive Director/CEO

Rhode Island Lottery Organizational Chart June 30, 2020



PRINCIPAL OFFICIALS

Mark A. Furcolo

DIRECTOR

Daniel R. Sarro

FINANCE ADMINISTRATOR

Anissa E. Colson

CHIEF FISCAL AFFAIRS & CONTROLLER

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 - General Assembly
Dennis E. Hoyle, CPA - Auditor General

oag.ri.gov

tel: 401.222.2435 • fax: 401.222.2111

INDEPENDENT AUDITOR'S REPORT

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

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, as of and for the year ended June 30, 2020, 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.

Joint Committee on Legislative Services, General Assembly, State of Rhode Island

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lottery as of June 30, 2020, and the 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 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, as of June 30, 2020, 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.

As discussed in Note 13 – Contingencies - the Lottery’s fiscal year 2020 revenues were materially affected by the global COVID-19 pandemic with impacts expected to continue in fiscal 2021. Additionally, the Lottery’s ability to generate income for transfer to the State’s General Fund could be adversely affected by competitor gaming activities in neighboring states.

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 31, Schedule of the Lottery’s Proportionate Share of the Net Pension Liability – Employees’ Retirement System Plan on page 65, the Schedule of the Lottery’s Contributions – Employees’ Retirement System Plan on page 66, the Schedule of the Lottery’s Proportionate Share of the Net OPEB Liability – State Employees’ OPEB Plan on page 67, and the Schedule of the Lottery’s Contributions – State Employees’ OPEB Plan on page 68 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.

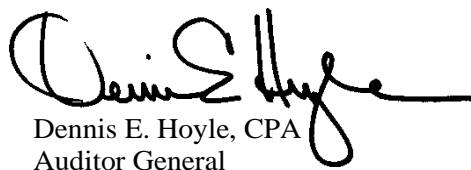
Joint Committee on Legislative Services, General Assembly, State of Rhode Island

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 October 23, 2020 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 solely 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 the effectiveness of the Lottery's 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

October 23, 2020

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, 2020. 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 (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 \$20.4 million reported at June 30, 2020 relates to (a) the Lottery's previous sale of its exclusive rights to operate its gaming systems and (b) the Lottery's proportionate share of the net pension and OPEB liabilities. 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 in net position at June 30, 2020 includes the remaining balance of \$1.9 million representing unearned contract revenue. The remaining net position (deficit) of \$18.5 million represents the Lottery's recognition of its proportionate share of the net pension liability and net OPEB liability (inclusive of related deferred inflows and outflows) as of June 30, 2020, as a participating employer in the Employees' Retirement System Pension Plan (Pension Plan) and the State Employees' OPEB Plan (OPEB Plan). Further details of the Lottery's net pension liability and net OPEB liability can be found in the notes to the financial statements.

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

Financial Highlights

The Lottery's fiscal year 2020 revenues were materially affected by the global COVID-19 pandemic. Closure of the State's two licensed casinos, many Lottery retailers, restaurants and bars, the canceling and elimination of professional and college sporting events, and stay at home regulations had a significant impact on revenues for all Lottery lines of business, and have reduced expected revenues in the new fiscal year beginning July 1, 2020. The Lottery transferred \$283.9 million to the State's General Fund in fiscal 2020, an amount significantly reduced from the prior year due to the following results of operations:

- On-line games revenue through March 2020 (pre-pandemic) decreased by approximately 14% when compared to the first nine months of fiscal 2019. The impact of the global pandemic ultimately resulted in a decrease in on-line games revenue for fiscal 2020 by more than 17% compared to fiscal 2019. In addition, the overall annual decrease in PowerBall® and Mega Millions® of approximately 40% was attributable to fewer large jackpots accumulating in fiscal 2020 compared to 2019. Keno experienced a 12.5% decline in sales, largely due to the closure in March of Keno retailers – notably bars and restaurants.
- Instant games revenue through March 2020 (pre-pandemic) increased by 5% when compared to the first nine months of fiscal 2019. Instant games were less impacted by the pandemic than other Lottery games during fiscal 2020 experiencing an overall increase in revenue of more than 9% over the prior fiscal year.
- Video lottery games net revenue at the Lottery's two casinos through March 2020 (pre-pandemic) had decreased by slightly more than 12% when compared to the first nine months of fiscal 2019. The net revenue decrease during fiscal 2020 was largely attributable to the opening of a new casino in Massachusetts. The impact of the global pandemic worsened the overall decline in fiscal 2020 and resulted in a 32% decrease in revenue for fiscal 2020 compared to fiscal 2019. The Lottery's gaming facilities were closed for most of the final quarter of the fiscal year.
- Table games net revenue at the Lottery's two casinos through March 2020 (pre-pandemic) had also decreased by 32% when compared to the first nine months of fiscal 2019. As was the case for video lottery, the net revenue decrease during fiscal 2020 was largely attributable to the opening of a new casino in Massachusetts. The impact of the global pandemic worsened the overall decline in fiscal 2020 and resulted in a 49% decrease in revenue for fiscal 2020 compared to fiscal 2019. The Lottery's gaming facilities were closed for most of the final quarter of the fiscal year.
- Sportsbook revenue increased 172% for fiscal 2020 compared to fiscal 2019; however, sportsbook was only operational for seven months in fiscal 2019. Fiscal 2020 sportsbook revenue was limited by the impact of the global pandemic due to reduced betting options for patrons from the cancellation of sporting events. Mobile sportsbook wagering, which began in fiscal 2020, contributed to the fiscal 2020 increase and offset the negative impact on in-person sportsbook wagering due to the temporary casino shutdowns.

In addition to the highlights of financial results above, the Lottery successfully launched the following gaming initiatives to enhance revenue in their existing game offerings:

- Sportsbook mobile and computer applications launched in September 2019 enabling wagers on sporting events within the State of Rhode Island. Mobile and online sports betting revenue through June 30, 2020 totaled \$3.8 million.

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

- iLottery mobile application launched in April 2020 enabling iKeno and eInstant games. Total iLottery revenue through June 30, 2020 was \$1.3 million.

Analysis of Comparative Financial Position

The Lottery's net position (deficit) at June 30, 2020 and June 30, 2019 is summarized below:

	June 30, 2020	June 30, 2019
Assets:		
Current assets		
Cash and cash equivalents	\$ 21,692,915	\$ 27,664,723
Accounts receivable, net	5,002,874	10,650,307
Due from State's General Fund	66,147	-
Other	1,435,924	1,181,849
Total current assets	28,197,860	39,496,879
Long-term assets		
Capital assets, net	472,462	353,299
Total assets	28,670,322	39,850,178
Deferred outflows of resources - pension	5,892,724	3,452,985
Deferred outflows of resources - OPEB	1,425,416	678,777
Deferred outflows of resources	7,318,140	4,131,762
Liabilities:		
Current liabilities		
Due to State's General Fund - net income from operations	\$ 2,863,337	\$ 2,048,319
Due to State's General Fund - operating expenses	-	39,381
Accounts payable	6,724,474	18,398,496
Prize obligations	12,632,701	11,639,227
Compensated absences	337,733	325,212
Other liabilities	6,306,007	7,578,886
Total current liabilities	28,864,252	40,029,521
Long-term liabilities		
Compensated absences	431,071	445,658
Net pension liability	20,850,027	17,142,457
Net OPEB liability	3,990,380	3,876,354
Unearned contract revenue	1,250,000	1,875,000
Total long-term liabilities	26,521,478	23,339,469
Total liabilities	55,385,730	63,368,990
Deferred inflows of resources - pension	302,051	458,812
Deferred inflows of resources - OPEB	666,159	267,284
Deferred inflows of resources	968,210	726,096
Net position (deficit):		
Net investment in capital assets	472,462	353,299
Unrestricted	(20,837,940)	(20,466,445)
Total net position (deficit)	<u>\$ (20,365,478)</u>	<u>\$ (20,113,146)</u>

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

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, 2020, the Lottery's assets included \$21.7 million in cash and cash equivalents as compared with \$27.7 million at June 30, 2019. The Lottery's accounts receivable approximated \$5.0 million and \$10.7 million, respectively, at June 30, 2020 and 2019.

The Lottery's current liabilities 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 2020 net operations and June 2019 operating expenses. The amount owed to the General Fund for June net operations approximated \$2.9 million at June 30, 2020. At June 30, 2020, vendor payables, made up largely of commissions due to video lottery and sports book participants, and prize obligations, attributable mostly to instant ticket games were \$6.7 million and \$12.6 million, respectively. In comparison, vendor payables and prize obligations at June 30, 2019 were \$18.4 million and \$11.6 million, respectively.

Deferred outflows of resources related to pension and OPEB increased in fiscal 2020 compared to fiscal 2019 primarily due to increases in contributions made subsequent to the measurement date and increases in the Lottery's proportionate share of the net pension liability which is deferred and recognized over the remaining service life of members.

Deferred inflows of resources related to pension decreased in fiscal 2020 compared to fiscal 2019, whereas deferred inflows of resources related to OPEB increased in fiscal 2020 compared to fiscal 2019, principally due to the expected recognition in pension and OPEB expense of amounts previously deferred.

The deficit in net position reported at June 30, 2020, 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 and the recognition of the Lottery's pension and OPEB liabilities. At June 30, 2020, a deficit balance of \$1.9 million remains relating to deferred contract revenue to be recognized proportionately over the remaining term of the Master Contract with its gaming systems provider. The Lottery recognizes its proportionate share of the net pension liability and net OPEB liability as a participating employer in the Pension Plan and the OPEB Plan. As required by RI General Laws, the Lottery's transfer to the State's General Fund is based on net income reflecting the actuarially determined employer contribution to the Pension Plan and OPEB Plan. Net income reported in the Lottery's financial statements reflects the recognition of pension expense and OPEB expense in accordance with generally accepted accounting principles.

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

Lottery Operations

	June 30, 2020	June 30, 2019
Operating revenue:		
Games reported - gross revenue		
On-line games	\$ 132,443,543	\$ 160,361,098
Instant games	112,643,821	102,914,666
iLottery	1,305,682	-
Sport book	200,188,405	127,587,809
Games reported - revenue net of related prize awards		
Video lottery	352,833,794	522,754,625
Table games	83,257,074	163,442,908
Total operating revenue	<u>882,672,319</u>	<u>1,077,061,106</u>
Cost of gaming operations:		
Commissions	245,258,955	375,395,649
Prize awards expense (on-line, instant, and sports book)	338,205,556	285,987,368
Incentive programs, video lottery	3,990,072	6,053,466
Marketing/advertising expense	2,602,043	3,554,740
Unclaimed prize recovery	(3,776,164)	(3,300,542)
Cost of tickets	972,986	925,570
Total cost of gaming operations	<u>587,253,448</u>	<u>668,616,251</u>
Gross Profit	<u>295,418,871</u>	<u>408,444,855</u>
Operating expenses:		
Salaries and benefits	12,550,219	10,855,702
Contract services	16,486	48,538
Depreciation and amortization	133,808	132,628
Other	900,222	702,151
Total operating expenses	<u>13,600,735</u>	<u>11,739,019</u>
Operating Income	<u>281,818,136</u>	<u>396,705,836</u>
Non-operating income (expenses):		
Investment income	702,358	553,497
Other income (expenses) - net	1,097,720	892,330
Income before transfers	283,618,214	398,151,663
Transfers to State's General Fund	<u>(283,870,546)</u>	<u>(397,320,920)</u>
Increase (decrease) in net position	(252,332)	830,743
Total net position (deficit), beginning of year	<u>(20,113,146)</u>	<u>(20,943,889)</u>
Total net position (deficit), end of year	<u>\$ (20,365,478)</u>	<u>\$ (20,113,146)</u>

RHODE ISLAND LOTTERY

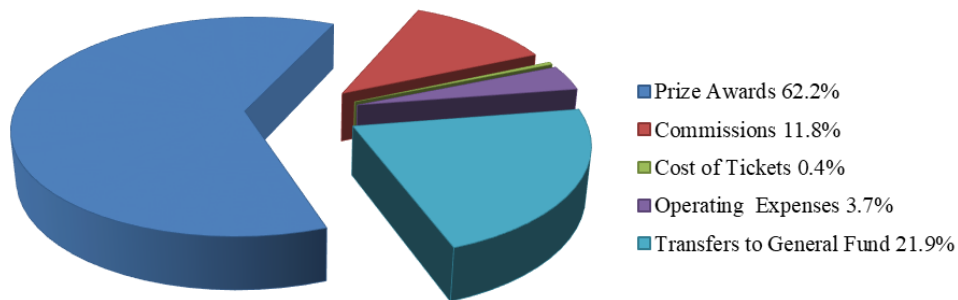
Management's Discussion and Analysis

Revenue

Traditional Lottery

- Traditional Lottery games consist of on-line, instant ticket games, with the addition in April 2020 of iLottery. 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 2020. In total, traditional on-line revenue decreased by \$28.0 million. Traditional on-line games were materially affected by the COVID-19 pandemic. Significant changes in traditional on-line game revenue from prior year included:
 - Revenue from Bingo, Daily Numbers, Wild Money and Lucky for Life®, experienced slight decreases during the fiscal year.
 - Revenue from Keno experienced a 12.6% decrease compared to prior year fiscal year 2019.
 - Revenue from jackpot driven games PowerBall® and Mega Millions® experienced 34.1% and 41.0% decreases over prior year. As a result of the COVID-19 pandemic, for PowerBall® and Mega Millions®, jackpots (annuities) are now based on current game sales with no minimum fixed amounts.
- Instant ticket revenue for fiscal 2020 increased \$9.7 million over fiscal year 2019. During fiscal year 2020, the Lottery continued with its successful family of games and its holiday game offerings. The Lottery also continued to introduce various high-price point tickets including the \$25 Royal Riches, \$10 Aces High, and \$5 Lucky Loot.
- iLottery was launched at the end of April 2020. Current offerings include eInstant games and iKeno with plans of offering all Lottery on-line games in the future. iLottery revenue for fiscal year 2020 totaled \$1.3 million.

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, 2020 and 2019.

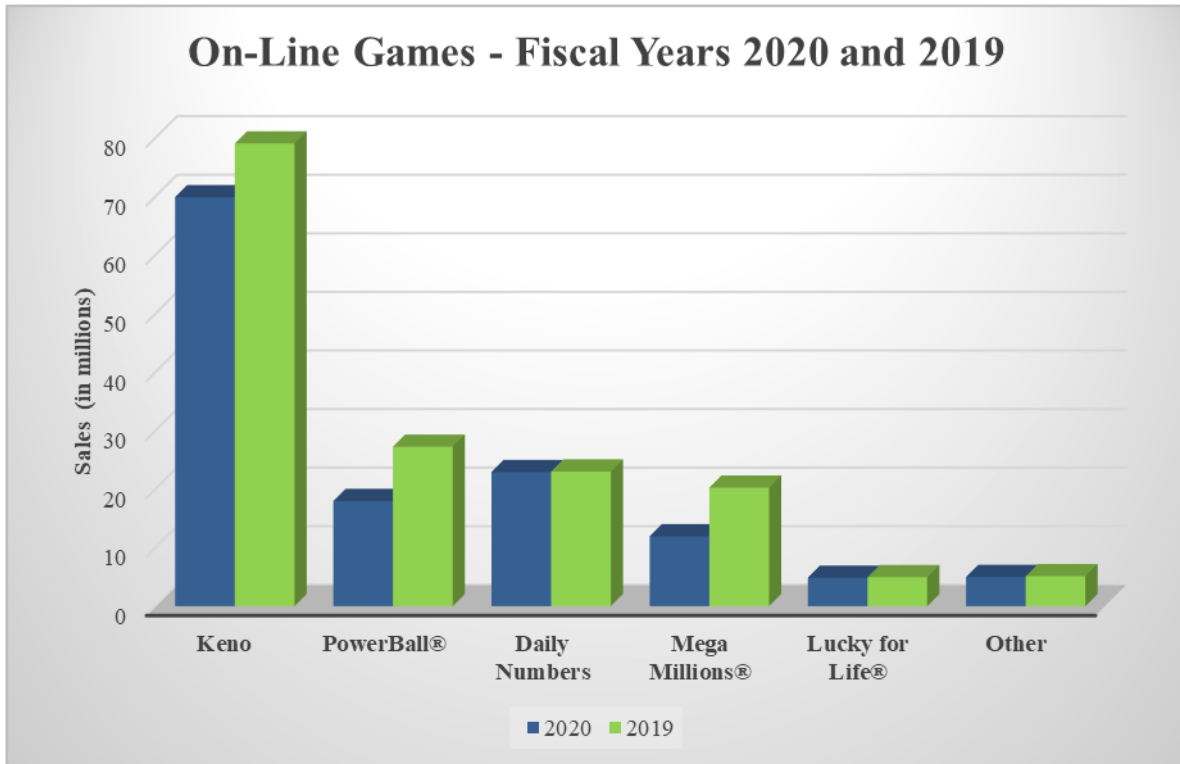
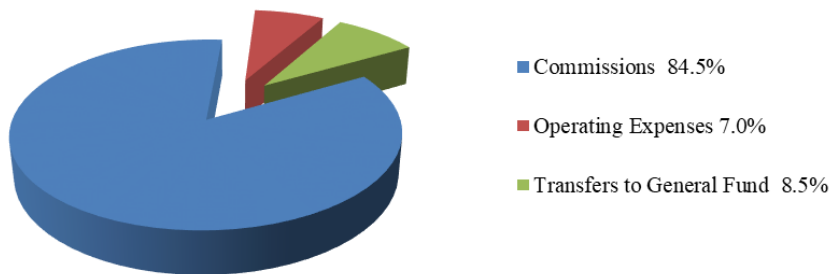


Table Games

For the fiscal year ended June 30, 2020, net table games revenue was \$83.3 million, a decrease of 49.1% compared to the prior year. Due to the COVID-19 pandemic, both Twin River Casino Hotel and Tiverton Casino Hotel were closed on March 14, 2020, thereby suspending all table games activity until June 30, 2020 when the casinos were reopened, at a limited capacity, per State and Health Department guidelines.

