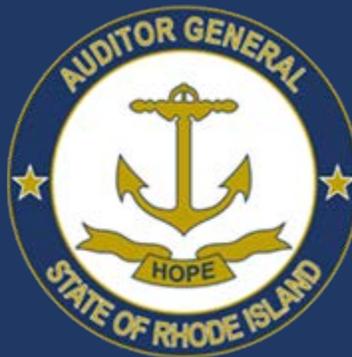


RHODE ISLAND LOTTERY

(AN ENTERPRISE FUND OF THE
STATE OF RHODE ISLAND)

FISCAL YEAR ENDED JUNE 30, 2022



Dennis E. Hoyle, CPA, Auditor General

Office of the Auditor General

General Assembly

State of Rhode Island



Office of the Auditor General

State of Rhode Island - General Assembly
Dennis E. Hoyle, CPA - Auditor General

oag.ri.gov

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November 15, 2022

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER K. Joseph Shekarchi, Chairman

Senator Dominick J. Ruggerio

Senator Jessica de la Cruz

Representative Christopher R. Blazejewski

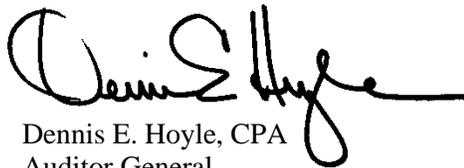
Representative Michael W. Chippendale

We have completed our audit of the financial statements of the Rhode Island Lottery for the year ended June 30, 2022 and have issued our *Independent Auditor's Report* thereon.

Section III of this report includes our *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*.

Section IV contains a finding and recommendation intended to enhance the Lottery's internal control and/or result in other operational efficiencies.

Sincerely,

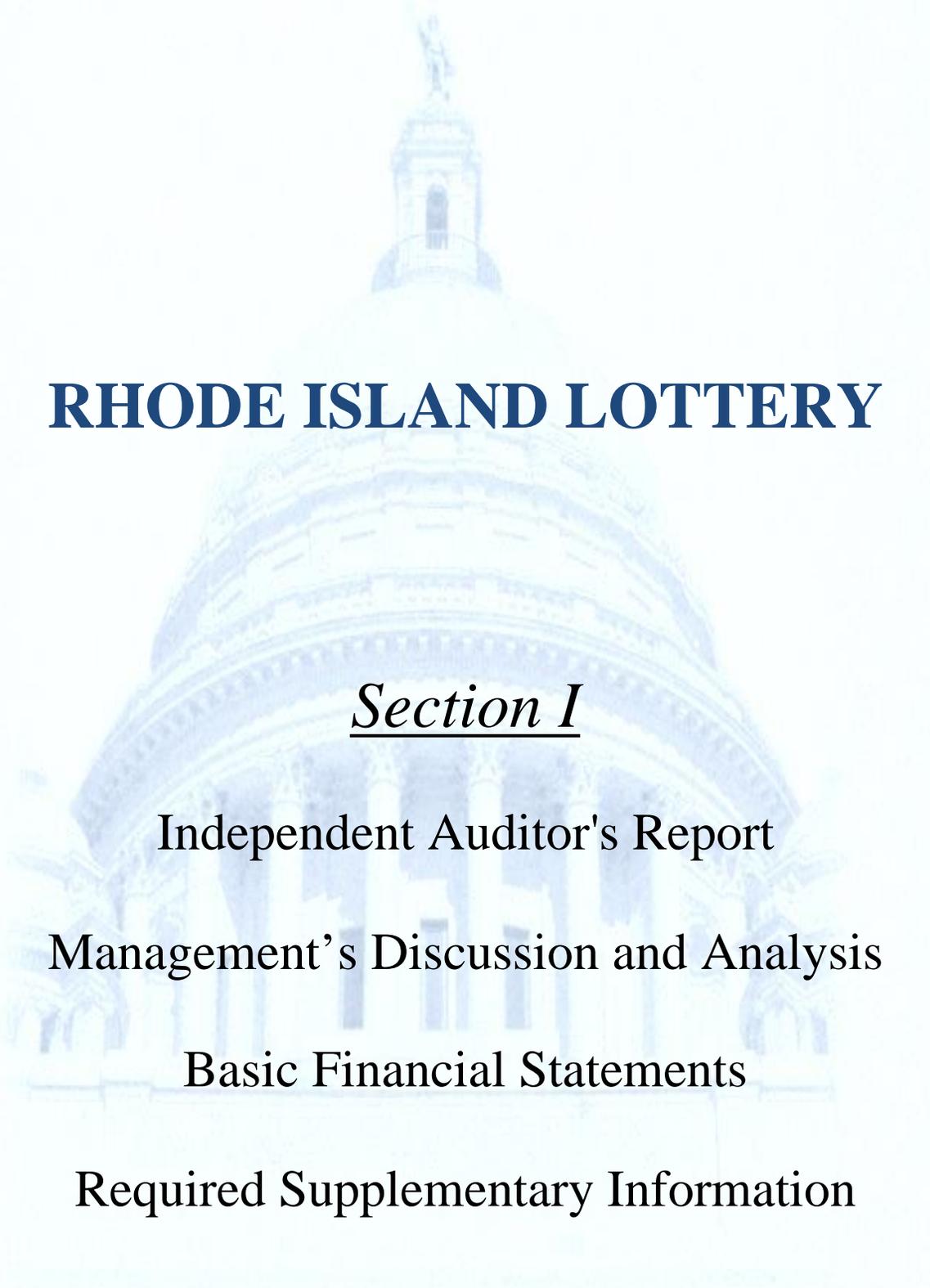


Dennis E. Hoyle, CPA
Auditor General

RHODE ISLAND LOTTERY
 (AN ENTERPRISE FUND OF THE STATE OF RHODE ISLAND)
FISCAL YEAR ENDED JUNE 30, 2022

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RHODE ISLAND LOTTERY

Section I

Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements

Required Supplementary Information



Office of the Auditor General

State of Rhode Island - General Assembly
Dennis E. Hoyle, CPA - Auditor General

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the 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, 2022, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Lottery, as of June 30, 2022, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Lottery and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

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, 2022, 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 2(p) the Lottery implemented GASB Statement No. 87 – *Leases* during fiscal year 2022.

Our opinion is not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lottery's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Lottery's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lottery's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 17, Schedule of the Lottery's Proportionate Share of the Net Pension Liability – Employees' Retirement System Plan on page 54, the Schedule of the Lottery's Contributions – Employees' Retirement System Plan on page 55, the Schedule of the Lottery's Proportionate Share of the Net OPEB Liability – State Employees' OPEB Plan on page 56, and the Schedule of the Lottery's Contributions – State Employees' OPEB Plan on page 57 be presented to supplement the basic financial statements. Such information is the responsibility of management and 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

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

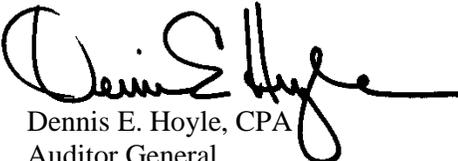
States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial 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.