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

Table Games - Net Revenue Distribution



RHODE ISLAND LOTTERY

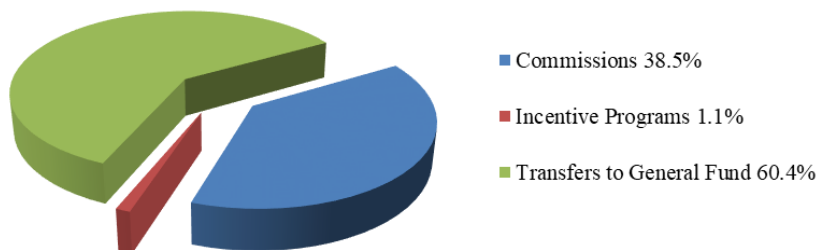
Management's Discussion and Analysis

Video Lottery

Video lottery net revenue decreased \$170.0 million or 32.5% from the prior fiscal year. Due to the COVID-19 pandemic, both Twin River Casino Hotel and Tiverton Casino Hotel were closed on March 14, 2020, thereby suspending all video lottery gaming until June 8, 2020, when the casinos were reopened, at a limited capacity, per State guidelines. Twin River Casino Hotel reopened offering 1,577 video lottery terminal (VLT) machines and Tiverton Casino Hotel reopened offering, 378 VLT machines.

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

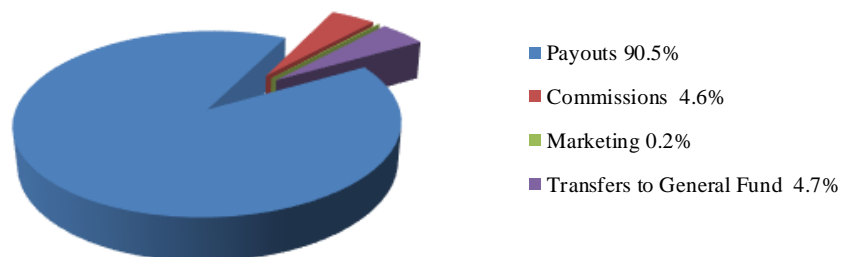
Video Lottery - Net Revenue Distribution



Sportsbook

The sportsbook online application began on September 4, 2019 offering players the option of placing wagers and receiving payouts via their mobile device and/or their computer provided they are gambling within the State boundaries. Total sportsbook revenues through June 30, 2020 totaled \$200.2 million. Gross profit transferred to the State General Fund from sportsbook, after deducting payouts, commissions and marketing expenses was \$9.5 million. Due to the COVID-19 pandemic, beginning on March 11, 2020, major sporting events were cancelled or postponed. Also, on March 14, 2020, the on-premise Sportsbook at both Twin River Casino Hotels were closed. Beginning on June 8, 2020, the casinos began a phased opening under State and Health Department guidelines. The two casinos reopened the on-premise Sportsbook on July 22, 2020.

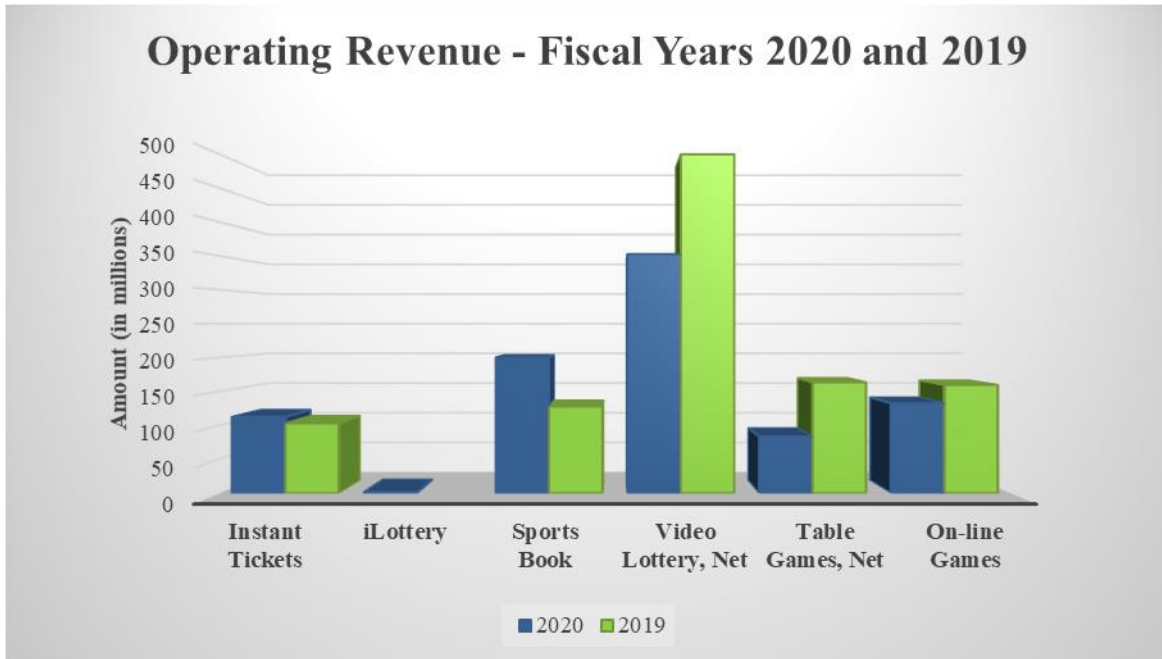
Sportsbook



RHODE ISLAND LOTTERY

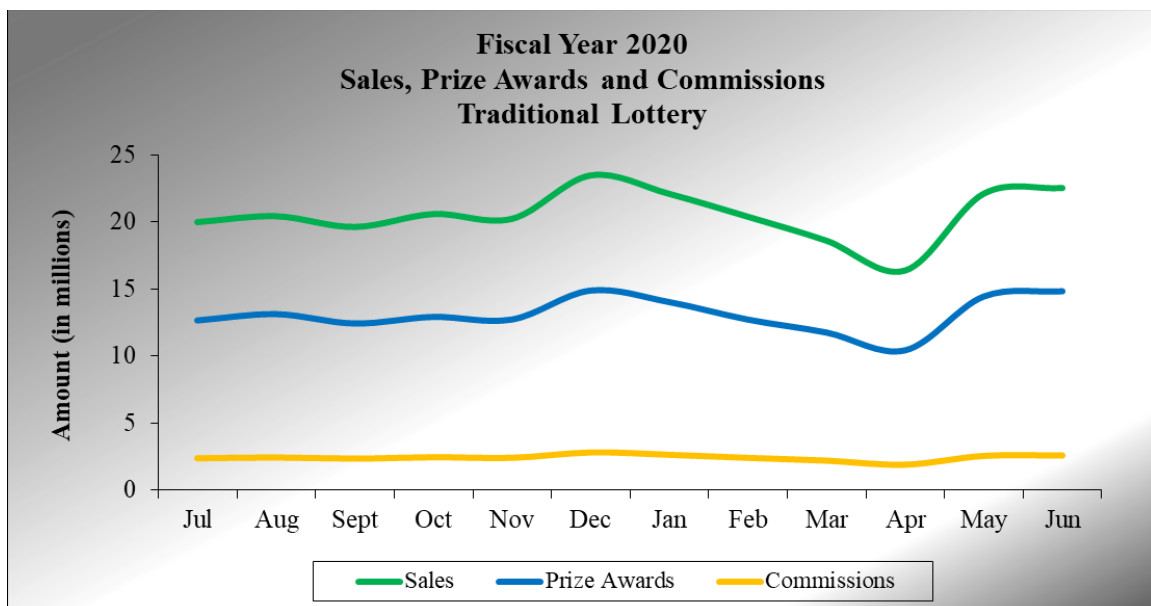
Management's Discussion and Analysis

The following graph depicts the Lottery's operating revenue for instant tickets, iLottery, video lottery, table games, sports betting and on-line games for the fiscal year ended June 30, 2020 in comparison to fiscal year ended June 30, 2019.



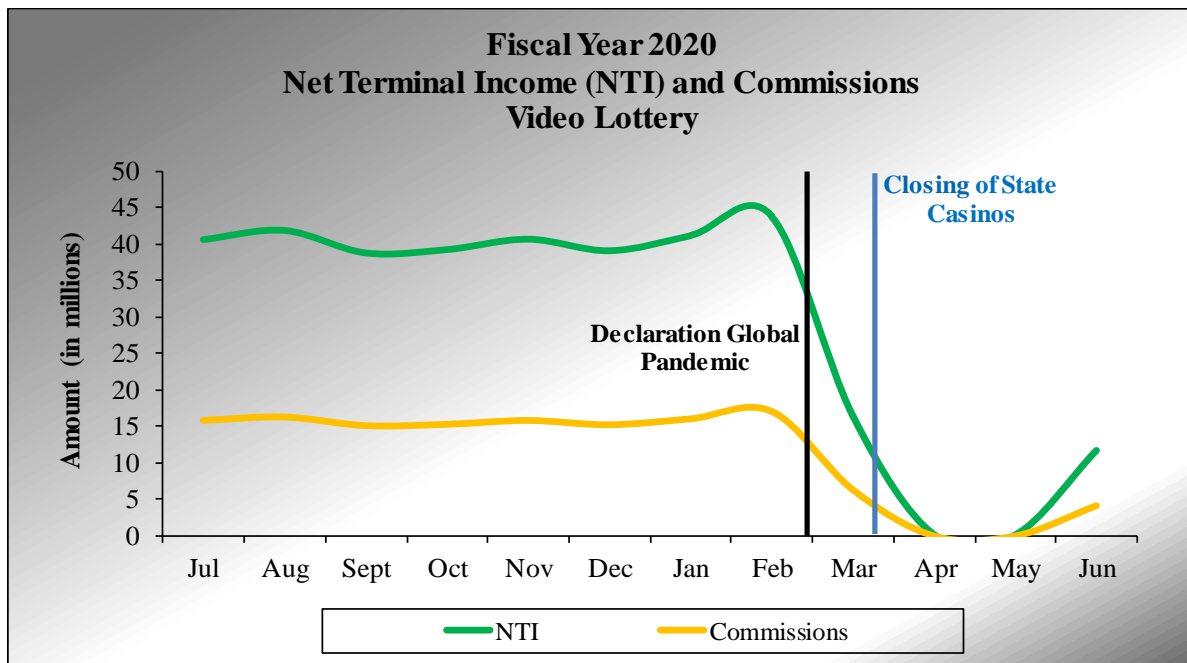
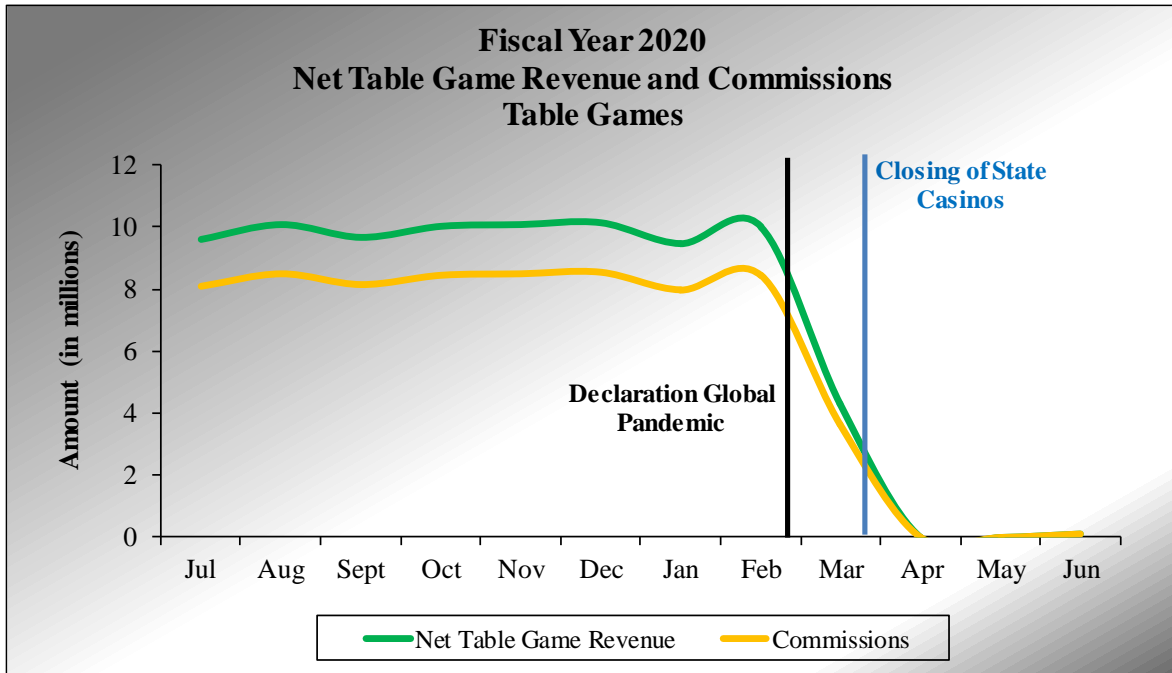
Commissions and Prize Awards Expense

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, third, and fourth graphs compare table game net revenue, video lottery net revenue, and sports book revenue and prizes to their related commissions.



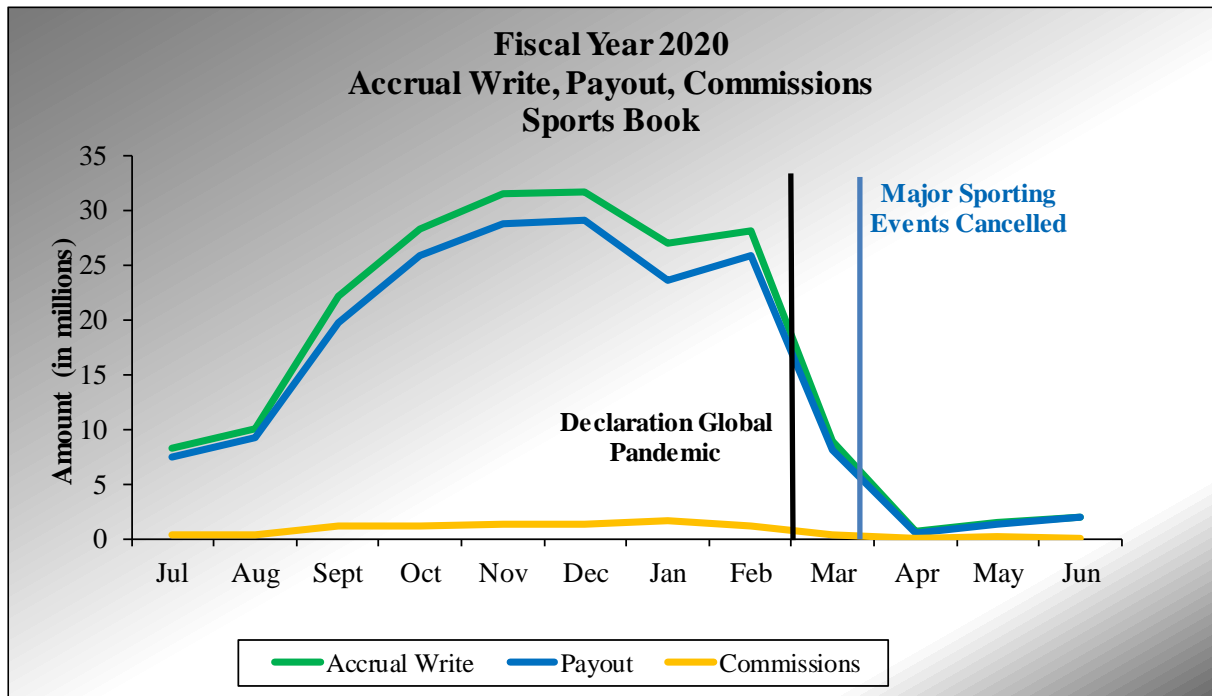
RHODE ISLAND LOTTERY

Management's Discussion and Analysis



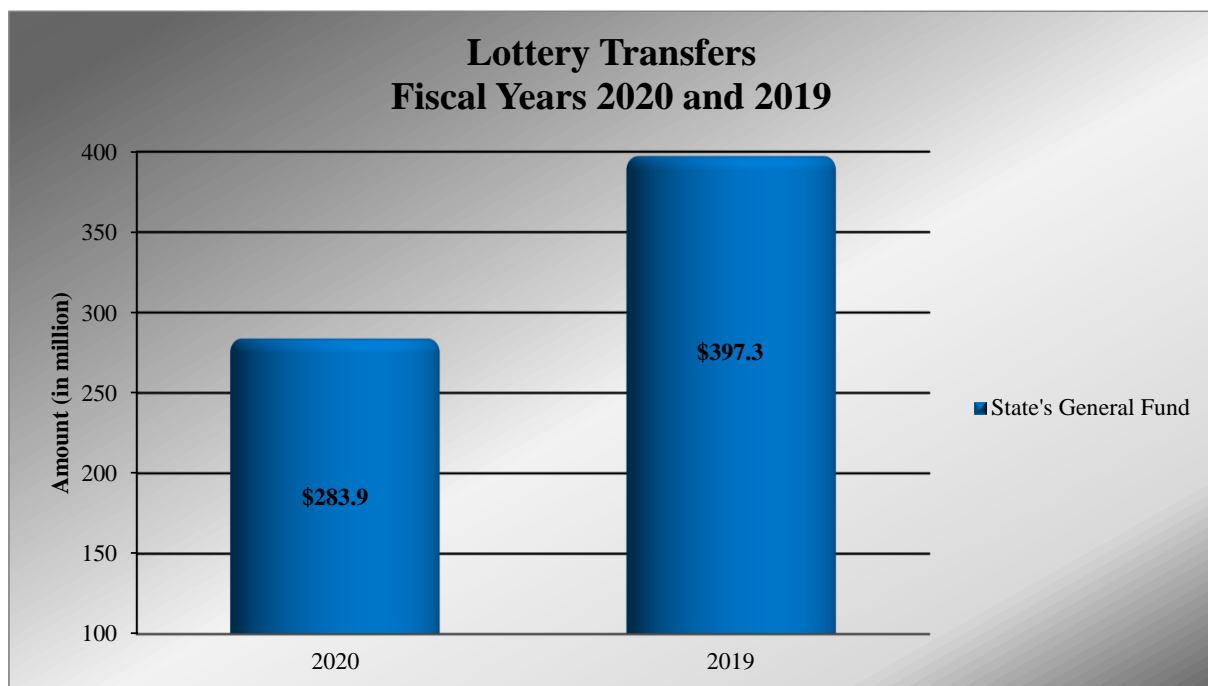
RHODE ISLAND LOTTERY

Management's Discussion and Analysis



Lottery Transfers

Due to the COVID-19 global pandemic, net income transferred by the Lottery for the fiscal years ended June 30, 2020 and June 30, 2019 was \$283.9 million and \$397.3 million, respectively. All fiscal 2020 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. Following the April 8, 2020 drawing, guaranteed starting PowerBall® jackpots and minimum jackpot increases were eliminated, and future jackpots are based on game sales and interest rates effective at the time. Following the April 3, 2020 drawing, Mega Millions® jackpots and minimum jackpot increases were eliminated, and future jackpots and increases are based on game sales and interest rates.

The Lucky for Life® game offers top and second prize winners an annuity or cash option payment. If the annuity option is 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 plans to purchase its annuities for any future top prize winners selecting this option 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 generate 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:

- The Lottery's fiscal year 2020 revenues were materially affected by the global COVID-19 pandemic. Closure of the State's two licensed casinos, many Lottery retailers, restaurants and bars, the canceling and elimination of professional and college sporting events, and stay at home regulations had a significant impact on revenues for all Lottery lines of business, and have reduced expected revenues in the fiscal year beginning July 1, 2020.
- Expansion of traditional Lottery products offered via mobile and/or internet devices commenced in April 2020. Initial product offerings included eInstant games and iKeno with plans to offer all on-line Lottery drawing games by the fall of 2021.

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

- Further expansion of sportsbook began in September 2019 with the roll-out of mobile sports betting to players within the geographical limits of Rhode Island. Players may create and register a mobile account and then place wagers online for sporting events authorized by the Lottery Division.
- The facilities face increasing competition from surrounding casinos including Massachusetts casinos expanding in the region. In June 2019, a third Massachusetts casino, offering slot and table games, opened in Everett Massachusetts which significantly increased gaming options within the New England region. The Lottery and the State continually monitor the risk to gaming operations and assess and expand important revenue generating marketing and promotional programs to best enable competitive positions.
- Master contracts with its licensed gaming facilities, Twin River Casino Hotel (Twin River – Lincoln) and Tiverton Casino Hotel (Twin River – Tiverton), include provisions for promotional play programs (free video terminal play) up to authorized amounts. These agreements also require the Lottery to reimburse the facilities for its net terminal income share of certain qualified marketing and promotional expenses thereby incentivizing the facilities to continue to invest appropriately in the promotion of their facilities and the Lottery's gaming activities. See Note 12 to the financial statements for details regarding these agreements.
- Each facility continues to offer a full complement of gaming options including slots, table games, and sports betting and operates a hotel for the convenience of players and guests. This allows each facility to compete more effectively with gaming venues in nearby states.

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, 2020

Assets

Current assets:

Cash and cash equivalents (note 3)	\$ 21,692,915
Accounts receivable-less allowance for doubtful accounts of \$189,340	5,002,874
Ticket inventory	951,504
Deposits with Multi-State Lottery Association (MUSL) (note 1)	44,916
Due from State's General Fund - operating expenses (note 5)	66,147
Other current assets	439,504
Total current assets	28,197,860

Long-term assets:

Capital assets, net (note 4)	472,462
Total assets	28,670,322

Deferred outflows of resources - pension (note 9)	5,892,724
Deferred outflows of resources - OPEB (note 10)	1,425,416
Deferred outflows of resources	7,318,140

Liabilities

Current liabilities:

Due to State's General Fund - net income from operations (note 5)	\$ 2,863,337
Accounts payable	6,724,474
Obligation for unpaid prize awards	12,632,701
Accrued expenses	5,011,470
Compensated absences (note 7)	337,733
Advances for future drawings and events	669,537
Unearned contract revenue (note 8)	625,000
Total current liabilities	28,864,252

Long-term liabilities:

Compensated absences (note 7)	431,071
Net pension liability (note 9)	20,850,027
Net OPEB liability (note 10)	3,990,380
Unearned contract revenue (note 8)	1,250,000
Total long-term liabilities	26,521,478
Total liabilities	55,385,730

Deferred inflows of resources - pension (note 9)	302,051
Deferred inflows of resources - OPEB (note 10)	666,159
Deferred inflows of resources	968,210

Net position (deficit)

Net investment in capital assets (note 8)	472,462
Unrestricted (deficit) (note 8)	(20,837,940)
Total net position (deficit)	\$ (20,365,478)

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Statement of Revenue, Expenses and Changes in Net Position

Year Ended June 30, 2020

Operating revenue (schedule 1):

Games reported - gross revenue	
On-line games	\$ 132,443,543
Instant games	112,643,821
iLottery	1,305,682
Sports book	200,188,405
Games reported - revenue net of related prize awards	
Video lottery (note 2)	352,833,794
Table games (note 2)	83,257,074
	<hr/>
Total operating revenue	882,672,319
	<hr/>

Cost of gaming operations (schedule 1):

Commissions (note 6)	245,258,955
Prize awards expense (on-line, instant, and sports book)	338,205,556
Incentive programs, video lottery	3,990,072
Marketing/advertising expense	2,602,043
Unclaimed prize recovery	(3,776,164)
Cost of tickets	972,986
	<hr/>
Total cost of gaming operations	587,253,448
	<hr/>
Gross profit	295,418,871
	<hr/>

Operating expenses:

Salaries and benefits	12,550,219
Contract services	16,486
Depreciation and amortization	133,808
Other	900,222
	<hr/>
Total operating expenses	13,600,735
	<hr/>
Operating income	281,818,136

Non-operating income (expenses):

Investment income	702,358
Other income (expenses) - net	1,097,720
	<hr/>
Income before transfers	283,618,214

Transfer to State's General Fund (note 5)

(283,870,546)

Decrease in net position (252,332)

Total net position (deficit), beginning of year (20,113,146)

Total net position (deficit), end of year (note 8) \$ (20,365,478)

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Statement of Cash Flows

Year Ended June 30, 2020

Cash flows from operating activities:

Receipts from lottery sales, online and instant games	\$ 244,907,135
Receipts from iLottery sales	813,748
Receipts from video lottery operations (net of prizes)	357,288,264
Receipts from sports book	200,568,793
Receipts from table games (net of prizes)	84,821,270
Receipts from MUSL for grand prize winners	948,389
Receipts from problem gambling program	201,000
Other receipts	466,616
Payments for on-line and instant ticket prizes	(152,346,638)
Payments for iLottery prizes	(854,438)
Sports book payouts	(180,234,835)
Payments to MUSL grand prize winners	(948,389)
Payments for commissions - retailers	(12,026,875)
Payments for commissions - video lottery	(143,156,480)
Payments for commissions - sports book	(10,720,367)
Payments for commissions - table games	(73,836,729)
Payments for commissions - on-line games contractor	(17,215,929)
Payments to facilities - video lottery incentive program	(5,263,216)
Payments to suppliers for goods and services	(5,134,200)
Payments to employees for services	(11,642,786)
Net cash provided by operating activities	<u>276,634,333</u>

Cash flows from noncapital financing activities:

Transfers to State's General Fund	<u>(283,055,528)</u>
Net cash used for noncapital financing activities	<u>(283,055,528)</u>

Cash flows from capital and related financing activities:

Purchase of capital assets	<u>(252,971)</u>
Net cash used for capital and related financing activities	<u>(252,971)</u>

Cash flows from investing activities:

Interest income	<u>702,358</u>
Net cash provided by investing activities	<u>702,358</u>
Net decrease in cash and cash equivalents	(5,971,808)

Cash and cash equivalents at July 1, 2019	<u>27,664,723</u>
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Cash and cash equivalents at June 30, 2020	<u><u>\$ 21,692,915</u></u>
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See accompanying notes to financial statements.

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Continued.

RHODE ISLAND LOTTERY

Statement of Cash Flows (Continued)

Year Ended June 30, 2020

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 281,818,136
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation and amortization	133,808
Miscellaneous receipts classified as operating activities	28,226
Rental income and other receipts	444,494
(Increase) decrease in assets and deferred outflows of resources:	
Accounts receivable	5,647,433
Deposits with MUSL	(853)
Inventory	176,282
Prepaid expense	(41,862)
Deferred outflows of resources - pension	(2,439,739)
Deferred outflows of resources - OPEB	(746,639)
Increase (decrease) in liabilities and deferred inflows of resources:	
Due to State's General Fund - operating expenses	(105,528)
Accounts payable	(11,674,023)
Obligation for unpaid prize awards	993,474
Accrued expenses and other	(1,737,844)
Net pension liability	3,707,570
Net OPEB liability	114,026
Advances for future drawings and events	75,258
Deferred inflows of resources - pension	(156,761)
Deferred inflows of resources - OPEB	398,875
Total adjustments	(5,183,803)
Net cash provided by operating activities	\$ 276,634,333

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2020

(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's fiscal year 2020 revenues were materially affected by the global COVID-19 pandemic. Closure of the State's two licensed casinos, many Lottery retailers, restaurants and bars, the canceling and elimination of professional and college sporting events, and stay at home regulations had a significant impact on revenues for all Lottery lines of business, and have reduced expected revenues in the new fiscal year beginning July 1, 2020.

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® and Mega Millions®, 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*®

PowerBall® is a Multi-State Lottery Association game offered in forty-five states (including Rhode Island), plus the District of Columbia, Puerto Rico, and U.S. Virgin Islands. The Lottery sells PowerBall® 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® is 50% of each drawing period's ticket sales. MUSL may place up to 5% of each drawing period's ticket sales for PowerBall®, 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® 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
Year Ended June 30, 2020

(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.

Due to the COVID-19 pandemic, following the April 8, 2020 drawing, guaranteed jackpot amounts and minimum jackpot increases were eliminated, and jackpots (annuities) are based on current game sales.

At June 30, 2020, the prize reserve funds for the PowerBall® game reported a balance of \$87.1 million of which the Lottery's share was \$1.0 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 \$44,916 at June 30, 2020 on the Statement of Net Position as "Deposits with MUSL".

(b) *Mega Millions*®

MUSL participates as a member (or party) lottery of the Mega Millions® Product Group (a group of lotteries participating under an agreement between the Mega Millions® lotteries and MUSL to offer the Mega Millions® game within their State jurisdictions). Mega Millions® is offered in forty-five states, plus the District of Columbia, and the U.S. Virgin Islands. 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® lottery game. As such, the Lottery sells Mega Millions® 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® shall consist of up to 52% of each drawing period's ticket sales. An amount of up to 2% of each drawing period's ticket sales may be placed in one or more prize pool reserve accounts. The maximum prize reserve account is \$100 million.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2020

(1) Organization - (Continued)

At June 30, 2020, the prize reserve account for the Mega Millions® game reported a balance of \$89.6 million of which the Lottery's share was \$797,263. The Lottery records amounts, which are placed into the prize reserve funds, as prize awards expense when the related sales occur.

Due to the COVID-19 pandemic, following the April 3, 2020 drawing, guaranteed jackpot amounts and minimum jackpot increases were eliminated, and jackpots (annuities) are based on current game sales.

- iii) Lucky for Life®, which is offered in twenty-six lotteries, operates under an agreement between the six New England states ("New England Lotteries") and the Arkansas Scholarship Lottery, the Colorado Lottery Commission, the Delaware Lottery, the Office of Lottery & Charitable Games, the Idaho Lottery, the Iowa Lottery Authority, the Kansas Lottery, the Kentucky Lottery Corporation, the Michigan Lottery, the Minnesota State Lottery, the Missouri Lottery, the Montana Lottery, the Nebraska Lottery, the North Carolina Lottery, the North Dakota Lottery, the Oklahoma Lottery Commission, the Ohio Lottery Commission, the South Carolina Education Lottery, the South Dakota Lottery, and the Wyoming Lottery Corporation (collectively referred to as the "Licensee Lotteries") to offer the Lucky for Life® game with a top prize of \$1,000 per day for life. The Lottery sells Lucky for Life® 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 are 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

Year Ended June 30, 2020

(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.

- (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 bonus features, or meet other game requirements to win the prize shown.
- (C) iLottery mobile and online offerings currently include eInstants and iKeno. Players who successfully create an eWallet account and whose personal identification is verified, are then able to fund their player accounts and play iLottery offerings within geographical boundaries of the State of Rhode Island.
- (D) Video lottery games are generally operated through 5,073 video lottery terminals (VLTs) at two licensed facilities, Twin River Casino Hotel and Tiverton Casino Hotel. Due to the global COVID-19 pandemic, closure of the State's two licensed casinos occurred on March 14, 2020 thereby suspending all video game play until June 8, 2020. At June 30, 2020, there were 1,957 VLTs in operation, effectively using less than 39% of the available terminals. Both licensed facilities are owned by Twin River Worldwide Holdings, Inc. 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

Year Ended June 30, 2020

(1) Organization - (Continued)

- (E) Table games are operated at Twin River Casino Hotel and Tiverton Casino Hotel. 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 is deposited in the State Lottery Fund for administrative purposes with commissions distributed to Twin River Casino Hotel, Tiverton Casino Hotel, and the Towns of Lincoln and Tiverton with and the balance remitted to the General Fund.
- (F) Sportsbook wagering is offered at both Twin River Casino Hotel and at the Tiverton Casino Hotel. In September 2019, mobile and online sportsbook wagering commenced, enabling players to place wagers and receive payouts through their computer or mobile devices provided they wager within the State boundaries. The sportsbook offers multiple wagering opportunities for professional and college events (excluding Rhode Island university and college events), Olympic or international sporting events, etc. in line with industry standards. Chapter 42-61.2 of the General Laws authorizes the State through the Lottery Division to implement, operate, conduct and control sports wagering at Twin River Casino Hotel and Tiverton Casino Hotel gaming facilities. The State, through the Division of Lottery, has full operational control, as defined by the statute.
- (G) 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.

Game	Prize Payout	Mandated Payments to the State
Daily Numbers Instant Ticket Games eInstants 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 and iKeno	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 and Stadium Gaming	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.
Sportsbook	Prize payout not established by law	Payments to the General Fund – book revenue (accrual write less accrual payout) minus commission payments net of statutory host Town fees and approved marketing expenses.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2020

(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 (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, including mobile and computer, instant ticket, video lottery, table games, and sports betting including mobile and computer 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, table games, and sports betting 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[®] and Powerball[®], prize awards expense is recorded equal to the required contributions to the jackpot pool and low-tier prizes won. For the Lucky for Life[®] 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. Traditional 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 traditional instant ticket game.
3. iLottery games are recognized at the time the specific games are played, and prize expense when the specific games are won.
4. 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 2020 and reported video lottery net revenue are detailed in the following schedule:

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2020

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

Video Lottery Net Revenue - For the Year Ended June 30, 2020	
Video Terminal Cash-In (Gross Terminal Inputs):	
Cash collected from video lottery terminals	\$ 1,106,981,655
Plus: Credit vouchers redeemed for play in video lottery terminals	<u>1,574,763,425</u>
Total cash in reported by video lottery terminals	2,681,745,080
Less: Video Terminal Cash-out (Gross Terminal Outputs):	
Video lottery credit vouchers issued by video lottery terminals	<u>2,328,911,286</u>
Video lottery revenue, net	<u><u>\$ 352,833,794</u></u>

5. Table games, with the exception of poker, are reported on a net table game (win) basis from the Twin River Casino Hotel and Tiverton Casino Hotel facilities. 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 and free bet coupons redeemed. Poker games revenue is reported on a gross fee basis, referred to as poker rake, from the Twin River Casino Hotel 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.
6. Hybrid stadium gaming is reported on a net table game (win) basis from the facilities. Net table game revenue, calculated daily at each table, is tickets in, plus cash in, less tickets issued and less token (dealer gratuities).