Supplementary 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 details operating revenue and related costs of gaming operations and is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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. The 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2022 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

November 4, 2022

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, 2022. This *Management's Discussion and 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 \$19.6 million reported at June 30, 2022 relates to (a) the Lottery's proportionate share of the net pension and OPEB liabilities and (b) the Lottery's previous sale of its exclusive rights to operate its gaming systems.

\$19.0 million of the net position (deficit) 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, 2022, 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.

The remaining portion of the net position (deficit) at June 30, 2022 represents the remaining balance of unearned contract revenue totaling \$625,000 which will be recognized in fiscal 2023. In fiscal 2003 the \$12.5 million received for the sale of rights to operate the gaming systems was immediately paid to the State's General Fund; however, for financial reporting purposes, the revenue is recognized over the life of the agreement.

RHODE ISLAND LOTTERY

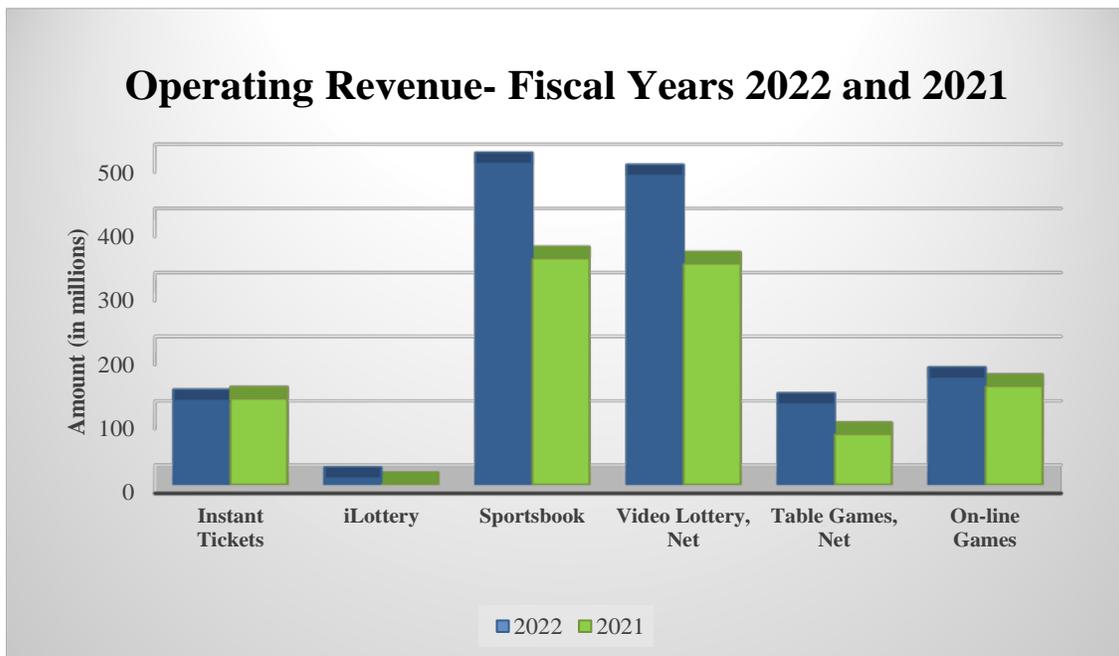
Management's Discussion and Analysis

Financial Highlights

Overall revenue, including gaming activity at the Lottery's two casinos, experienced a significant recovery during fiscal 2022 compared to fiscal 2021. The global COVID-19 pandemic had a significant effect on Lottery revenues for fiscal year 2021. The Lottery transferred \$388.6 million to the State's General Fund in fiscal year 2022 compared to \$301.8 million transferred in fiscal 2021. The following are financial highlights for the Lottery's gaming activity in fiscal 2022:

- Video lottery and tables games net revenue at the Lottery's two casinos increased 39.4% and 57.4%, respectively, over fiscal 2021.
- Sportsbook revenue increased 46.5% over fiscal 2021. Mobile sports wagering continued to gain in popularity attributing to the significant revenue increase in fiscal 2022.
- An overall 7% increase in on-line games revenue included:
 - Lucky for Life® revenues increased 67.6% over fiscal 2021 - daily drawings began in July 2021.
 - PowerBall® sales increased 25.0% over fiscal 2021 - a third weekly drawing began in August 2021. Mega Millions® sales declined 30.4% compared to the prior year. Fiscal 2021 included a drawing with a \$1 billion jackpot which positively impacted sales in that year.
 - Keno and Bingo monitor games revenue increased 13.8% and 12.4%, respectively in fiscal 2022 over the prior year. Revenues for both games surpassed pre-pandemic levels.
- iLottery revenue increased 32.8% over the prior year.
- Instant games revenue decreased by 3.0% compared to fiscal 2021.

The following graph depicts the Lottery's operating revenue for instant tickets, iLottery, video lottery, table games, sportsbook and on-line games for fiscal 2022 compared to fiscal 2021.



RHODE ISLAND LOTTERY

Management's Discussion and Analysis

Analysis of Comparative Financial Position

The Lottery's net position (deficit) at June 30, 2022 and June 30, 2021 is summarized below:

| | <u>June 30, 2022</u> * | <u>June 30, 2021</u> |
|--|------------------------|----------------------|
| Assets: | | |
| Current assets | | |
| Cash and cash equivalents | \$ 39,095,972 | \$ 33,583,940 |
| Accounts receivable, net | 5,365,680 | 4,817,354 |
| Lease receivable | 88,732 | - |
| Due from State's General Fund | 3,948 | 579 |
| Other | 1,528,080 | 1,309,252 |
| Total current assets | <u>46,082,412</u> | <u>39,711,125</u> |
| Non-current assets | | |
| Capital assets, net | 1,496,442 | 345,976 |
| Long-term lease receivable | 2,763,909 | - |
| Total non-current assets | <u>4,260,351</u> | <u>345,976</u> |
| Total assets | <u>50,342,763</u> | <u>40,057,101</u> |
| Deferred outflows of resources: | | |
| Deferred outflows of resources - pension | 4,111,770 | 5,719,530 |
| Deferred outflows of resources - OPEB | 1,130,415 | 1,309,602 |
| Total deferred outflows of resources | <u>5,242,185</u> | <u>7,029,132</u> |

*Reflects the implementation of GASB Statement No. 87 - *Leases* with a transition date of July 1, 2021.