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 the two state gaming facilities 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 retailers (Twin River Casino Hotel and Tiverton Casino Hotel) be responsible for obtaining approved equipment (tables, dice, cards, etc.) and bearing all risk for the management, security, and monitoring of authorized table games. The retailers are 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.

7. Sports betting is reported on an accrual book revenue basis as of the completion of each sporting event. Book revenue is derived by event by calculating accrual write minus accrual payout. The State, through the Division of State Lottery, has authority to implement, operate, conduct and control sports wagering at the State's two licensed facilities. The statute further stipulates the Division Director promulgates rules and regulations related to sports wagering and sets policy including approving standards, rules and regulations to govern the conduct of sports wagering and the associated sports wagering system. Amounts required by statute to be paid to the facilities and

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2020

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

the system operator, after deducting statutory payments to host Towns and agreed upon marketing expenses, are reported as commissions. Allocation of book revenue from sports wagering after payments to host Towns and approved marketing expenses, are at statutory percentages.

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.

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.

(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 value. Fair value is defined by GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72), 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. This statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. The hierarchy has three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2020

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

2 inputs are inputs that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, such as management's assumptions.

(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/Events*

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. Sports wagers may be made in advance for future athletic events (futures) and revenue is recognized at the time the athletic event is completed.

(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.

(j) *Incentive Programs – Video Lottery*

The Lottery reimburses the gaming facilities for the State's share (net terminal income percentage) of certain marketing and promotional expenses incurred by the facilities, in relation to video lottery games. 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 Casino Hotel and Tiverton Casino Hotel to include awareness, player self-exclusion, and promotion of a problem gambling hotline. The program is funded through aggregate reimbursements made by Twin River Casino Hotel and Tiverton Casino Hotel totaling not less than \$125,000 annually. The Lottery received \$201,000 from gaming facility providers toward the operation of its compulsive and problem gambling program. At June 30, 2020, the Lottery advanced \$387,642 for program expenditures in excess of amounts received from the gaming facility providers at June 30, 2020. The Lottery's advance will be repaid through subsequent receipts from the gaming facility providers for the compulsive and problem gambling program. This program is not included within the operating revenue and related expenses of the Lottery.

(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.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2020

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

(m) Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the State Employees' and Electing Teachers OPEB System of the State of Rhode Island (the System) and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, the System recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments that have a maturity at the time of purchase of one year or less, which are reported at cost.

(n) 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.

(o) New Accounting Pronouncements

The Lottery evaluates the impact of all new accounting pronouncements issued by the Governmental Accounting Standards Board (GASB). For fiscal 2020, no newly effective statements required implementation by the Lottery. In subsequent years, the Lottery will consider the impact, if any, of GASB Statement No. 84, *Fiduciary Activities*, and GASB Statement No. 87, *Leases*. Lottery management has not yet determined the effect that these statements will have on the financial statements for future periods.

(3) Deposits and Investment Risk

(a) Deposits

The Lottery's cash deposit balances at June 30, 2020 totaled \$21,684,222, with corresponding bank balances totaling \$21,717,498. The bank balances consisted of \$404,116 in demand deposit accounts and \$21,313,382 in collateralized deposit investment accounts. The book and bank balances include \$548,722 of mobile sportsbook eWallet deposits at June 30, 2020. These amounts are reflected as other liabilities until wagered or withdrawn by patrons.

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, 2020 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

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2020

(3) Deposits and Investment Risk – (Continued)

102% of the uninsured deposit amounts. Of the total bank deposit balance totaling \$21,717,498 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.

At June 30, 2020, the Lottery had a single investment consisting of \$8,693 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The Lottery’s OSIP investment represented less than 1% of the total OSIP Pool Trust at June 30, 2020. 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 - 2nd 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’s investments are high quality and liquid and include U.S. government and government agency obligations, U.S. dollar-denominated money market securities of domestic and foreign issuers such as short-term certificates of deposits, commercial paper, corporate bonds and notes, time deposits, municipal securities, asset-backed securities and repurchase agreements. 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.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2020

(3) Deposits and Investment Risk – (Continued)

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.

Cash deposits, including interest-bearing investment deposit accounts	\$ 21,684,222
Investments classified as cash equivalents	8,693
Cash and cash equivalents	<u>\$ 21,692,915</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:

	Estimated Useful Life	Balance at June 30, 2019	2020 Additions	2020 Disposals	Balance at June 30, 2020
<u>Cost</u>					
Building	50	\$ 1,437,912			\$ 1,437,912
Building improvements	20	1,937,228			1,937,228
Ticket production equipment	5	11,486			11,486
Office equipment	5	113,250	5,130		118,380
Furniture and fixtures	5	109,093			109,093
Lottery drawing equipment	5	96,935	231,875		328,810
Automobiles	5	475,020			475,020
Computer equipment	5	118,678	15,966		134,644
Intangible Assets	7	175,424			175,424
Total		<u>\$ 4,475,026</u>	<u>\$ 252,971</u>	<u>\$ -</u>	<u>\$ 4,727,997</u>
<u>Less: Accumulated Depreciation and Amortization</u>					
Building		\$ 1,437,912			\$ 1,437,912
Building improvements		1,875,392	7,950		1,883,342
Ticket production equipment		11,486			11,486
Office equipment		93,004	5,807		98,811
Furniture and fixtures		92,575	6,607		99,182
Lottery drawing equipment		95,126	24,907		120,033
Automobiles		273,473	61,252		334,725
Computer equipment		77,779	16,841		94,620
Intangible Assets		164,980	10,444		175,424
Total		<u>\$ 4,121,727</u>	<u>\$ 133,808</u>	<u>\$ -</u>	<u>\$ 4,255,535</u>
Capital assets, net		<u>\$ 353,299</u>	<u>\$ 119,163</u>	<u>\$ -</u>	<u>\$ 472,462</u>

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2020

(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 2020 are reported as follows in the Lottery's financial statements:

Due to State's General Fund, beginning of year	\$ 2,048,319
Transfers to State's General Fund	283,870,546
Cash paid during fiscal year	(283,055,528)
Due to State's General Fund, end of year	<u>\$ 2,863,337</u>

In accordance with the Rhode Island General Laws, the Lottery transfers net income to the State's General Fund based on the Lottery's actual pension and OPEB contributions (which are the actuarially determined contributions required by law) to the State's pension plan and OPEB plan. Pension and OPEB expense reported in the Lottery's financial statements in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is a different amount reflecting the change in the net pension and OPEB liabilities 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	\$ 283,618,214
Add: Pension expense in accordance with GASB Statement No. 68	3,010,839
Less: Pension contributions made subsequent to measurement date	(1,899,769)
Add: OPEB expense in accordance with GASB Statement No. 75	243,903
Less: OPEB contributions made subsequent to measurement date	(477,641)
Less: Contract revenue recognized in 2019 transferred to the General Fund in prior period	(625,000)
Transfers to State's General Fund	<u>\$ 283,870,546</u>

- (b) The Lottery also reimburses the State's General Fund for certain operating expenses associated with personnel costs, information technology resources, utilities, etc. As a result of COVID-19, certain Lottery employees were deployed to different state agencies for their services, therefore amounts owed from the General Fund at year-end for operating expenses totaled \$66,147.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2020

(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 Casino Hotel and Tiverton Casino Hotel and the Towns of Lincoln, RI and Tiverton, RI. Sports book commissions, as specified in the General Laws, are paid to the facility operators and the system operator after flat fees to the Town of Lincoln, RI and Tiverton, RI and after approved marketing expenses.

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 \$768,804 as of June 30, 2020 and is recorded as a liability in the Statement of Net Position. The current portion of \$337,733, as reported, was estimated based on a four-year average of employee utilization.

Changes in the reported liability for compensated absences for fiscal 2020 are as follows:

	Balance at July 1, 2019	Increase	Decrease	Balance at June 30, 2020
Liability for Compensated Absences	\$770,870	\$494,505	\$496,571	\$768,804

(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, 2020 of \$1.9 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, 2020.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2020

(8) Net Position - (Deficit) – (Continued)

- *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 Pension Plan. The Lottery’s net pension liability at June 30, 2020 was \$20,850,027, which constitutes a significant portion of the unrestricted deficit reported on the Statement of Net Position at June 30, 2020. As required by RI General Laws, the Lottery’s transfer to the State’s General Fund is based on net income reflecting the actuarially determined employer contribution to the Employees’ Retirement System. Net income reported in the Lottery’s financial statements reflects the recognition of pension expense in accordance with generally accepted accounting principles.
- *Proportionate share of Net OPEB Liability in accordance with GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – the Lottery recognizes its proportionate share of the State’s net OPEB liability for the OPEB Plan. The Lottery’s net OPEB liability at June 30, 2020 was \$3,990,380, which constitutes a portion of the unrestricted deficit reported on the Statement of Net Position at June 30, 2020. As required by RI General Laws, the Lottery’s transfer to the State’s General Fund is based on net income reflecting the actuarially determined employer contribution to the OPEB Plan. Net income reported in the Lottery’s financial statements reflects the recognition of OPEB expense in accordance with generally accepted accounting principles.

Net investment in capital assets:

- The Lottery’s net position (deficit) at June 30, 2020 also includes its net investment in capital assets. The Lottery had no debt related to capital assets at June 30, 2020.

(9) Retirement Plans

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.

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.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2020

(9) Retirement Plans- (Continued)

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 2020, Lottery employees, with less than 20 years of service as of 7/1/2012, were required to contribute 3.75% of their annual covered salary. Employees with more than 20 years of service as of 7/1/2012 were required to contribute 11% of their annual covered salary. The Lottery is required to contribute at an actuarially determined rate; the rate was 26.39% of annual covered payroll for the fiscal year ended June 30, 2020. The Lottery contributed \$1,899,769, \$1,737,836 and \$1,320,896 for the fiscal years ended June 30, 2020, 2019 and 2018, respectively, equal to 100% of the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2020, the Lottery reported a liability of \$20,850,027 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, 2019, 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, 2018, rolled forward to the June 30, 2019 measurement date. The Lottery's proportion of the net pension liability was based on its share of contributions to the ERS for fiscal year 2019 relative to the total contributions of all participating employers for that fiscal year. At the June 30, 2019 measurement date, the Lottery's proportion was 0.91995341%.

For the year ended June 30, 2020, the Lottery recognized pension expense of \$3,010,839. At June 30, 2020, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2020

(9) Retirement Plans - (Continued)**Deferred Outflows of Resources**

Change of assumptions	\$	911,907
Difference between expected and actual experience		219,581
Changes in proportion and differences between employer and proportionate share of contributions		2,861,467
Contributions subsequent to measurement date		<u>1,899,769</u>
Total Deferred Outflows of Resources	\$	<u>5,892,724</u>

Deferred Inflows of Resources

Difference between expected and actual experience	\$	108,681
Net difference between projected and actual investment earnings		38,696
Changes in proportion and differences between employer and proportionate share of contributions		<u>154,674</u>
Total Deferred Inflows of Resources	\$	<u>302,051</u>

Contributions of \$1,899,769 are reported as deferred outflows of resources related to pensions resulting from the Lottery's contributions in fiscal year 2020 subsequent to the measurement date and will be recognized as a reduction of the net pension liability determined in the subsequent period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	<u>Net Deferred Outflows (Inflows) of Resources:</u>
2021	\$ 1,186,734
2022	910,018
2023	804,939
2024	712,074
2025	77,139
Thereafter	-
	<u>\$ 3,690,904</u>

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2020

(9) Retirement Plans - (Continued)

Actuarial Methods and Assumptions

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

Actuarial Cost Method	Entry Age Actuarial Cost methodology is used
Amortization Method	Level Percent of Payroll - Closed
Inflation	2.50%
Salary increases	3.25% to 6.25%
Investment rate of return	7.00%

Mortality rates for male plan members were based on the RP-2014 Combined Healthy for Males with Blue Collar adjustments, projected with the ultimate values of the MP scale. Mortality rates for female plan members were based on the RP-2014 Combined Healthy for Females, projected with the ultimate values of the MP scale.

The actuarial methods and assumptions used in the June 30, 2018 valuation rolled forward to June 30, 2019 and the calculation of the total pension liability at June 30, 2019 were consistent with the results of an actuarial experience investigation study performed as of June 30, 2016.

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 34 sources. 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. The June 30, 2019 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following table:

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2020

(9) Retirement Plans - (Continued)

Asset Class	Target Asset Allocation	Long-Term Expected Arithmetic Real Rate of Return
GROWTH		
Global Equity		
U.S. Equity	22.10%	6.16%
International Developed Equity	13.20%	6.83%
Emerging Markets Equity	4.70%	8.90%
Private Growth		
Private Equity	11.25%	9.81%
Non-Core RE	2.25%	5.51%
Opportunistic Private Credit	1.50%	9.81%
INCOME		
High Yield Infrastructure	1.00%	3.98%
REITS	1.00%	5.51%
Liquid Credit	2.80%	3.98%
Private Credit	3.20%	3.98%
STABILITY		
Crisis Protection Class		
Treasury Duration	4.00%	0.77%
Systematic Trend	4.00%	4.20%
Inflation Protection		
Core Real Estate	3.60%	5.51%
Private Infrastructure	2.40%	5.85%
TIPs	1.00%	1.37%
Natural Resources	1.00%	3.76%
Volatility Protection		
IG Fixed Income	11.50%	2.15%
Absolute Return	6.50%	4.20%
Cash	3.00%	0.77%
	<u>100.00%</u>	

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 7.0 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

Year Ended June 30, 2020

(9) Retirement Plans - (Continued)

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

Net Pension Liability		
1.00% Decrease (6.0% Discount Rate)	(7.0% Discount Rate)	1.00% Increase (8.0% Discount Rate)
\$ 25,591,523	\$ 20,850,027	\$ 16,968,556

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 7/1/2012), 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 7/1/2012) 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, 2012:

<u>Years of Service As of July 1, 2012</u>	<u>Employer Contribution Rate</u>
15-20 Years	1.5%
10-15 Years	1.25%
0-10 Years	1.00%

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 \$72,627 for the fiscal year ended June 30, 2020, equal to 100% of the required contributions for the fiscal year.

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2020

(9) Retirement Plans - (Continued)

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 description - Employees of the Lottery participate in a cost-sharing multiple-employer defined benefit other post-employment benefits (OPEB) plan included within the Rhode Island State Employees' and Electing Teachers OPEB System (the "System"). The Lottery participates in the State Employees plan within the System.

Under a cost sharing plan, OPEB 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 OPEB benefits through the plan, regardless of the status of the employers' payment of its OPEB obligation to the plan. The plan provides health care benefits to plan members.

The System is administered by the OPEB Board and was authorized, created, and established under Chapter 36-12.1 of the RI General Laws. The Board was established under Chapter 36-12.1 as an independent board to hold and administer, in trust, the funds of the OPEB system. The four members of the OPEB Board are: the State Controller, the State Budget Officer, the State Personnel Administrator and the General Treasurer, or their designees.

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.oag.ri.gov/reports.html>.

Membership and Benefit provisions – The plans within the System generally provide healthcare coverage to pre-Medicare eligible retirees and health reimbursement account contributions or Medicare supplement coverage for members who are Medicare eligible. Members may purchase coverage for spouses and dependents. Dental and vision coverage may be purchased by these groups with no state subsidy.

Members of the System must meet the eligibility and services requirements set forth in the RI General Laws or other governing documents. RIGL Sections 16-17.1-1 and 2, 36-10-2, 36-12.1, 36-12-2.2 and 36-12-4 govern the provisions of the System, and they may be amended in the future by action of the General Assembly.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2020

(10) Postemployment Healthcare Plan- (Continued)

Contributions – The funding policy, as set forth in the General Laws and which may be amended at any time, provides for actuarially determined periodic contributions to the plans. The Lottery is required to contribute at an actuarially determined rate; the rate was 6.65% of annual covered payroll for the fiscal year ended June 30, 2020. The Lottery contributed \$477,641, \$400,960 and \$317,442 for the fiscal years ended June 30, 2020, 2019 and 2018, respectively, equal to 100% of the required contributions for each year.

Active employees do not make contributions to the plan. Retired member contributions consist of the required retiree share of coverage based on the time of retirement and years of service.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2020, the Lottery reported a liability of \$3,990,380 for its proportionate share of the net OPEB liability related to its participation in the System. The net OPEB liability was measured as of June 30, 2019, the measurement date, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to the June 30, 2019 measurement date. The Lottery's proportion of the net OPEB liability was based on its share of contributions to the System for fiscal year 2019 relative to the total contributions of all participating employers for that fiscal year. At the June 30, 2019 measurement date, the Lottery's proportion was 0.91422568%.