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

| | June 30, 2022 | * | June 30, 2021 |
|--|-----------------|---|-----------------|
| Liabilities: | | | |
| Current liabilities | | | |
| Cash overdraft | \$ 9,101,723 | | \$ - |
| Due to State's General Fund - net income from operations | 3,307,843 | | 3,358,186 |
| Accounts payable | 12,366,857 | | 14,722,575 |
| Deposits held for sportsbook patrons | - | | 921,581 |
| Obligation for unpaid prize awards | 11,912,327 | | 12,826,548 |
| Lease liability | 300,459 | | - |
| Compensated absences | 294,330 | | 287,891 |
| Other liabilities | 9,577,392 | | 8,248,227 |
| Total current liabilities | 46,860,931 | | 40,365,008 |
| Non-current liabilities | | | |
| Compensated absences | 330,733 | | 317,094 |
| Net pension liability | 16,557,874 | | 21,652,204 |
| Net OPEB liability | 2,145,330 | | 3,419,593 |
| Long-term lease liability | 967,672 | | - |
| Unearned contract revenue | - | | 625,000 |
| Total non-current liabilities | 20,001,609 | | 26,013,891 |
| Total liabilities | 66,862,540 | | 66,378,899 |
| Deferred inflows of resources: | | | |
| Deferred inflows of resources - pension | 3,730,546 | | 524,650 |
| Deferred inflows of resources - OPEB | 1,822,367 | | 1,048,300 |
| Deferred inflows of resources - leases | 2,808,428 | | - |
| Total deferred inflows of resources | 8,361,341 | | 1,572,950 |
| Net position (deficit): | | | |
| Net investment in capital assets | 228,311 | | 345,976 |
| Unrestricted | (19,867,244) | | (21,211,592) |
| Total net position (deficit) | \$ (19,638,933) | | \$ (20,865,616) |

*Reflects the implementation of GASB Statement No. 87 - *Leases* with a transition date of July 1, 2021.

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, 2022, the Lottery's assets included \$39.1 million in cash and cash equivalents as compared with \$33.6 million at June 30, 2021. The Lottery's accounts receivable approximated \$5.4 million and \$4.8 million, respectively, at June 30, 2022 and 2021.

The Lottery's current liabilities at the balance sheet date are amounts owed for vendor payables and prize obligations and a temporary cash overdraft liability. The amount owed at June 30, 2022 to the General Fund for June net operations approximated \$3.3 million. At June 30, 2022, vendor payables, made up largely of commissions (video lottery and sportsbook) and prize obligations (attributable mostly to instant ticket games) were \$12.4 million and \$11.9 million, respectively. In comparison, vendor payables and prize obligations at June 30, 2021 were \$14.7 million and \$12.8 million, respectively.

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

The Lottery's net pension liability and net OPEB liability decreased by \$5.1 million and \$1.3 million, respectively, at June 30 2022 compared to June 30, 2021. These decreases mainly represent a significant increase in the plans' fiduciary net position at the measurement date (June 30, 2021) over the prior year due to significant investment gains during fiscal 2021. The decreases experienced by the Lottery represent their proportionate share of the overall decreases experienced by the State's pension and OPEB plans at the measurement date.

Deferred outflows of resources related to pensions decreased significantly in fiscal 2022 compared to fiscal 2021 primarily due to reduced outflows resulting from changes in assumptions in fiscal 2022. Deferred inflows of resources related to pension and OPEB decreased in fiscal 2022 compared to fiscal 2021 primarily due to reduced inflows relating to the net difference between projected and actual investment earnings.

Deferred inflows of resources in fiscal 2022 also increased due to the Lottery's implementation of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. The Lottery recorded a deferred inflow of resources during fiscal 2022 related to its lease of office space to its gaming system contractor for the expected term of the 20-year contract.

The deficit in net position reported at June 30, 2022, as previously explained, relates to the Lottery's 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, 2022, a deficit balance of \$625,000 remains relating to deferred contract revenue to be recognized in fiscal 2023. 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, 2022 | June 30, 2021 * |
|--|-----------------|-----------------|
| Operating revenue: | | |
| Games reported - gross revenue | | |
| On-line games | \$ 165,025,676 | \$ 154,163,448 |
| Instant games | 130,562,609 | 134,625,405 |
| iLottery | 9,498,777 | 7,152,533 |
| Sportsbook | 517,229,614 | 352,995,097 |
| Games reported - revenue net of related prize awards | | |
| Video lottery | 481,150,833 | 345,066,349 |
| Table games | 125,047,864 | 79,459,088 |
| Other operating revenue | 570,896 | 549,647 |
| Total operating revenue | 1,429,086,269 | 1,074,011,567 |
| Cost of gaming operations: | | |
| Prize awards expense (on-line, instant, and sports book) | 673,703,958 | 505,366,057 |
| Commissions | 349,300,483 | 254,408,409 |
| Incentive programs, video lottery | 4,232,235 | 671,958 |
| Marketing/advertising expense | 2,972,708 | 2,485,974 |
| Cost of tickets | 1,004,530 | 1,082,726 |
| Transaction fees - online wagering | 933,667 | 681,377 |
| Unclaimed prize recovery | (4,777,863) | (4,770,564) |
| Total cost of gaming operations | 1,027,369,718 | 759,925,937 |
| Gross Profit | 401,716,551 | 314,085,630 |
| Operating expenses: | | |
| Salaries and benefits | 11,334,962 | 12,224,386 |
| Depreciation | 117,665 | 138,440 |
| Problem gambling expenses | 570,896 | 549,647 |
| Other | 1,160,914 | 1,028,101 |
| Total operating expenses | 13,184,437 | 13,940,574 |
| Operating Income | 388,532,114 | 300,145,056 |
| Non-operating income (expenses): | | |
| Investment income | 154,148 | 155,294 |
| Other income (expenses) - net | 1,182,117 | 1,002,593 |
| Income before transfers | 389,868,379 | 301,302,943 |
| Transfers to State's General Fund | (388,641,696) | (301,803,081) |
| Increase (decrease) in net position | 1,226,683 | (500,138) |
| Total net position (deficit), beginning of year | (20,865,616) | (20,365,478) |
| Total net position (deficit), end of year | \$ (19,638,933) | \$ (20,865,616) |

* Certain balances were reclassified to conform to the current year presentation

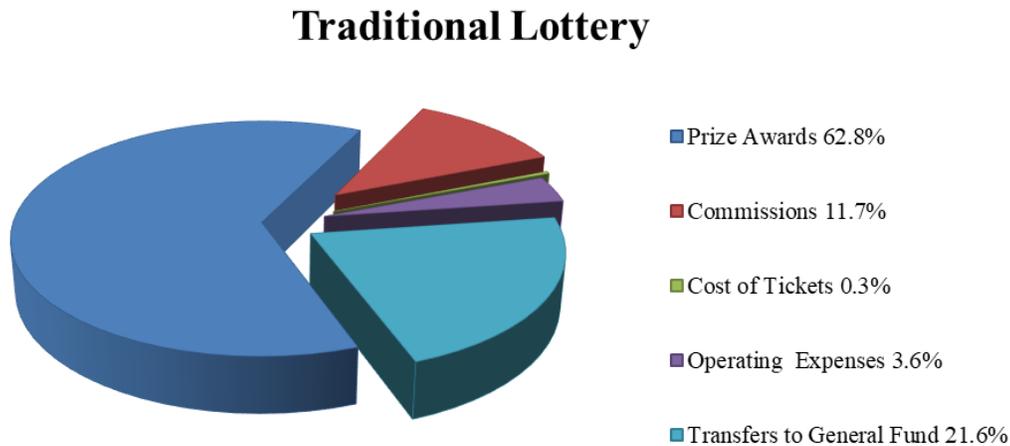
RHODE ISLAND LOTTERY

Management's Discussion and Analysis

Revenue

Traditional Lottery

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



- On-line games offered were PowerBall®, Mega Millions®, Keno, Bingo, Daily Numbers, Wild Money, and Lucky for Life® during fiscal 2022. The overall annual increase for on-line games was 7.0% compared to fiscal year 2021. On August 23, 2021, the PowerBall® game added a Monday night draw in addition to the two (2) drawings per week, the result was an increase over fiscal year 2021 of approximately 25.0%. Lucky for Life® increased approximately 67.6% over prior fiscal year 2021. This increase was attributable to a game change from two (2) drawings per week to a daily drawing. Keno and Bingo revenue for fiscal year 2022 increased 13.8% and 12.4%, respectively over fiscal year 2021, primarily due to the lessening of COVID-19 pandemic restrictions at many restaurants, bars, and taverns, etc. Mega Millions® decreased approximately 30.4% over fiscal year 2021, primarily due to a \$1 billion dollar jackpot in the previous fiscal year. The Numbers and Wild Money games also experienced decreases from the prior year.
- Instant ticket revenue for fiscal 2022 decreased approximately 3.0% over fiscal year 2021. This decrease occurred mostly in the lower price point games, whereas the \$20 ticket price point games had significant increases. During fiscal year 2022, the Lottery continued with its successful family of games and its holiday game offerings. The Lottery also continued to offer various high-price point tickets including a \$30 ticket “\$500,000 payout”, and a \$10 ticket “Big Money Super Ticket”, which is a letter-sized ticket, with four separate games to play, offering players 53 chances to win.
- 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 beginning in August 2023. iLottery revenue for fiscal year 2022 increased 32.8% over fiscal year 2021.

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, 2022 and 2021.

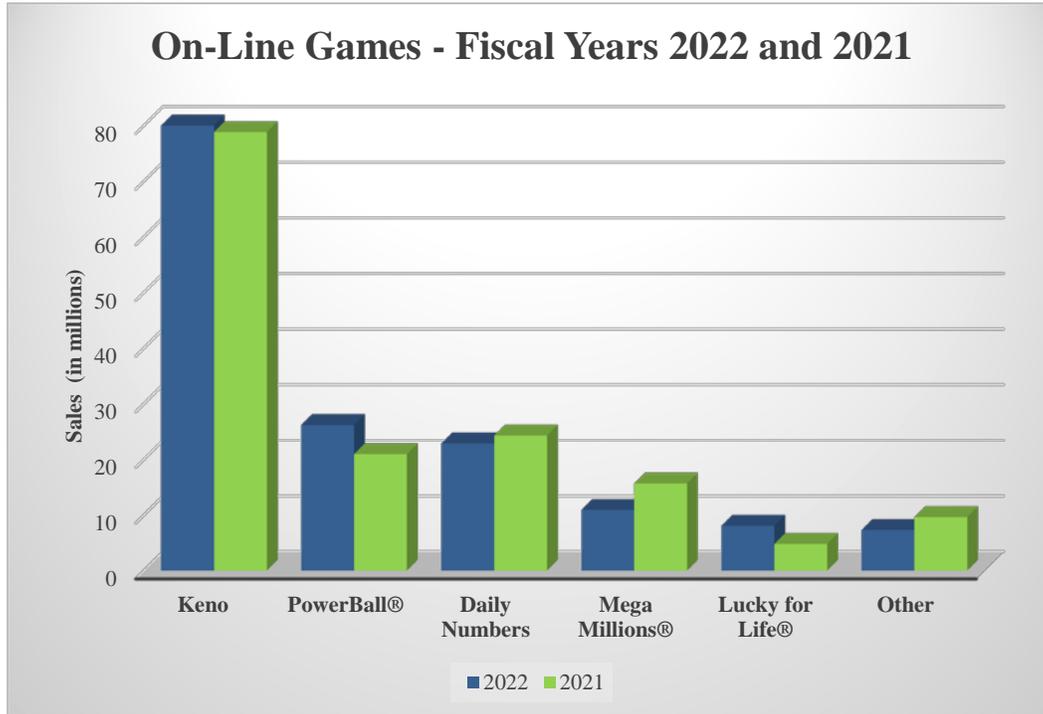
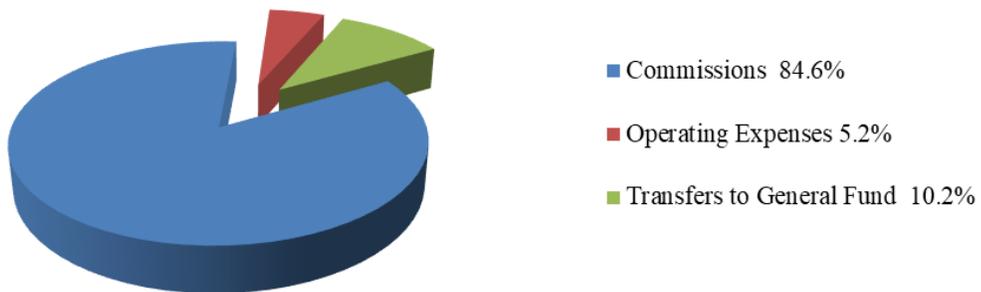


Table Games

For fiscal 2022, net table games revenue was \$125.0 million, an increase of 57.4% compared to the prior year. With Bally's Twin River Lincoln Casino Resort and Bally's Tiverton Casino & Hotel returning to full pre-COVID-19 operations on May 20, 2021, fiscal 2022 table games operations were not impacted by the public health emergency. This was a significant improvement over fiscal 2021 where casino operations remained substantially impacted by the public health emergency. Poker, however, was not offered during fiscal year 2022 or 2021. Net table games revenue for fiscal 2022 remained significantly less than the 2019 pre-pandemic net revenue amount reported of \$163.4 million.

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

Table Games - Net Revenue Distribution



RHODE ISLAND LOTTERY

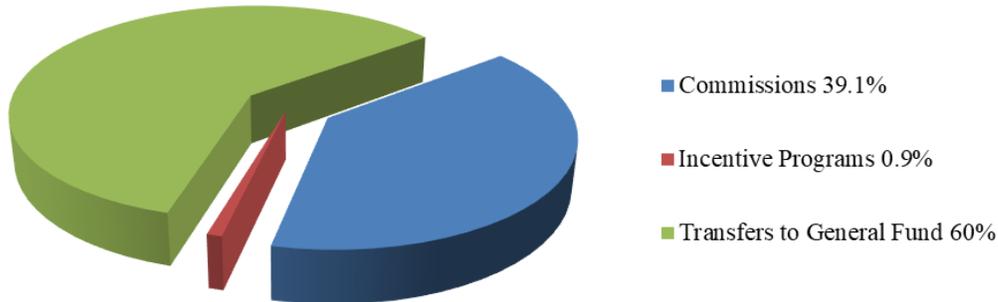
Management's Discussion and Analysis

Video Lottery

Video lottery net revenue increased \$136.1 million or 39.4% from the prior fiscal year. Bally’s Twin River Lincoln Casino Resort and Bally’s Tiverton Casino & Hotel returned to pre-COVID-19 operations on May 20, 2021, offering 4,067 VLT machines in Lincoln and 1,000 at Tiverton. On September 26, 2021, the Lincoln facility reduced the number of VLT machines offered to 3,802, due to construction renovations at Bally’s Twin River Lincoln Casino Resort. Fiscal 2021 operations include a “COVID-19 Pause” that closed the casinos for a three-week period in December 2020. Video lottery net revenue for fiscal 2022 of \$481.2 million, while significantly improved, remains below the 2019 pre-pandemic reported net revenue amount of \$522.8 million.