For the year ended June 30, 2020, the Lottery recognized OPEB expense of \$243,903. At June 30, 2020, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Deferred Outflows of Resources

Change of assumptions	\$	195,419
Changes in proportion and differences between employer and proportionate share of contributions		752,356
Contributions subsequent to measurement date		<u>477,641</u>
Total Deferred Outflows of Resources	\$	<u><u>1,425,416</u></u>

Deferred Inflows of Resources

Difference between expected and actual experience	\$	504,108
Change of assumptions		35,045
Net difference between projected and actual investment earnings		<u>127,006</u>
Total Deferred Inflows of Resources	\$	<u><u>666,159</u></u>

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2020

(10) Postemployment Healthcare Plan- (Continued)

Contributions of \$477,641 are reported as deferred outflows of resources related to OPEB expense resulting from the Lottery's contributions in fiscal year 2020 subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the subsequent period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended June 30:</u>	<u>Net Deferred Outflows (Inflows) of Resources:</u>
2021	\$ 25,161
2022	25,161
2023	39,711
2024	50,321
2025	63,125
Thereafter	78,136
	<u><u>\$ 281,615</u></u>

Actuarial Methods and Assumptions

The total OPEB liability was determined using the following significant actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used
Amortization Method	Level Percent of Payroll - Closed
Inflation	2.50%
Salary increases	3.00% to 6.00%
Investment rate of return	5.00%
Health Care Cost Trend Rate	8.25% in fiscal 2019 decreasing annually to 3.5% in fiscal year 2031 and later

Mortality rates for male plan members were based on the RP-2014 Combined Healthy for Males with Blue Collar adjustments, projected with the MP-2016 ultimate rates. Mortality rates for female plan members were based on the RP-2014 Combined Healthy for Females, projected with the MP-2016 ultimate rates.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2020

(10) *Postemployment Healthcare Plan-* (Continued)

The long-term expected rate of return best-estimate on OPEB 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 OPEB plan investment expense and inflation) for each major asset class, based on a collective summary of capital market expectations from 34 nationally recognized investment consulting firms. The June 30, 2019 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Arithmetic Real Rate of Return
Domestic Equity	65.00%	6.05%
Fixed Income	35.00%	1.48%

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 OPEB liability was 5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members, if any, 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 OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability calculated using the discount rate of 5 percent as well as what the net OPEB liability 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.

Net OPEB Liability		
1.00% Decrease (4.0% Discount Rate)	Discount Rate Sensitivity (5.0% Discount Rate)	1.00% Increase (6.0% Discount Rate)
\$ 4,506,429	\$ 3,990,380	\$ 3,098,613

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2020

(10) Postemployment Healthcare Plan- (Continued)

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate

The following table presents the net OPEB liability calculated using the healthcare cost trend rate of 8.25% and gradually decreasing to an ultimate rate of 3.5%, as well as what the employers' net OPEB liability would be if it were calculated using a trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate (expressed in thousands).

Net OPEB Liability					
Health Care Trend Rate Sensitivity					
1% Lower		Baseline		1% Higher	
\$	2,921,724	\$	3,990,380	\$	4,760,059

OPEB Plan Fiduciary Net Position:

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.oag.ri.gov/reports.html>. The report contains detailed information about the OPEB plan's fiduciary net position.

(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)

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 (\$1.9 million at June 30, 2020).

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

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2020

(12) Commitments- (Continued)

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 gaming systems provider a portion of its headquarters to house the computer hardware and office space necessary for the operation of the Lottery's games. The original term of the lease was for 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 19th. The tenant exercised the one, four (4) year term renewal option for the office space. The base rate for the renewal options is an increase of four percent (4%) per annum unless a mutually acceptable rate is negotiated.

(b) Video Lottery Terminal Provider - International Game Technology (IGT)

IGT is also a provider of video lottery terminals and receives compensation equal to 7% of net terminal income. The Master Contract (as amended) also includes provisions related to premium IGT video lottery terminals and responsibility for related license fees (IGT) as well as concurrence on agreement on the promotional points program with the casinos and the Lottery.

(c) Sportsbook - International Game Technology (IGT)

The Lottery also executed a Sports Betting Agreement with IGT to provide, along with its subcontractor, American Wagering, Inc., D/B/A William Hill US (William Hill), a proprietary sports betting solution for all sports betting at the Twin River Casino Hotel and the Tiverton Casino Hotel facilities. The initial term of the software license is five years from launch date (November 26, 2018), and upon mutual agreement of the parties, there are two successive five-year renewal options. In exchange, IGT has allocated its revenue share in accordance with RI General Laws 42-61.2-7. In the event of a loss of sports wagering revenue in a quarterly period, IGT will cover the State's share of said loss interest free until a subsequent invoicing period is sufficient to cover said prior period loss.

During July 2019, the Lottery executed the first amendment to the Sports Betting Agreement authorizing IGT to supply the equipment, software, and services for online sports wagering using mobile devices. This is in accordance with authorized sports wagering legislation enacted in June 2019. Effective April 30, 2020 the Division is responsible for payment of all transaction processing fees.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2020

(12) Commitments- (Continued)

The Sports Betting Agreement was further amended in January 2020 to authorize IGT additional responsibilities for the provision of certain fraud and security services, as well as, cash fund management services in connection with the online sports wagering agreement executed in July 2019. In consideration of these additional services, the Division invoices Twin River Casino Hotel and remits payment to IGT a fixed monthly fee of \$20,000 since the launch of online sports wagering, with the initial month pro-rated.

(d) Licensed Gaming Facilities (Twin River Casinos)

The Lottery's licensed gaming facilities are owned and operated by Twin River Worldwide Holdings, Inc. and operate as Twin River – Lincoln (Twin River Casino Hotel) and Twin River – Tiverton (Tiverton Casino Hotel)

Both licensed facilities operate under a common Master Contract with options to extend the agreement for two additional five (5) year terms commencing on July 18, 2020 and July 17, 2025 and continuing until July 17, 2030. Certain extensions are contingent on the owners' compliance with full-time employment mandates. The contract entitles the owners to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility.

The Master Contract reflects the statutory authorization of a promotional points program at the licensed gaming facilities. For fiscal year 2020, each facility's allowable promotional points are 20% of prior year net terminal income plus \$750,000. In fiscal 2020, Twin River – Lincoln and Twin River – Tiverton were authorized and issued approximately \$52.0 million and \$13.2 million, respectively, in promotional points to facility patrons.

The Master Contract also reflects the statutory requirement that the Lottery reimburse the owner for certain allowable marketing expenses as follows:

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

The Lottery is required to reimburse the Twin River casinos for allowable marketing expenses incurred at the same percentage as the Lottery's share of net terminal income for the fiscal year 2020 (60.78% for Twin River -Lincoln and 60.94% for Twin River - Tiverton). For fiscal 2020, the Lottery accrued \$3,646,800 and \$511,896 in reimbursable marketing expenses for Twin River – Lincoln and Twin River – Tiverton, respectively.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2020

(12) Commitments- (Continued)

Table games are operated at the Twin River Casino Hotel and Tiverton Casino Hotel. Commissions for both casino facilities and the respective host community were 83.5% and 1%.

The Lottery also entered into a Sports Wagering Hosting Agreement with Twin River to host in-person and on-premises sports betting. The agreement entitles the owners to compensation of 17% of sports wagering revenue generated at the facilities. The agreement can be extended for two five-year periods so long as there is a master video lottery terminal contract between the relevant parties.

On September 4, 2019, subsequent to legislation in March 2019 authorizing online sports wagering, the Lottery entered in the first amendment to the sports wagering hosting agreement to enable Twin River to host, manage and enable players to participate in online sports wagering including validation and registration of players.

During the term of the first amendment, Twin River remits to the Division \$20,000 per month for fraud, security, and cash fund management services (performed by IGT). Twin River has the option, upon approval by the Division, to assume any or all of these services. As of August 12, 2020, the fraud and security services were assumed by Twin River. The monthly fees collected by the Lottery and remitted to IGT have been reduced to \$12,000 per month in the aggregate to reflect Twin River's assumption of these responsibilities.

(13) Contingencies

- (a) The Lottery's fiscal year 2020 revenues were materially affected by the global COVID-19 pandemic. Closure of the State's two licensed casinos, many Lottery retailers, restaurants and bars, the canceling and elimination of professional and college sporting events, and stay at home regulations had a significant impact on revenues for all Lottery lines of business, and have reduced expected revenues in the new fiscal year beginning July 1, 2020.
- (b) 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.
- (c) The Lottery's gaming operations currently compete with casinos in nearby Connecticut and Massachusetts. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.
- (d) 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 issue in the case relating to whether the State "operates" the Twin River – Lincoln and Twin River – Tiverton facilities remains pending in the Superior Court.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2020

(13) Contingencies

- (e) A plaintiff has filed suit against the Division of Lottery and Department of Administration challenging the constitutionality of sports betting in Rhode Island. The complaint asserts that the conduct of State operated sports betting in Tiverton and Lincoln violates the express constitutional requirement of voter approval and must be declared unconstitutional and enjoined until and unless the voters of Rhode Island approve sports gambling at duly authorized statewide and local elections. The complaint was dismissed once by the Rhode Island Superior Court due to a lack of standing by the Plaintiff, but subsequently the Court permitted the Plaintiff to refile an amended complaint. The parties then filed summary judgement motions. On June 1, 2020, the Rhode Island Superior Court issued a decision where it found that the legislation enabling sports betting did not impermissibly expand the location of gambling and that the acts are constitutional. The case has been appealed to the Rhode Island Supreme Court.
- (f) In the event of default on an insurance annuity contract for a Rhode Island winner of the Lucky for Life® jackpot prize award, the Lottery may be contingently liable for any remaining prize amounts due the winner.

(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 2020, the Lottery maintained its amount of purchased insurance coverage. Claims and settlements incurred for fiscal years 2020, 2019 and 2018 have not exceeded the Lottery's insurance coverage.

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

The Lottery also manages a variety of operational risks which could impact the continuity of business operations. These include the risk of cyber-attacks, property damages, or employee strikes which could adversely impact Lottery operations and have an effect on the State's share of net revenues. To mitigate these risks, Lottery contractors and facility operators procure business interruption insurance, cyber liability insurance, and other property insurance, in conjunction with managing employment issues in a manner that safeguards the continuity of the Lottery's business operations.

(15) Subsequent Events

On July 12, 2020, the traditional online draw game, Wild Money, changed from three (3) drawings per week to a daily drawing. This planned change occurred in an effort to increase Lottery profits.

Additionally, as of July 28, 2020, enacted legislation resulted in players being able to register online to use the mobile application, thereby eliminating the requirement to register in person at the casinos.

Required
Supplementary
Information

RI Lottery
Schedule of the Lottery's Proportionate Share of the Net Pension Liability
Employees' Retirement System Plan

Year Ended	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Lottery's proportion of the net pension liability	0.91995341%	0.76161477%	0.74815308%	0.76619002%	0.75882900%	0.74724193%
Lottery's proportionate share of the net pension liability	\$ 20,850,027	\$ 17,142,457	\$ 16,869,023	\$ 16,260,567	\$ 15,073,593	\$ 13,315,141
Lottery's covered payroll (at measurement date)	\$ 6,612,770	\$ 5,311,202	\$ 5,185,935	\$ 5,155,796	\$ 5,070,849	\$ 4,891,380
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	315.30%	322.76%	325.28%	315.38%	297.26%	272.22%
Plan fiduciary net position as a percentage of the total pension liability	52.8%	52.5%	51.8%	51.9%	55.0%	58.6%

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.

RI Lottery
Schedule of the Lottery's Contributions
Employees' Retirement System Plan

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily determined contribution	\$ 1,899,769	\$ 1,737,836	\$ 1,320,896	\$ 1,314,116	\$ 1,219,209	\$ \$ 1,183,029
Contributions in relation to the statutorily determined contribution	1,899,769	1,737,836	1,320,896	1,314,116	1,219,209	1,183,029
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Lottery's covered payroll	 \$ 7,198,822	 \$ 6,612,770	 \$ 5,311,202	 \$ 5,185,935	 \$ 5,155,796	 \$ 5,070,849
Contributions as a percentage of covered payroll	26.39%	26.28%	24.87%	25.34%	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.

RI Lottery
Schedule of the Lottery's Proportionate Share of the Net OPEB Liability
State Employees' OPEB Plan

Year Ended	June 30, 2020	June 30, 2019	June 30, 2018
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017
Lottery's proportion of the net OPEB liability	0.91422568%	0.76106927%	0.74378532%
Lottery's proportionate share share of the net OPEB liability	\$ 3,990,381	\$ 3,876,354	\$ 3,863,547
Lottery's covered payroll (at measurement date)	\$ 6,705,017	\$ 5,308,395	\$ 5,185,930
Lottery's proportionate share of the net OPEB liability as a percentage of its covered payroll	59.51%	73.02%	74.50%
Plan fiduciary net position as a percentage of the total OPEB liability	33.57%	26.25%	22.38%

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.**

RI Lottery
Schedule of the Lottery's Contributions
State Employees' OPEB Plan

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily determined contribution	\$ 477,641	\$ 400,960	\$ 317,442
Contributions in relation to the statutorily determined contribution	477,641	400,960	317,442
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
(Component Unit's) covered payroll	\$ 7,182,571	\$ 6,705,017	\$ 5,308,395
Contributions as a percentage of covered payroll	6.65%	5.98%	5.98%

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.

RHODE ISLAND LOTTERY
Notes to Required Supplementary Information
Year Ended June 30, 2020

Pension – Required Supplementary Information:

- **Schedule of the Lottery’s Proportionate Share of the Net Pension Liability – Employees’ Retirement System Plan**
- **Schedule of the Lottery’s Contributions – Employees’ Retirement System Plan**

The schedules are intended to present ten years of data. Additional years of data will be presented as they become available.

1. Actuarial methods and assumptions used to calculate the net pension liability of the participating employers

The actuarial methods and assumptions used to calculate the net pension liability of the participating employers are described in Note 9 to the financial statements. The following information is presented about factors that significantly affect trends in the amounts reported between years.

June 30, 2019 measurement date:

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability (asset) of the plans as of the June 30, 2019 measurement date compared to the June 30, 2018 measurement date.

June 30, 2018 measurement date:

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability (asset) of the plan as of the June 30, 2018 measurement date compared to the June 30, 2017 measurement date.

June 30, 2017 measurement date:

- Decreased the general inflation assumption from 2.75% to 2.50%;
- Decreased the nominal investment return assumption from 7.50% to 7.00%;
- Decreased the general wage growth assumption from 3.25% to 3.00%;
- Decreased salary increase assumptions; and
- Updated the post-retirement mortality tables to variants of the RP-2014 table. For the improvement scale, update to the ultimate rates of the MP-2016 projection scale.

June 30, 2016 measurement date:

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability of the plans as of the June 30, 2016 measurement date compared to the June 30, 2015 measurement date.

June 30, 2015 measurement date:

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability of the plans as of the June 30, 2015 measurement date compared to the June 30, 2014 measurement date.

RHODE ISLAND LOTTERY
Notes to Required Supplementary Information
Year Ended June 30, 2020

1. Actuarial methods and assumptions used to calculate the net pension liability (asset) of the participating employers (continued)

Benefit changes are reflected in the calculation of the net pension liability at the June 30, 2015 measurement date. The following is a summary of those benefit changes that resulted from the settlement of the pension litigation and the subsequent enactment of those settlement provisions by the General Assembly.

- Employees with more than 20 years of service at July 1, 2012 will increase their employee contribution rates to 11% for state employees and municipal general employees will contribute 8.25% (9.25% for units with a COLA provision) and participate solely in the defined benefit plan going forward – service credit accruals will increase from 1% to 2% per year.
- Members are eligible to retire upon the attainment of: age 65 with 30 years of service, 64 with 31 years of service, 63 with 32 years of service, or 62 with 33 years of service. Members may retire earlier if their RIRSA date is earlier or are eligible under a transition rule.
- Employees with more than 10 but less than 20 years of service at July 1, 2012 will receive an increased employer contribution to the defined contribution plan. Also, members who earn less than \$35,000 per year will not be required to pay the administrative fees to the defined contribution plan.
- Members who retired from a COLA eligible plan before July 1, 2012 will received a one-time cost of living adjustment of 2% of the first \$25,000 paid as soon as administratively possible.
- Retirees as of June 30, 2015 will receive two \$500 stipends; the interim cost of living increases will occur at 4 year rather than 5-year intervals.
- The COLA formula was adjusted to: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5.5% (5yr Return - 5.5%, with a max of 4%) and 50% calculated using previous year's CPI-U (max of 3%) for a total max COLA of 3.5%. This COLA is calculated on the first \$25,855, effective 01/01/16, and indexed as of that date as well. (The indexing formula is run annually regardless of funding level each year.)
- Minor adjustments were made to the actuarial reduction for employees choosing to retire early.

2. Actuarially determined contributions

Actuarially determined contributions are calculated as of June 30, three years prior to the fiscal year in which the contributions are reported. For example, the contribution rate for fiscal 2019 for the plan was based on a valuation performed as of June 30, 2016.

RHODE ISLAND LOTTERY
Notes to Required Supplementary Information
Year Ended June 30, 2020

Other Postemployment Benefits (OPEB) Plan – Required Supplementary Information:

- **Schedule of the Lottery's Proportionate Share of the Net OPEB Liability – State Employees' OPEB Plan**
- **Schedule of the Lottery's Contributions – State Employees' OPEB Plan**

1. Actuarial assumptions and methods used to calculate the net OPEB liability of the participating employers

The actuarial methods and assumptions used to calculate the net OPEB liability of the participating employers are described in Note 10 to the financial statements. The following information is presented about factors that significantly affect trends in the amounts reported between years.

June 30, 2019 measurement date:

The June 30, 2018 actuarial valuation rolled forward to the June 30, 2019 measurement date reflected a change in Excise Tax load on pre-65 liabilities from 11.0% to 9.5%.

June 30, 2018 Measurement date:

There were no changes in actuarial methods or assumptions reflected in the calculation of the net OPEB liability of the plan as of the June 30, 2018 measurement date compared to the June 30, 2017 measurement date.

June 30, 2017 Measurement Date:

Certain actuarial assumptions for State Employees were updated to match the assumptions used for State Employees in the pension valuation for the Employees' Retirement System of Rhode Island (ERSRI) and the results of an actuarial experience investigation performed for ERSRI at June 30, 2016. Changes were made to the following assumptions:

- Merit and longevity portion of the salary increase assumption
- Rates of separation from active membership
- Rates of retirement
- Rates of disability
- The rate of wage inflation
- The mortality assumption
- The trend assumption
- Aging factors and health and inflation trends

The excise tax load on pre-65 liabilities was changed from 13.8% to 11.0%. The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2022. The excise tax is 40% of costs above a threshold. The actual actuarial assumptions used in the most recent valuations assume that the plans will be subject to the excise tax in 2022.

2. Actuarially determined contributions

The annual required contributions for fiscal year 2020 were determined based on the June 30, 2017 valuation of the State Employees' OPEB Plan.

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, 2020

Schedule 1

	Revenue ⁽¹⁾	Commissions	Prize Awards Expense	Unclaimed Prize Recovery	Cost of Tickets	Marketing/ Advertising	Incentive Programs	Cost of Gaming Operations	Gross Profit
Games reported -- gross revenue									
On-line Games									
Keno	\$ 69,826,851	\$ 9,077,909	\$ 45,946,963	\$ (288,454)	\$ -	\$ 399,132	\$ -	\$ 55,135,550	\$ 14,691,301
Bingo	1,155,938	149,988	823,120	(6,733)	-	969	-	967,344	188,594
PowerBall [®]	17,945,735	2,333,137	8,976,381	(598,935)	-	215,469	-	10,926,052	7,019,683
Daily Numbers	22,900,222	2,978,236	11,800,681	(232,268)	-	20,827	-	14,567,476	8,332,746
Mega Millions [®]	11,943,934	1,553,017	5,974,003	(257,040)	-	398,550	-	7,668,530	4,275,404
Wild Money	3,816,929	496,031	2,099,192	(84,961)	-	23,722	-	2,533,984	1,282,945
Lucky for Life [®]	4,853,934	630,535	2,635,881	(148,465)	-	81,757	-	3,199,708	1,654,226
	<u>132,443,543</u>	<u>17,218,853</u>	<u>78,256,221</u>	<u>(1,616,856)</u>	<u>-</u>	<u>1,140,426</u>	<u>-</u>	<u>94,998,644</u>	<u>37,444,899</u>
Instant Tickets	112,643,821	12,026,875	77,609,050	(1,179,729)	972,986	977,418	-	90,406,600	22,237,221
iLottery ⁽⁴⁾	1,305,682	65,285	858,338	-	-	162,777	-	1,086,400	219,282
Sports Book	200,188,405	9,110,668	181,481,947	(224,660)	-	321,422 ⁽³⁾	-	190,689,377	9,499,028
Games reported -- revenue net of related prize awards									
Video Lottery ⁽²⁾	352,833,794	136,485,046	-	(750,054)	-	-	3,990,072	139,725,064	213,108,730
Table Games	83,257,074	70,352,228	-	(4,865)	-	-	-	70,347,363	12,909,711
Totals	<u>\$ 882,672,319</u>	<u>\$ 245,258,955</u>	<u>\$ 338,205,556</u>	<u>\$ (3,776,164)</u>	<u>\$ 972,986</u>	<u>\$ 2,602,043</u>	<u>\$ 3,990,072</u>	<u>\$ 587,253,448</u>	<u>\$ 295,418,871</u>
<u>Lottery games commissions - detail by game</u>									
		<u>Video</u>	<u>Table Games</u>	<u>Sports Book</u>					
Facilities	\$	98,029,764	\$ 69,519,657	\$ 3,091,457					
Technology Providers		24,048,757	-	5,819,211					
Central Communications Provider		8,820,845	-	-					
Towns		5,116,090	832,571	200,000					
Narragansett Indian Tribe		469,590	-	-					
Total	\$	<u>136,485,046</u>	<u>\$ 70,352,228</u>	<u>\$ 9,110,668</u>					

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

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

(3) Marketing expenses specifically for Sports Book are allocated as part of the overall allocation of revenue to the State and casino facilities.

(4) iLottery consisted of eInstants and iKeno at June 30, 2020.

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.

<u>Contents</u>	<u>Page</u>
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.	73
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.	81
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.	84

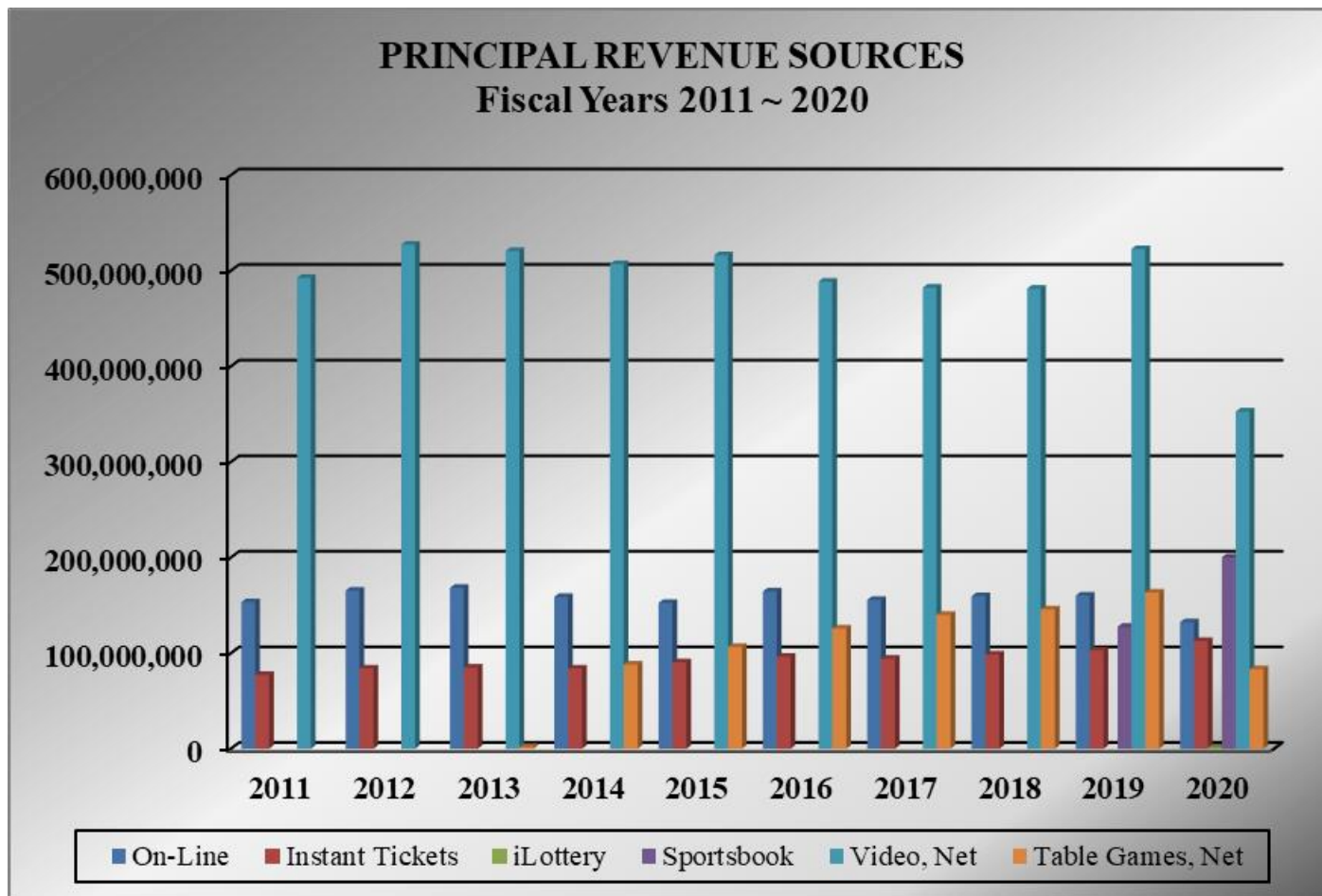
Lottery
Statistics
—
Rhode Island

RHODE ISLAND LOTTERY

Principal Revenue Sources

Fiscal Years 2011 through 2020

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Operating Revenue										
Games reported - gross revenue										
<i>On-line</i>										
Keno	\$ 81,061,025	\$ 82,251,847	\$ 78,964,759	\$ 78,203,765	\$ 80,465,002	\$ 83,659,591	\$ 82,984,608	\$ 82,435,628	\$ 79,843,410	\$ 69,826,851
Bingo	-	-	1,381,565	1,094,274	949,606	1,029,788	972,663	1,034,438	1,214,353	1,155,937
PowerBall®	28,175,659	32,858,107	40,949,997	31,502,543	26,049,095	36,307,849	29,378,496	30,191,087	27,218,295	17,945,735
Monopoly Millionaires Club™	-	-	-	-	288,275	-	-	-	-	-
Daily Numbers	24,933,177	25,412,018	24,522,578	24,141,676	24,197,096	23,773,865	23,886,086	23,210,121	22,988,120	22,900,223
Mega Millions®	11,543,667	13,943,638	7,930,357	12,622,344	11,465,226	10,064,697	9,365,827	13,345,270	20,229,951	11,943,934
Wild Money	5,261,888	4,891,994	3,583,753	4,525,777	3,695,696	4,317,463	3,967,038	4,465,768	3,898,948	3,816,929
Lucky for Life	-	3,774,422	8,726,218	6,719,790	5,455,649	5,398,864	5,096,898	4,970,754	4,958,714	4,853,934
Other	-	-	-	-	-	-	4,475	10,391	9,307	-
Raffle	2,399,880	2,399,940	2,301,580	-	-	-	-	-	-	-
Total on-line	153,375,296	165,531,966	168,360,807	158,810,169	152,565,645	164,552,117	155,656,091	159,663,457	160,361,098	132,443,543
Percentage of total revenues	21.2%	21.3%	21.7%	18.9%	17.6%	18.8%	17.8%	18.0%	14.9%	15.1%
<i>Instant tickets</i>										
Instant tickets	77,217,452	83,950,804	85,003,754	83,975,581	90,526,129	96,281,087	94,225,863	98,706,129	102,914,666	112,643,821
Percentage of total revenues	6607.6%	8876.4%	7025.2%	7422.1%	8548.5%	8738.0%	7992.3%	6829.5%	7118.0%	12.7%
<i>iLottery</i>										
iLottery	77,217,452	83,950,804	85,003,754	83,975,581	90,526,129	96,281,087	94,225,863	98,706,129	102,914,666	1,305,682
Percentage of total revenues	10.7%	10.8%	10.9%	10.0%	10.4%	11.0%	10.9%	11.2%	9.5%	0.1%
<i>Sportsbook</i>										
Sportsbook	-	-	-	-	-	-	-	-	127,587,809	200,188,405
Percentage of total revenues	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	11.8%	22.6%
Games reported - revenue net of related prize awards										
<i>Video</i>										
Video lottery	492,594,189	527,323,124	520,747,106	507,056,712	516,262,400	488,690,835	482,404,252	481,372,523	522,754,625	352,833,794
Percentage of total revenues	68.0%	67.8%	67.1%	60.5%	59.6%	55.7%	55.2%	54.3%	48.5%	39.9%
<i>Table games</i>										
Table games	-	-	1,881,238	88,108,367	106,640,942	125,837,949	140,090,213	145,831,110	163,442,908	83,257,074
Percentage of total revenues	0.0%	0.0%	0.2%	10.5%	12.3%	14.4%	16.0%	16.4%	15.2%	9.4%
Total revenue	723,186,937	776,805,894	775,992,905	837,950,829	865,995,116	875,361,988	872,376,419	885,573,219	1,077,061,106	882,672,319
Non-operating income										
Investment income	76,759	92,061	114,980	108,350	106,509	163,373	305,420	542,969	553,497	702,358
Net pull tab sales	70,582	65,891	63,322	44,672	44,851	37,272	37,042	34,796	33,908	24,026
Contract revenue	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000
Miscellaneous	396,278	162,823	406,683	353,407	282,605	276,216	211,516	242,547	233,422	448,694
Total non-operating revenues	1,168,619	945,775	1,209,985	1,131,429	1,058,965	1,101,861	1,178,978	1,445,312	1,445,827	1,800,078
Percentage of total revenues	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.1%	0.2%
Total revenues	\$ 724,355,556	\$ 777,751,669	\$ 777,202,890	\$ 839,082,258	\$ 867,054,081	\$ 876,463,849	\$ 873,555,397	\$ 887,018,531	\$ 1,078,506,933	\$ 884,472,397

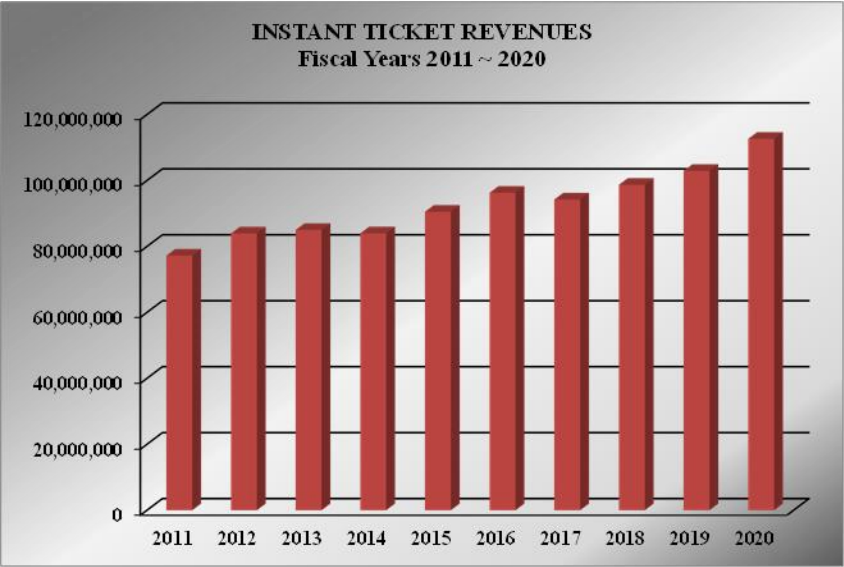
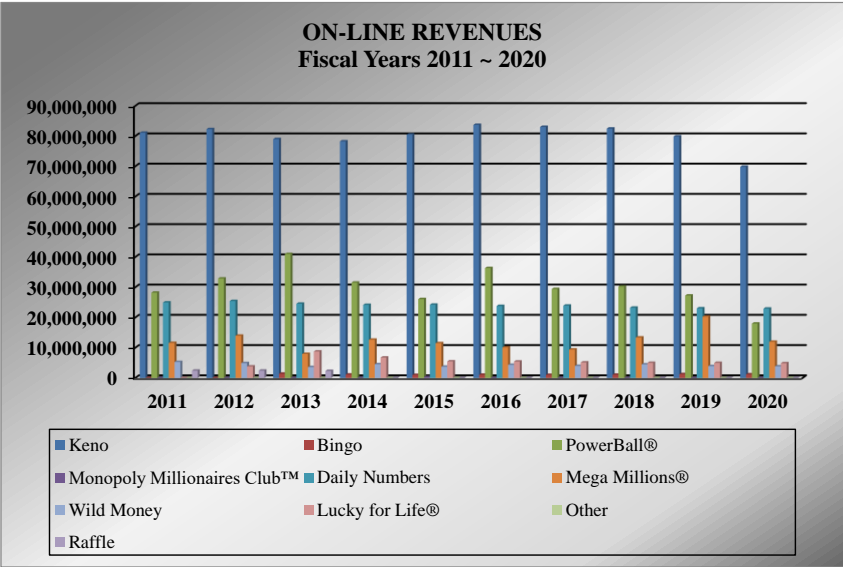