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

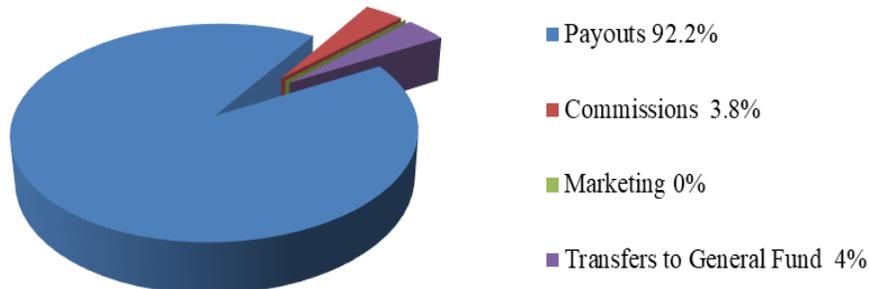
Video Lottery - Net Revenue Distribution



Sportsbook

Sportsbook revenue increased 46.5% for fiscal 2022 compared to fiscal 2021. Total sportsbook revenues through June 30, 2022, totaled \$517.2 million of which \$290.5 million was from online/mobile wagers. Gross profit transferred to the State General Fund from sportsbook, after deducting payouts, commissions and marketing expenses was \$19.9 million. As previously discussed, fiscal 2022 casino operations rebounded significantly over fiscal 2021 which experienced significant limitations due to the public health emergency. In addition to improved “on-premises” sportsbook wagering, mobile sportsbook continued to gain in popularity increasing by \$105.9 million or 57.4% over fiscal 2021.

Sportsbook

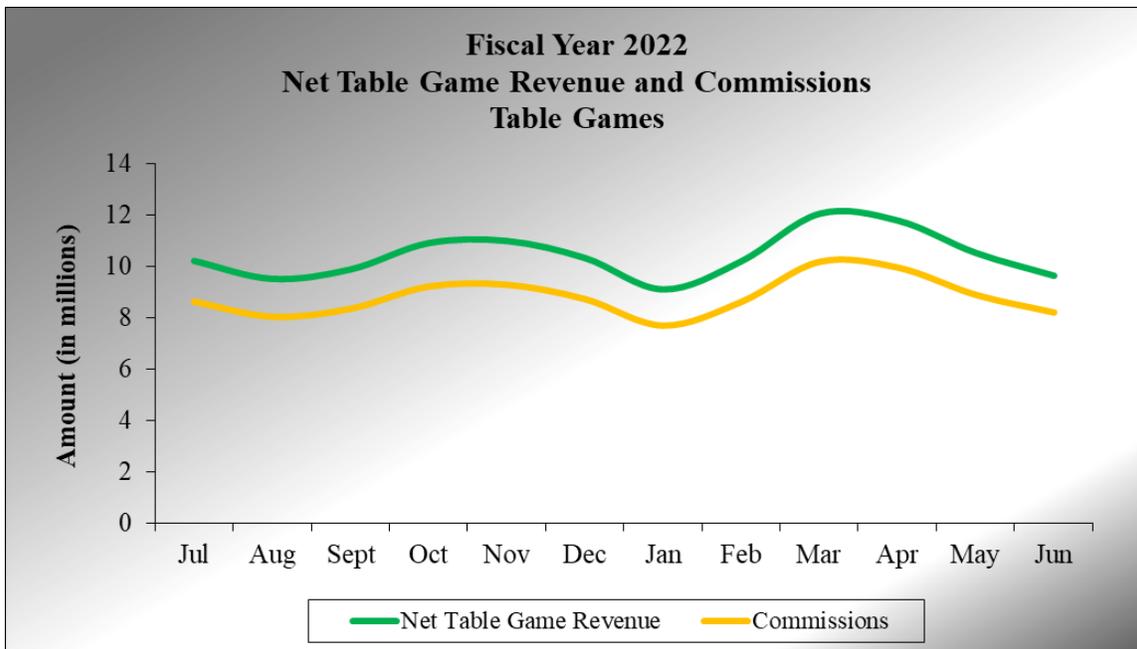
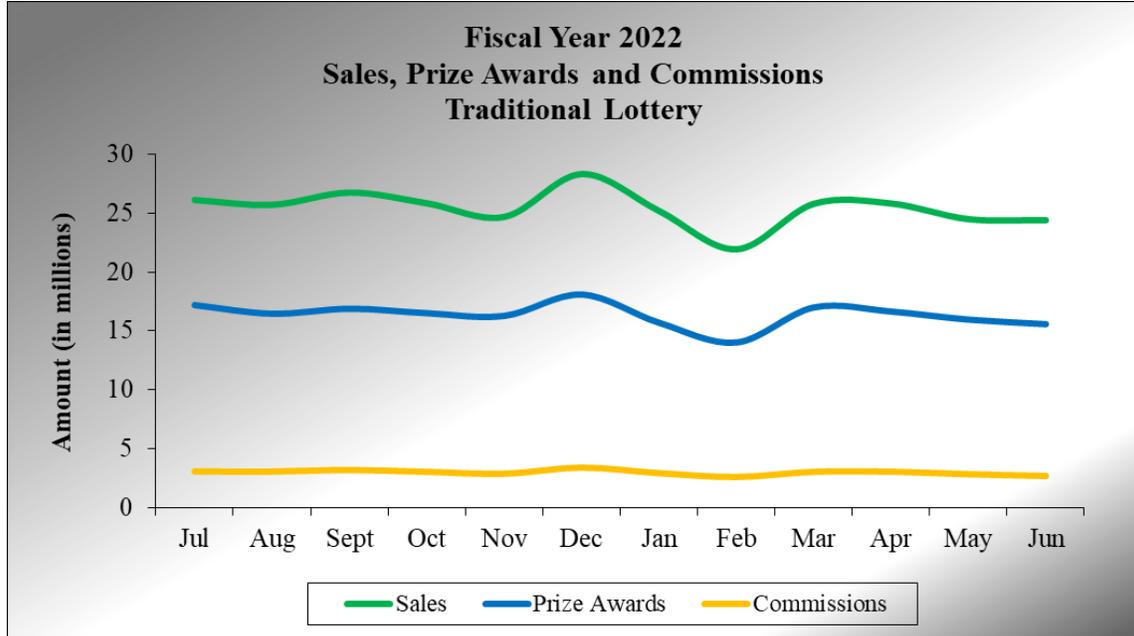