RHODE ISLAND LOTTERY

Revenue Sources

Fiscal Years 2011 through 2020

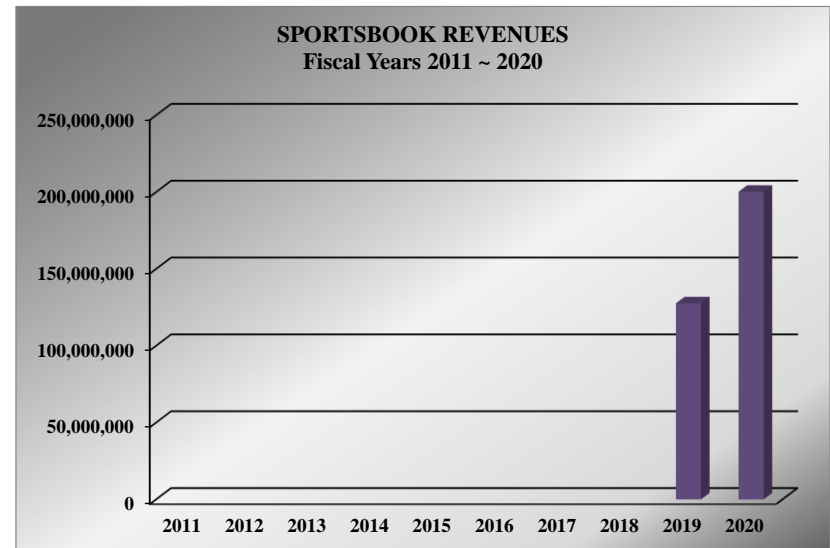
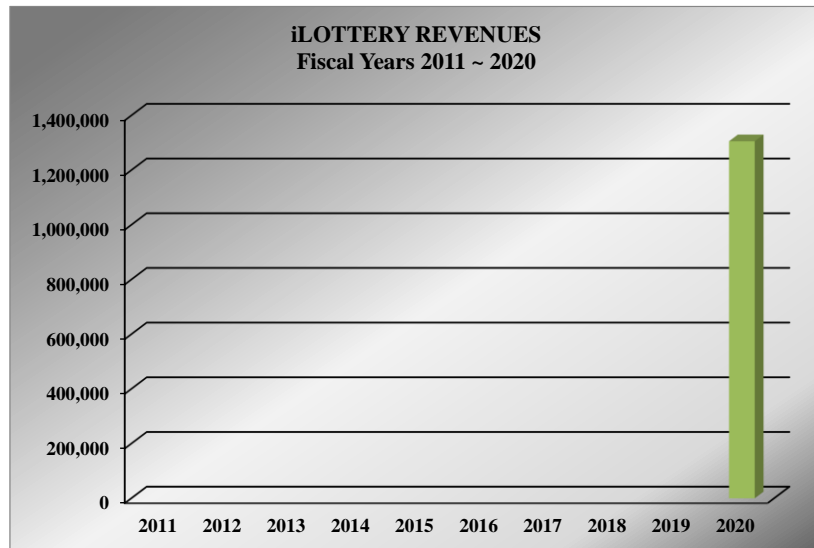
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RHODE ISLAND LOTTERY

Revenue Sources

Fiscal Years 2011 through 2020



RHODE ISLAND LOTTERY

Revenue Sources

Fiscal Years 2011 through 2020

VIDEO LOTTERY, NET REVENUES
Fiscal Years 2011 ~ 2020

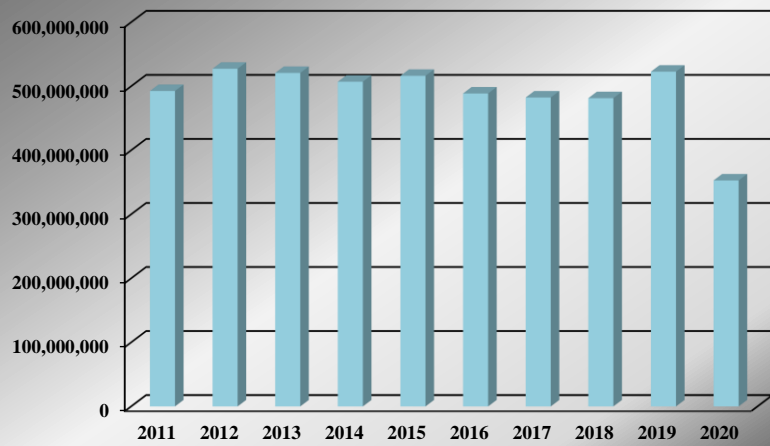
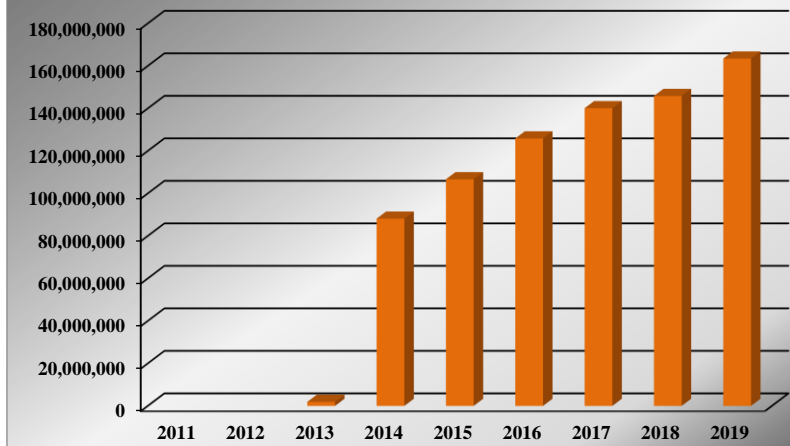


TABLE GAMES, NET REVENUES
Fiscal Years 2011 ~ 2020



RHODE ISLAND LOTTERY

Change in Net Position

Fiscal Years 2011 through 2020

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Operating revenues										
Games reported - gross revenue										
On-line	\$ 153,375,296	\$ 165,531,966	\$ 168,360,807	\$ 158,810,169	\$ 152,565,645	\$ 164,552,117	\$ 155,656,091	\$ 159,663,457	\$ 160,361,098	\$ 132,443,543
Instant tickets	77,217,452	83,950,804	85,003,754	83,975,581	90,526,129	96,281,087	94,225,863	98,706,129	102,914,666	112,643,821
iLottery	-	-	-	-	-	-	-	-	-	1,305,682
Sports Book	-	-	-	-	-	-	-	-	127,587,809	200,188,405
Games reported - revenue net of related prize awards										
Video lottery	492,594,189	527,323,124	520,747,106	507,056,712	516,262,400	488,690,835	482,404,252	481,372,523	522,754,625	352,833,794
Table games	-	-	1,881,238	88,108,367	106,640,942	125,837,949	140,090,213	145,831,110	163,442,908	83,257,074
Total operating revenue	<u>723,186,937</u>	<u>776,805,894</u>	<u>775,992,905</u>	<u>837,950,829</u>	<u>865,995,116</u>	<u>875,361,988</u>	<u>872,376,419</u>	<u>885,573,219</u>	<u>1,077,061,106</u>	<u>882,672,319</u>
Cost of gaming operations										
Retailer/vendor commissions	28,150,798	30,440,073	30,919,173	29,575,451	29,476,752	31,666,893	30,279,906	31,259,176	31,824,962	29,245,728
iLottery commissions	-	-	-	-	-	-	-	-	-	65,285
Video commissions	189,461,494	202,701,572	200,429,711	196,693,434	200,084,883	188,979,963	186,780,926	186,411,125	202,470,151	136,485,046
Sports book commissions	-	-	-	-	-	-	-	-	3,104,551	9,110,668
Table games commissions	-	-	1,542,615	72,248,861	89,578,391	105,703,877	117,675,779	122,498,132	137,995,985	70,352,228
Prize awards expense	142,324,102	155,108,308	153,205,932	148,570,701	150,062,564	161,650,780	157,023,937	162,126,601	285,987,368	338,205,556
Incentive programs, video	2,212,253	4,003,153	4,076,294	4,070,183	4,119,330	6,802,349	6,857,127	6,799,640	6,053,466	3,990,072
Marketing/advertising expense	2,088,973	2,281,816	2,159,542	2,089,016	2,227,887	1,916,270	2,622,021	2,669,113	3,554,740	2,602,043
Unclaimed prize recovery	(2,368,721)	(2,619,903)	(3,328,183)	(2,611,675)	(2,618,608)	(2,271,719)	(2,808,577)	(2,650,661)	(3,300,542)	(3,776,164)
Cost of tickets	1,109,481	1,299,406	1,098,515	1,043,555	1,079,659	1,155,106	995,285	1,110,175	925,570	972,986
Total cost of gaming operations	<u>362,978,380</u>	<u>393,214,425</u>	<u>390,103,599</u>	<u>451,679,526</u>	<u>474,010,858</u>	<u>495,603,519</u>	<u>499,426,404</u>	<u>510,223,301</u>	<u>668,616,251</u>	<u>587,253,448</u>
Gross Profit	<u>360,208,557</u>	<u>383,591,469</u>	<u>385,889,306</u>	<u>386,271,303</u>	<u>391,984,258</u>	<u>379,758,469</u>	<u>372,950,015</u>	<u>375,349,918</u>	<u>408,444,855</u>	<u>295,418,871</u>
Operating Expenses										
Salaries and benefits	4,826,364	5,178,848	6,212,132	9,438,106	9,276,808	10,300,568	9,948,138	10,358,741	10,855,702	12,550,219
Contract services	80,732	133,469	61,413	56,822	109,948	18,624	36,154	41,598	48,538	16,486
Depreciation and amortization	234,375	220,856	151,218	114,087	101,746	111,393	131,982	131,603	132,628	133,808
Other	749,718	672,676	1,097,061	864,970	794,172	1,165,181	759,890	838,129	702,151	900,222
Total operating expenses	<u>5,891,189</u>	<u>6,205,849</u>	<u>7,521,824</u>	<u>10,473,985</u>	<u>10,282,674</u>	<u>11,595,766</u>	<u>10,876,164</u>	<u>11,370,071</u>	<u>11,739,019</u>	<u>13,600,735</u>
Operating Income	<u>354,317,368</u>	<u>377,385,620</u>	<u>378,367,482</u>	<u>375,797,318</u>	<u>381,701,584</u>	<u>368,162,703</u>	<u>362,073,851</u>	<u>363,979,847</u>	<u>396,705,836</u>	<u>281,818,136</u>
Non-operating income (expenses)										
Interest income	76,759	92,061	114,980	108,350	106,509	163,373	305,420	542,969	553,497	702,358
Contract revenue	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000
Other	466,860	228,714	470,005	398,079	327,456	313,488	248,558	277,343	267,330	472,720
Total non-operating income (expenses)	<u>1,168,619</u>	<u>945,775</u>	<u>1,209,985</u>	<u>1,131,429</u>	<u>1,058,965</u>	<u>1,101,861</u>	<u>1,178,978</u>	<u>1,445,312</u>	<u>1,445,827</u>	<u>1,800,078</u>
Income Before Transfers	<u>355,485,987</u>	<u>378,331,395</u>	<u>379,577,467</u>	<u>376,928,747</u>	<u>382,760,549</u>	<u>369,264,564</u>	<u>363,252,829</u>	<u>365,425,159</u>	<u>398,151,663</u>	<u>283,618,214</u>
Transfers from (to) State's General Fund	(354,860,987)	(377,706,395)	(379,224,717)	(376,327,120)	(381,935,511)	(369,760,880)	(362,696,628)	(364,974,453)	(397,320,920)	(283,870,546)
Transfers from (to) RI Capital Plan Fund	-	-	272,250	23,373	-	444,458	-	-	-	-
Increase (decrease) in net position	<u>\$ 625,000</u>	<u>\$ 625,000</u>	<u>\$ 625,000</u>	<u>\$ 625,000</u>	<u>\$ 825,038</u>	<u>\$ (51,858)</u>	<u>\$ 556,201</u>	<u>\$ 450,706</u>	<u>\$ 830,743</u>	<u>\$ (252,332)</u>

RHODE ISLAND LOTTERY

Net Position

June 30, 2011 through 2020

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Net position at year-end										
Net investment in capital assets	\$ 469,496	\$ 266,828	\$ 402,288	\$ 460,135	\$ 455,395	\$ 368,149	\$ 421,514	\$ 314,132	\$ 353,299	\$ 472,462
Unrestricted (deficit)	(7,969,496)	(7,141,828)	(6,652,288)	(6,085,135)	(18,753,504)	(18,718,116)	(18,215,280)	(21,258,021)	(20,466,445)	(20,837,940)
Total net position (deficit)	<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>	<u>\$ (17,793,766)</u>	<u>\$ (20,943,889)</u>	<u>\$ (20,113,146)</u>	<u>\$ (20,365,478)</u>

RHODE ISLAND LOTTERY

Changes in Cash and Cash Equivalents

Fiscal Years 2011 through 2020

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Cash flows from operating activities										
Receipts from lottery sales, online and instant games	\$ 229,312,781	\$ 246,010,593	\$ 253,639,499	\$ 243,577,754	\$ 244,225,203	\$ 260,846,176	\$ 249,704,373	\$ 255,625,349	\$ 263,162,235	\$ 244,907,135
Receipts from iLottery sales	-	-	-	-	-	-	-	-	-	813,748
Receipts from video lottery operations (net of prizes)	492,594,189	527,323,124	520,747,106	507,056,712	516,262,400	488,690,835	482,404,252	481,372,523	520,958,097	357,288,264
Receipts from sports book	-	-	-	-	-	-	-	-	127,656,908	200,568,793
Receipts from table games (net of prizes)	-	-	1,881,238	88,108,367	106,640,942	125,837,949	140,090,213	145,831,110	163,352,339	84,821,270
Receipts from MUSL for grand prize winners	3,293,000	249,359,349	2,333,000	2,333,000	423,000	-	2,778,254	14,827,674	104,941	948,389
Receipts from MUSL for Lucky for Life® top prize winners	-	-	-	711,604	-	-	-	-	-	-
Receipts from problem gambling program	-	-	-	100,000	100,000	200,000	100,000	110,000	315,000	201,000
Other receipts	592,998	300,873	502,279	414,111	339,310	327,969	262,203	288,061	290,555	466,616
Payments for on-line and instant ticket prizes	(140,191,970)	(149,317,420)	(150,828,237)	(145,938,994)	(149,773,735)	(157,651,019)	(154,240,739)	(157,585,742)	(160,803,002)	(152,346,638)
Payments from iLottery prizes	-	-	-	-	-	-	-	-	-	(854,438)
Sports book payouts	-	-	-	-	-	-	-	-	(119,417,531)	(180,234,835)
Payments to MUSL grand prize winners	(3,293,000)	(249,359,349)	(2,333,000)	(2,333,000)	(423,000)	-	(2,778,254)	(14,827,674)	(104,941)	(948,389)
Payments for commissions - retailers	(8,208,460)	(8,931,584)	(9,035,425)	(8,932,729)	(9,633,389)	(10,266,937)	(10,057,345)	(10,518,181)	(10,978,572)	(12,026,875)
Payments for commissions - video lottery	(187,874,908)	(200,322,843)	(202,426,041)	(196,559,997)	(202,655,186)	(190,957,016)	(186,245,129)	(183,816,882)	(202,766,906)	(143,156,480)
Payments for commissions - sports book	-	-	-	-	-	-	-	-	(1,333,416)	(10,720,367)
Payments for commissions - table games	-	-	-	(73,602,436)	(87,465,347)	(104,844,750)	(119,313,361)	(121,800,935)	(136,645,583)	(73,836,729)
Payments for commissions - on-line games contractor	(19,933,400)	(22,427,886)	(21,883,748)	(20,642,722)	(17,760,618)	(22,429,985)	(19,150,948)	(20,821,956)	(20,707,789)	(17,215,929)
Payments to facilities - video lottery incentive program	-	(2,199,328)	(4,007,075)	(4,079,733)	(4,074,749)	(4,970,820)	(6,827,370)	(6,788,488)	(6,127,515)	(5,263,216)
Payments to suppliers for goods and services	(3,926,542)	(4,592,414)	(3,670,584)	(4,286,788)	(4,473,338)	(4,718,289)	(4,253,305)	(5,818,893)	(4,889,991)	(5,134,200)
Payments to employees for services	(4,867,093)	(5,213,577)	(6,221,555)	(9,331,812)	(9,441,122)	(9,544,337)	(10,126,431)	(9,996,859)	(10,902,676)	(11,642,786)
Net cash provided by operating activities	357,497,595	380,629,538	378,697,457	376,593,337	382,290,371	370,519,776	362,346,413	366,079,107	401,162,153	276,634,333
Cash flows from noncapital financing activities										
Transfers from (to) State's General Fund	(353,775,229)	(377,904,813)	(380,910,701)	(376,903,899)	(381,143,916)	(369,414,091)	(362,194,766)	(368,365,935)	(393,791,945)	(283,055,528)
Transfers from (to) RI Capital Plan Fund	-	-	272,250	23,373	-	-	444,458	-	-	-
Net cash used for noncapital financing activities	(353,775,229)	(377,904,813)	(380,638,451)	(376,880,526)	(381,143,916)	(369,414,091)	(361,750,308)	(368,365,935)	(393,791,945)	(283,055,528)
Cash flows from capital and related financing activities										
Purchase of capital assets	(13,000)	(18,188)	(294,330)	(171,934)	(97,006)	(24,147)	(185,347)	(24,221)	(171,795)	(252,971)
Proceeds from sale of capital assets	-	-	7,652	-	-	-	-	-	-	-
Net cash provided by (used for) capital and related financing activities	(13,000)	(18,188)	(286,678)	(171,934)	(97,006)	(24,147)	(185,347)	(24,221)	(171,795)	(252,971)
Cash flows from investing Activities										
Interest income	76,759	92,061	114,980	108,350	106,509	163,373	305,420	542,969	553,497	702,358
Net cash provided by investing activities	76,759	92,061	114,980	108,350	106,509	163,373	305,420	542,969	553,497	702,358
Net increase (decrease) in cash and cash equivalents	3,786,125	2,798,598	(2,112,692)	(350,773)	1,155,958	1,244,911	716,178	(1,768,080)	7,751,910	(5,971,808)
Cash and cash equivalents, beginning of year	14,442,588	18,228,713	21,027,311	18,914,619	18,563,846	19,719,804	20,964,715	21,680,893	19,912,813	27,664,723
Cash and cash equivalents, end of year	\$ 18,228,713	\$ 21,027,311	\$ 18,914,619	\$ 18,563,846	\$ 19,719,804	\$ 20,964,715	\$ 21,680,893	\$ 19,912,813	\$ 27,664,723	\$ 21,692,915

Source: Rhode Island Lottery

Rhode Island Demographics

RHODE ISLAND LOTTERY

Rhode Island Demographics

Rhode Island Population by County - As of July 1

Population	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Bristol County	49,818	49,233	49,268	49,247	49,074	49,127	48,844	48,734	48,637	48,479
Kent County	166,030	165,278	164,627	164,358	164,490	163,747	163,711	163,543	164,053	164,292
Newport County	83,176	83,212	83,206	83,459	83,351	83,259	83,164	82,952	82,547	82,082
Providence County	627,838	629,393	631,229	631,584	632,668	633,747	634,922	634,130	636,953	638,931
Washington County	127,097	126,533	126,291	126,433	126,353	126,185	126,129	126,314	126,097	125,577
Total Rhode Island Population	1,053,959	1,053,649	1,054,621	1,055,081	1,055,936	1,056,065	1,056,770	1,055,673	1,058,287	1,059,361
Percent Increase/(Decrease)	0.07%	-0.03%	0.09%	0.04%	0.08%	0.01%	0.07%	-0.10%	0.25%	0.10%

Total Personal Income, Per Capita Personal Income and Unemployment Rate Data - Calendar Years 2010 - 2019

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Personal Income (in millions)	45,261	47,067	48,810	48,773	50,863	52,739	53,530	55,575	57,604	59,707
Per Capita Personal Income	42,944	44,670	46,282	46,227	48,169	49,939	50,654	52,644	54,431	56,361
Unemployment Rate	10.9%	10.5%	10.1%	8.9%	7.3%	5.8%	5.0%	4.1%	3.6%	3.3%

Source: U.S. Census Bureau, U.S. Department of Labor Bureau of Labor Statistics, and Bureau of Economic Analysis

As of result of revised census data, amounts for various years may differ from the amounts presented in the same tables in the June 30, 2019 report.