RHODE ISLAND LOTTERY

Management's Discussion and Analysis

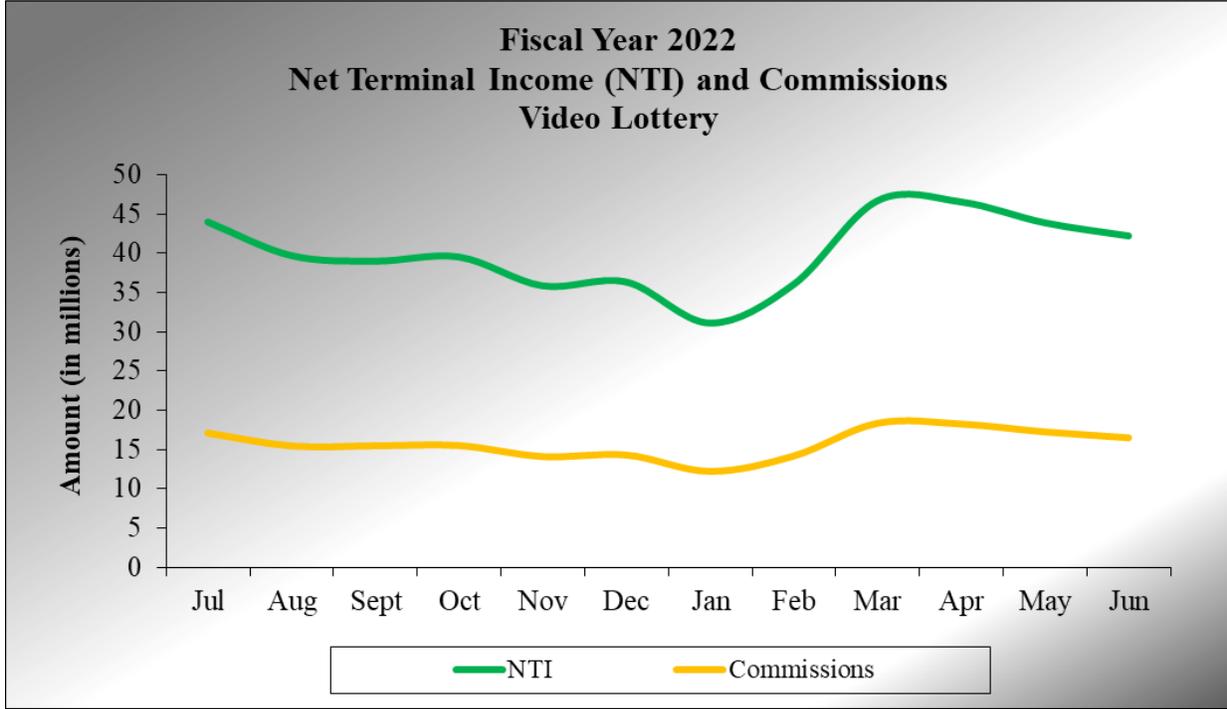
Commissions and Prize Awards Expense

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

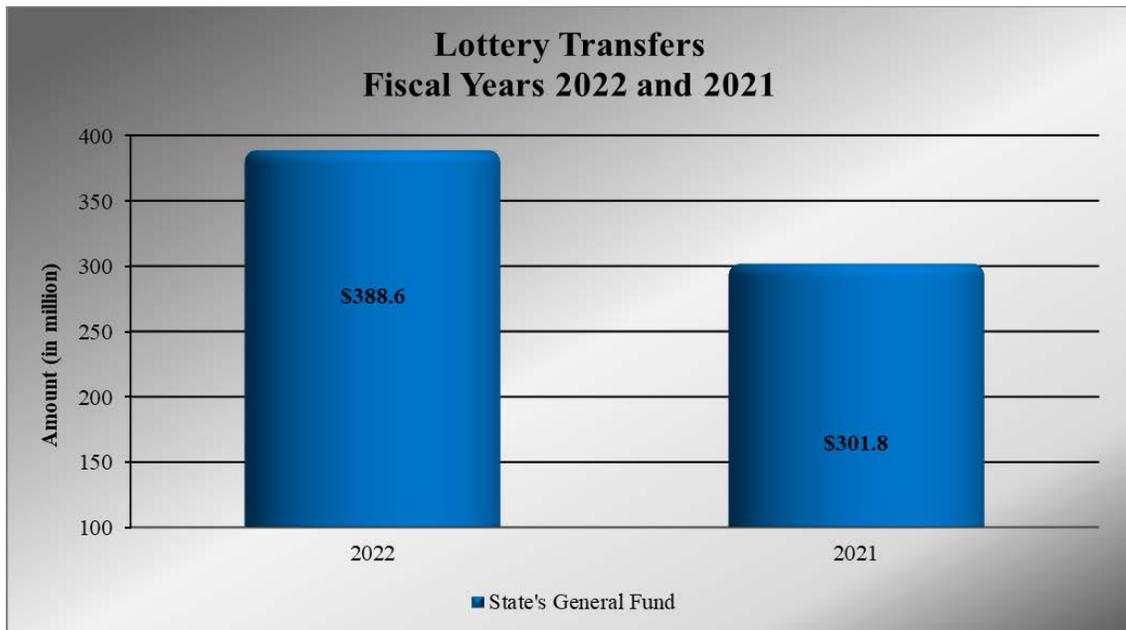


RHODE ISLAND LOTTERY

Management's Discussion and Analysis

Lottery Transfers

Net income transferred by the Lottery for the fiscal years 2022 and 2021 was \$388.6 million and \$301.8 million, respectively. All fiscal 2022 transfers were made by the Lottery directly to the State's General Fund, as required by the General Laws. The Lottery's 2022 Transfer to the General Fund, while substantially increased, remained below the 2019 pre-pandemic transfer amount of \$397.3 million.



Debt Administration

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

The Lucky for Life[®] game offers top and second prize winners an annuity or cash option payment. If 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.

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

Potential Factors Impacting Future Operations

The Lottery generates revenue to maximize payments to the State's General Fund, and, accordingly, a continuous assessment of the State's financial environment and the Lottery's own product lines and operations is 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:

- In June 2021, the Rhode Island General Assembly enacted legislation authorizing the Lottery to extend contracts for services and products with IGT Global Solutions Corporation (IGT). The contract amendment was executed in February 2022 and extended the IGT master contract to June 30, 2043, including agreements related to online gaming, the video lottery central computer system, the video lottery technology provider license, instant tickets and related vending machine agreement, and the website services agreement. This extension includes various provisions that will impact the future operations of the Lottery, including:
 - IGT is to pay \$27 million (up-front payment) to be the exclusive provider to the Division of its products and services under the contract (excluding online sports wagering as provided by the First amendment to the Sports Betting Agreement dated July 5, 2019). The up-front payment is payable in two installments of \$13.5 million by June 30, 2023, and \$13.5 million by June 30, 2024. These payments will be recognized as contract revenue over the term of the extended contract.
 - Increased online and instant ticket lottery commission rates of compensation; specifically, IGT will receive a commission of 4% (1% in fiscal 2021) on combined sales of online and instant ticket games in excess of \$275 million.
 - Obligates IGT for continued technology investments over the long-term agreement to ensure that the Lottery can offer the latest products to its patrons in the continually evolving gaming market. Replacement of the Lottery's on-line gaming system (including instant tickets) and expanded iLottery games are expected in the near term.
- The State Lottery Division also executed master contract amendments in February 2022 extending these agreements through June 30, 2043 with the affiliates of Bally's Corporation. This extension includes various provisions that will impact the future operations of the Lottery, including:
 - A mandated \$100 million investment by Bally's Corporation to expand the Lincoln casino, including a 40,000 square-foot addition plus a 10,000 square-foot spa adjacent to its current hotel location. Completion is scheduled for December 2022.
 - Consolidation of promotional points programs at the Bally's Twin River Lincoln Casino and the Tiverton Casino and Hotel and expanding the aggregate amount of allowable points up to 20% of the net terminal income (based on the prior year) plus \$1,500,000.
- The facilities face increasing competition from gaming expansion in Connecticut and Massachusetts. Both States have legalized sports wagering. Competition will increase in the near term as Connecticut has implemented sports wagering and Massachusetts is expected to begin its implementation in fiscal 2023. 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.

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

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, 2022

Assets

Current assets:

| | | |
|--|----|------------|
| Cash and cash equivalents (note 3) | \$ | 39,095,972 |
| Accounts receivable-less allowance for doubtful accounts of \$189,340 | | 5,365,680 |
| Lease receivable | | 88,732 |
| Ticket inventory | | 959,790 |
| Deposits with Multi-State Lottery Association (MUSL) (note 1) | | 45,479 |
| Due from State's General Fund - operating expenses (note 5) | | 3,948 |
| Other current assets | | 522,811 |
| Total current assets | | 46,082,412 |

Non-current assets:

| | | |
|------------------------------|--|-----------|
| Capital assets, net (note 4) | | 1,496,442 |
| Long-term lease receivable | | 2,763,909 |
| Total non-current assets | | 4,260,351 |

| | | |
|--------------|--|------------|
| Total assets | | 50,342,763 |
|--------------|--|------------|

Deferred outflows of resources

| | | |
|---|--|-----------|
| Deferred outflows of resources - pension (note 9) | | 4,111,770 |
| Deferred outflows of resources - OPEB (note 10) | | 1,130,415 |
| Total deferred outflows of resources | | 5,242,185 |

Liabilities

Current liabilities:

| | | |
|---|----|------------|
| Cash overdraft (note 3) | \$ | 9,101,723 |
| Due to State's General Fund - net income from operations (note 5) | | 3,307,843 |
| Accounts payable | | 12,366,857 |
| Obligation for unpaid prize awards | | 11,912,327 |
| Lease liability | | 300,459 |
| Accrued expenses | | 7,895,954 |
| Compensated absences (note 7) | | 294,330 |
| Advances for future drawings and events | | 1,056,438 |
| Unearned contract revenue (note 8) | | 625,000 |
| Total current liabilities | | 46,860,931 |

Non-current liabilities:

| | | |
|--------------------------------|--|------------|
| Compensated absences (note 7) | | 330,733 |
| Net pension liability (note 9) | | 16,557,874 |
| Net OPEB liability (note 10) | | 2,145,330 |
| Long-term lease liability | | 967,672 |
| Total non-current liabilities | | 20,001,609 |

| | | |
|-------------------|--|------------|
| Total liabilities | | 66,862,540 |
|-------------------|--|------------|

Deferred inflows of resources

| | | |
|--|--|-----------|
| Deferred inflows of resources - pension (note 9) | | 3,730,546 |
| Deferred inflows of resources - OPEB (note 10) | | 1,822,367 |
| Deferred inflows of resources - leases (note 12) | | 2,808,428 |
| Total deferred inflows of resources | | 8,361,341 |

Net position (deficit)

| | | |
|---|----|--------------|
| Net investment in capital assets (note 8) | | 228,311 |
| Unrestricted (deficit) (note 8) | | (19,867,244) |
| Total net position (deficit) | \$ | (19,638,933) |

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Statement of Revenue, Expenses and Changes in Net Position

Year Ended June 30, 2022

Operating revenue (schedule 1):

| | |
|--|----------------------|
| Games reported - gross revenue | |
| On-line games | \$ 165,025,676 |
| Instant games | 130,562,609 |
| iLottery | 9,498,777 |
| Sportsbook | 517,229,614 |
| Games reported - revenue net of related prize awards | |
| Video lottery (note 2) | 481,150,833 |
| Table games (note 2) | 125,047,864 |
| Other operating revenue | 570,896 |
| Total operating revenue | <u>1,429,086,269</u> |

Cost of gaming operations (schedule 1):

| | |
|--|----------------------|
| Prize awards expense (on-line, instant, and sports book) | 673,703,958 |
| Commissions (note 6) | 349,300,483 |
| Incentive programs, video lottery | 4,232,235 |
| Marketing/advertising expense | 2,972,708 |
| Cost of tickets | 1,004,530 |
| Transaction fees - online wagering | 933,667 |
| Unclaimed prize recovery | (4,777,863) |
| Total cost of gaming operations | <u>1,027,369,718</u> |
| Gross profit | <u>401,716,551</u> |

Operating expenses:

| | |
|---------------------------|--------------------|
| Salaries and benefits | 11,334,962 |
| Depreciation | 117,665 |
| Problem gambling expenses | 570,896 |
| Other | 1,160,914 |
| Total operating expenses | <u>13,184,437</u> |
| Operating income | <u>388,532,114</u> |

Non-operating income (expenses):

| | |
|-------------------------------|------------------|
| Investment income | 154,148 |
| Other income (expenses) - net | <u>1,182,117</u> |
| Income before transfers | 389,868,379 |

Transfer to State's General Fund (note 5)

| | |
|--------------------------|------------------|
| Increase in net position | <u>1,226,683</u> |
|--------------------------|------------------|

Total net position (deficit), beginning of year (20,865,616)

Total net position (deficit), end of year (note 8) \$ (19,638,933)

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Statement of Cash Flows

Year Ended June 30, 2022

| | |
|--|----------------------|
| Cash flows from operating activities: | |
| Receipts from lottery sales, online and instant games | \$ 295,196,266 |
| Receipts from iLottery sales | 9,483,693 |
| Receipts from video lottery operations (net of prizes) | 480,707,405 |
| Receipts from sportsbook | 517,025,424 |
| Receipts from table games (net of prizes) | 124,887,915 |
| Receipts from MUSL for grand prize winners | 5,823,089 |
| Receipts from problem gambling program | 418,952 |
| Other receipts | 670,949 |
| Payments for on-line and instant ticket prizes | (186,445,495) |
| Payments for iLottery prizes | (6,499,973) |
| Payments for sportsbook payouts | (475,996,947) |
| Payments for commissions - retailers | (13,852,851) |
| Payments for commissions - video lottery | (190,015,896) |
| Payments for commissions - sportsbook | (19,707,137) |
| Payments for monies held for sportsbook patrons | (921,581) |
| Payments for commissions - table games | (107,384,429) |
| Payments to MUSL grand prize winners | (5,823,089) |
| Payments for commissions - on-line games contractor | (22,139,205) |
| Payments to facilities - video lottery incentive program | (1,620,130) |
| Payments to suppliers for goods and services | (7,014,697) |
| Payments to employees for services | (11,844,063) |
| Net cash provided by operating activities | <u>384,948,200</u> |
| Cash flows from noncapital financing activities: | |
| Cash overdraft | 9,101,723 |
| Transfers to State's General Fund | <u>(388,692,039)</u> |
| Net cash used for noncapital financing activities | <u>(379,590,316)</u> |
| Cash flows from investing activities: | |
| Interest income | <u>154,148</u> |
| Net cash provided by investing activities | <u>154,148</u> |
| Net increase in cash and cash equivalents | 5,512,032 |
| Cash and cash equivalents at July 1, 2021 | <u>33,583,940</u> |
| Cash and cash equivalents at June 30, 2022 | <u>\$ 39,095,972</u> |

See accompanying notes to financial statements.