State of Rhode Island and Providence Plantations Principal Employers

2019				2010			
Rank	Employer	Employed	% of Total Employment	Rank	Employer	Employed	% of Total Employment
1	Lifespan, Corp.	13,165	2.46%	1	Lifespan	11,869	2.36%
2	CVS Health Corp.	8,300	1.55%	2	Roman Catholic Diocese of Providence	6,200	1.23%
3	Care New England Health System	6,295	1.17%	3	Care New England	5,953	1.18%
4	Citizens Financial Group Inc.	5,100	0.95%	4	CVS Corporation	5,800	1.15%
5	General Dynamics Electric Boat	4,147	0.77%	5	Citizen's Financial Group (Royal Bank of Scotland)	4,991	0.99%
6	Brown University	3,373	0.63%	6	Brown University	4,800	0.95%
7	Naval Undersea Warfare Center	3,200	0.60%	7	Stop and Shop Supermarket Co., Inc.	3,632	0.72%
8	Fidelity Investments Inc.	3,000	0.56%	8	Bank of America	3,500	0.70%
9	Roman Catholic Diocese of Providence	3,132	0.58%	9	Fidelity Investments	2,934	0.58%
10	CharterCARE Health Partners	3,000	0.56%	10	Rhode Island ARC	2,851	0.57%
		536,000	9.83%		Total employment	503,000	10.43%

Source: 2019 information is provided by the RI Department of Labor and Training.

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

RHODE ISLAND LOTTERY

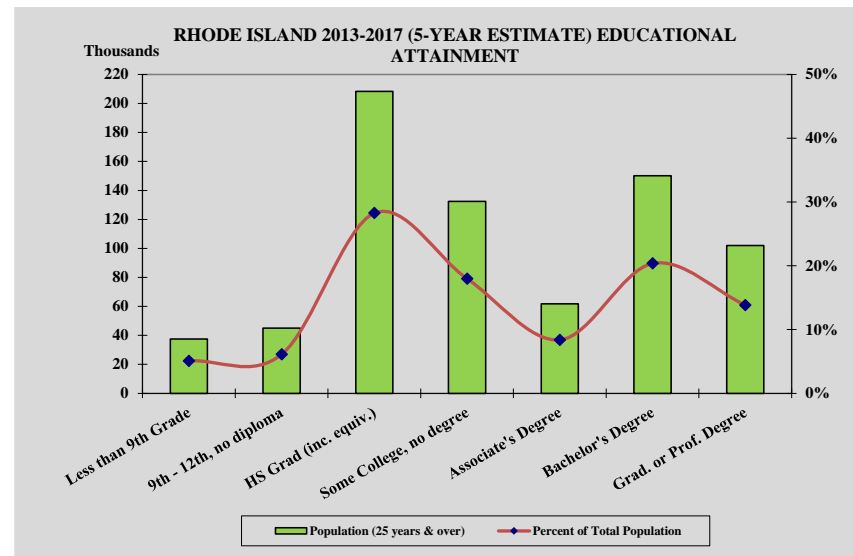
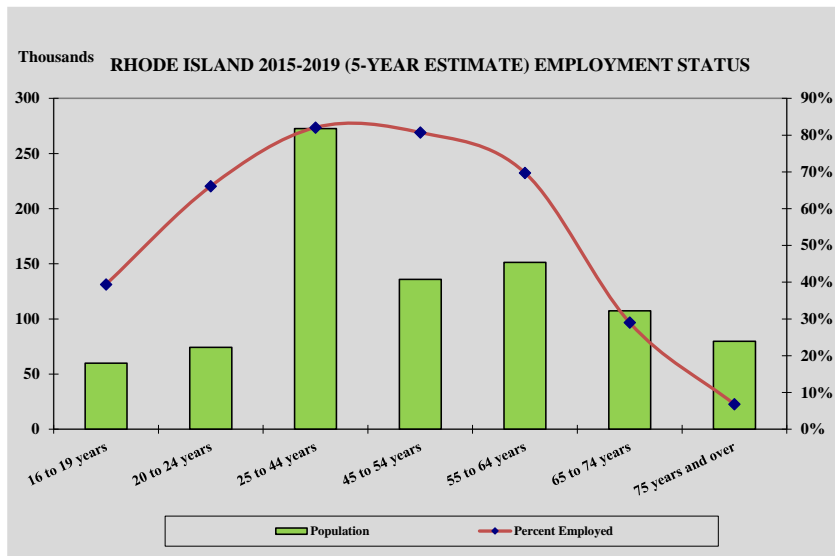
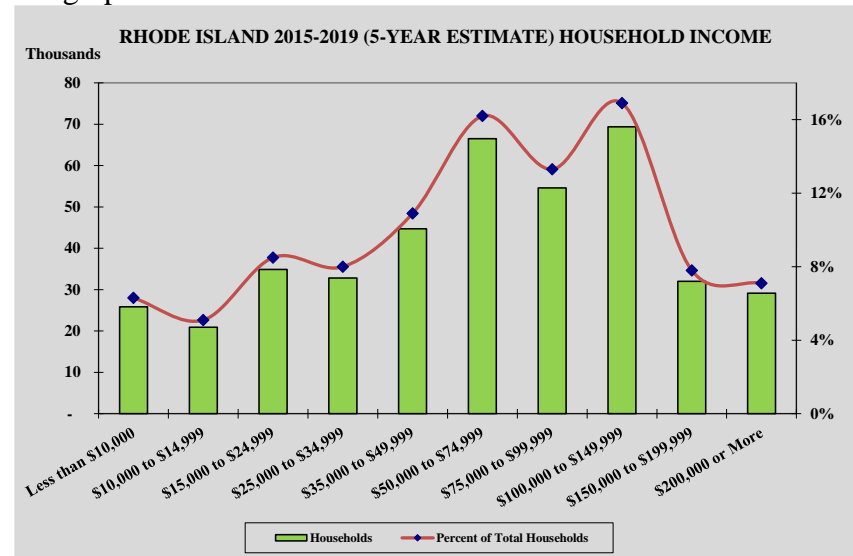
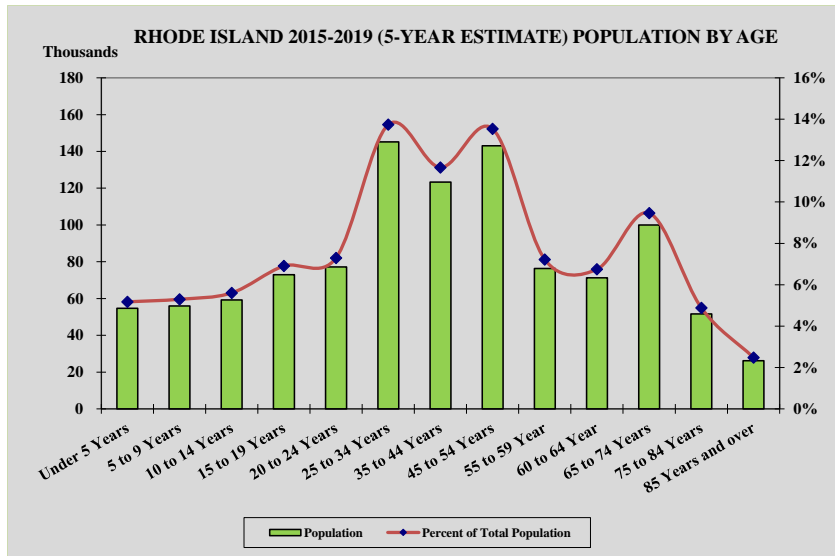
Rhode Island Lottery Employees by Function

	Total Employees									
Categories	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Officials/Managers/Administrators	5	6	8	8	8	8	8	9	9	9
Professionals	12	12	19	19	16	17	16	18	23	22
Technicians	4	5	6	6	6	6	6	6	7	7
Protective Services	2	2	10	9	10	10	10	10	17	17
Para Professionals	17	16	28	29	27	27	26	28	38	35
Administrative Support	8	8	9	9	9	9	9	8	8	8
Maintenance	2	2	2	1	2	2	2	2	2	2
Total	50	51	82	81	78	79	77	81	104	100

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 2020 SALES				U.S. LOTTERIES RANKED BY SALES % CHANGE		
RANK	LOTTERY	FY '19 SALES (\$M)	FY '20 SALES (\$M)	RANK	LOTTERY	% CHANGE
1	New York	10,290.55	9,740.53	1	Oklahoma	10.79%
2	Florida	7,151.24	7,505.11	2	Michigan	9.35%
3	Texas	6,251.48	6,704.03	3	Texas	7.24%
4	California	7,388.05	6,601.28	4	Kentucky	6.53%
5	Massachusetts	5,490.37	5,244.58	5	South Carolina	6.33%
6	Georgia	4,776.01	4,974.84	6	North Carolina	5.48%
7	Pennsylvania	4,548.90	4,556.62	7	Minnesota	4.99%
8	Ohio	4,419.40	4,292.46	8	Florida	4.95%
9	Michigan	3,884.16	4,247.42	9	Maine	4.90%
10	Maryland	3,957.32	3,469.86	10	Georgia	4.16%
11	New Jersey	3,482.35	3,215.39	11	Missouri	3.19%
12	North Carolina	2,859.62	3,016.21	12	Arkansas	3.09%
13	Illinois	2,977.59	2,844.54	13	Indiana	2.69%
14	Virginia	2,293.56	2,148.61	14	New Hampshire	2.62%
15	South Carolina	1,980.94	2,106.37	15	Arizona	1.97%
16	Tennessee	1,812.60	1,840.80	16	Washington	1.75%
17	Missouri	1,466.03	1,512.74	17	Wisconsin	1.73%
18	Indiana	1,347.76	1,384.07	18	Tennessee	1.56%
19	Connecticut	1,333.91	1,303.62	19	Montana	0.97%
20	Kentucky	1,129.66	1,203.44	20	Pennsylvania	0.17%
21	Oregon	1,346.53	1,143.26	21	Mississippi	0.00%
22	Arizona	1,076.79	1,097.96	22	South Dakota	-0.12%
23	West Virginia	1,224.06	1,026.16	23	Vermont	-1.32%
24	Washington	803.28	817.30	23	D.C.	-1.98%
25	Wisconsin	713.13	725.44	23	Connecticut	-2.27%
26	Rhode Island***	956.34	700.33	26	Louisiana	-2.84%
27	Minnesota	636.81	668.57	27	Ohio	-2.87%
28	Colorado	679.78	658.84	28	Colorado	-3.08%
29	Delaware	649.65	562.24	29	Idaho	-3.58%
30	Arkansas	515.49	531.44	30	Illinois	-4.47%
31	Louisiana	523.97	509.11	31	Massachusetts	-4.48%
32	New Hampshire	384.37	394.42	32	Nebraska	-4.74%
33	Iowa	390.90	371.95	33	Iowa	-4.85%
34	Mississippi		339.78	34	New York	-5.34%
35	Maine	299.45	314.11	35	Virginia	-6.32%
36	South Dakota	293.23	292.88	36	Kansas	-6.87%
37	Idaho	287.91	277.60	37	New Jersey	-7.67%
38	Kansas	295.28	274.99	38	California	-10.65%
39	Oklahoma	241.69	267.76	39	New Mexico	-11.54%
40	D.C.	213.06	208.84	40	Maryland	-12.32%
41	Nebraska	192.18	183.08	41	Delaware	-13.45%
42	Vermont	139.27	137.42	42	Oregon	-15.10%
43	New Mexico	143.63	127.05	43	West Virginia	-16.17%
44	Montana	60.47	61.05	44	Rhode Island***	-26.77%
45	North Dakota	35.35	24.39	45	North Dakota	-31.00%
46	Wyoming	36.93	24.07	46	Wyoming	-34.84%
	TOTAL	90,981.06	89,652.55			-1.46%
***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 2020 PROFIT				U.S. LOTTERIES RANKED BY PROFIT % CHANGE		
RANK	LOTTERY	FY '19 PROFIT (\$M)	FY '20 PROFIT (\$M)	RANK	LOTTERY	% CHANGE
1	New York	3,474.04	3,376.81	1	Wisconsin	15.10%
2	Florida	1,927.05	1,913.00	2	Maine	3.22%
3	Texas	1,636.59	1,683.73	3	North Carolina	3.14%
4	California	1,870.75	1,493.53	4	Texas	2.88%
5	Georgia	1,207.77	1,237.75	5	Michigan	2.74%
6	Pennsylvania	1,143.23	1,141.80	6	Georgia	2.48%
7	Ohio	1,157.45	1,127.13	7	Minnesota	1.82%
8	Michigan	1,071.64	1,100.99	8	Missouri	0.79%
9	Maryland	1,233.44	1,056.81	9	Mississippi	0.00%
10	New Jersey	1,105.00	1,015.00	10	Pennsylvania	-0.12%
11	Massachusetts	1,104.22	986.85	11	Florida	-0.73%
12	North Carolina	710.20	732.50	12	South Dakota	-0.77%
13	Illinois	735.51	696.01	13	Kentucky	-1.81%
14	Virginia	649.70	595.36	14	Arizona	-1.83%
15	Oregon	730.14	583.44	15	Tennessee	-2.00%
16	South Carolina	488.09	477.91	16	South Carolina	-2.09%
17	Tennessee	447.19	438.23	17	Indiana	-2.44%
18	West Virginia	495.14	402.00	18	Ohio	-2.62%
19	Connecticut	372.30	350.30	19	New York	-2.80%
20	Missouri	319.38	321.90	20	Louisiana	-2.80%
21	Indiana	312.22	304.59	21	Oklahoma	-4.62%
22	Rhode Island***	397.32	283.87	22	Illinois	-5.37%
23	Kentucky	283.61	278.49	23	Vermont	-5.68%
24	Wisconsin	235.28	270.80	24	Connecticut	-5.91%
25	Arizona	230.36	226.14	25	New Hampshire	-5.94%
26	Washington	215.78	180.95	26	Idaho	-7.50%
27	Louisiana	184.32	179.16	27	New Jersey	-8.14%
28	Delaware	215.56	177.27	28	Virginia	-8.36%
29	Minnesota	153.19	155.98	29	Nebraska	-8.94%
30	Colorado	166.46	142.43	30	Arkansas	-9.50%
31	South Dakota	129.42	128.43	31	Kansas	-10.01%
32	New Hampshire	105.61	99.34	32	Massachusetts	-10.63%
33	Arkansas	98.64	89.27	33	New Mexico	-11.51%
34	Iowa	92.86	81.53	34	Iowa	-12.21%
35	Mississippi		70.78	35	D.C.	-12.99%
36	Kansas	74.91	67.41	36	Maryland	-14.32%
37	Maine	63.20	65.24	37	Colorado	-14.44%
38	Oklahoma	68.30	65.15	38	Washington	-16.14%
39	Idaho	60.00	55.50	39	Delaware	-17.76%
40	Nebraska	46.57	42.41	40	West Virginia	-18.81%
41	D.C.	45.05	39.20	41	Oregon	-20.09%
42	New Mexico	43.11	38.15	42	California	-20.16%
43	Vermont	29.18	27.52	43	Rhode Island***	-28.55%
44	Montana	12.21	8.10	44	Montana	-33.69%
45	North Dakota	9.34	5.22	45	North Dakota	-44.13%
46	Wyoming	6.62	3.33	46	Wyoming	-49.73%
	TOTAL	25,157.96	23,817.30			-5.33%
***Above schedule reflects net VLT sales.						
Results are unofficial and unaudited						
Source: North American Association of State & Provincial Lotteries						