Continued.

RHODE ISLAND LOTTERY

Statement of Cash Flows (Continued)

Year Ended June 30, 2022

| | |
|--|----------------|
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 388,532,114 |
| Adjustments to reconcile operating income to net cash provided by (used for) operating activities: | |
| Depreciation | 117,665 |
| Miscellaneous receipts classified as operating activities | 30,374 |
| Rental income and other receipts | 526,743 |
| (Increase) decrease in assets and deferred outflows of resources: | |
| Accounts receivable | (548,326) |
| Due from State's General Fund - operating expenses | (3,369) |
| Lease receivable | (2,852,641) |
| Deposits with MUSL | (215) |
| Inventory | (46,669) |
| Prepaid expense | (20,000) |
| Deferred outflows of resources - pension | 1,607,760 |
| Deferred outflows of resources - OPEB | 179,187 |
| Increase (decrease) in liabilities and deferred inflows of resources: | |
| Accounts payable | (2,355,719) |
| Deposits held for sportsbook patrons | (921,581) |
| Obligation for unpaid prize awards | (914,221) |
| Accrued expenses and other | 1,869,494 |
| Net pension liability | (5,094,330) |
| Net OPEB liability | (1,274,263) |
| Advances for future drawings and events | (672,194) |
| Deferred inflows of resources - pension | 3,205,896 |
| Deferred inflows of resources - OPEB | 774,067 |
| Deferred inflows of resources - leases | 2,808,428 |
| Total adjustments | (3,583,914) |
| Net cash provided by operating activities | \$ 384,948,200 |

See accompanying notes to financial statements.

Supplemental disclosure of noncash financing activities:

| | |
|---|--------------|
| Acquisition of right-to-use-asset through lease | \$ 1,268,131 |
|---|--------------|

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

(1) Organization

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

The Lottery offers the following games to the public:

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

- i) Traditional in-state drawing games including Daily Numbers – Midday and Evening, Keno, Bingo, and Wild Money. The drawings for these games are administered by the Rhode Island Lottery and offer patrons set prize amounts or smaller progressive jackpots. Keno and Bingo are considered monitor games where drawings are held every 4 and 8 minutes, respectively, on “monitors” in sales locations across the State.
- ii) Multi-state games, which include Powerball® 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, 2022

(1) *Organization* - (Continued)

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

At June 30, 2022, the prize reserve funds for the PowerBall® game reported a balance of \$81.4 million of which the Lottery's share was \$.7 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 \$45,479 at June 30, 2022 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.

At June 30, 2022, the prize reserve account for the Mega Millions® game reported a balance of \$88.6 million of which the Lottery's share was \$.7 million. The Lottery records amounts, which are placed into the prize reserve funds, as prize awards expense when the related sales occur.

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

(1) Organization - (Continued)

iii) Lucky for Life[®], which is offered in twenty-three states and the District of Columbia, operates under an agreement between the six New England states (“New England Lotteries”) and twenty other participating lotteries (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.

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 fourteen top prize winners, the top prize liability is capped at \$7,125,000 and shall be split equally among all top prize winners and paid in one lump sum cash payment, without an annuitized option. The minimum prize value for this category shall not be less than any lower tier prize paid in that respective drawing.

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

(1) Organization - (Continued)

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 set forth as published to each second prize winner exercising the cash option.

If more than 20 second prize winners, the second prize liability shall be capped at \$9,400,000 and shall be split equally among all second prize winners and paid in one lump sum cash payment, without an annuitized option. The minimum prize value for this category shall be not less than any lower tier prize paid in that respective drawing.

- (B) Instant (or scratch) ticket offerings sold through licensed lottery retailers include a wide array of themed games, card games, crosswords, and others, 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 create an eWallet account to fund their player accounts and play iLottery offerings within geographical boundaries of the State of Rhode Island.
- (D) Video lottery games is generally operated through 5,067 video lottery terminals (VLTs) at two licensed facilities, Bally's Twin River Lincoln Casino Resort and Bally's Tiverton Casino & Hotel. Video lottery offers various virtual and multi-layer display games, hosting a wide array of card and theme games to the public.
- (E) Table games are operated at Bally's Twin River Lincoln Casino Resort and Bally's 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 Bally's Twin River Lincoln Casino Resort, Bally's Tiverton Casino & Hotel, and the Towns of Lincoln and Tiverton with the balance remitted to the General Fund.
- (F) Sportsbook wagering is offered at on-premise retail sportsbooks located at both Bally's Twin River Lincoln Casino Resort and at the Bally's Tiverton Casino & Hotel, and via mobile and online 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 the Twin River gaming facility and Twin River-Tiverton gaming facility. The State, through the Division of Lottery, has full operational control, as defined by the statute.

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

(1) Organization - (Continued)

- (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. |

(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 Annual Comprehensive Financial Report (ACFR). The accompanying financial statements are not intended to present the financial position and results of operations of the State.

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

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

(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.
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 2022 and reported video lottery net revenue are detailed in the following schedule:

| Schedule of Video Lottery Net Revenue For the Fiscal Year Ended June 30, 2022 | |
|--|------------------------------|
| Video Terminal Cash-In (Gross Terminal Inputs): | |
| Cash collected from video lottery terminals | \$ 1,590,489,711 |
| Plus: Credit vouchers redeemed for play in video lottery terminals | <u>2,462,499,037</u> |
| Total cash in reported by video lottery terminals | 4,052,988,748 |
| Less: | |
| Video Terminal Cash-out (Gross Terminal Outputs): | |
| Video lottery credit vouchers (redemptions) issued by video lottery terminals | <u>3,571,837,915</u> |
| Total cash-out amounts reported by video lottery terminals | <u>3,571,837,915</u> |
| Video lottery revenue, net | <u><u>\$ 481,150,833</u></u> |

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

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

5. Table games, with the exception of poker, are reported on a net table game (win) basis from the Bally's Twin River Lincoln Casino Resort and Bally's 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 Bally's Twin River Lincoln Casino Resort 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. Poker was not offered during fiscal 2022 or 2021.
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 (Bally's Twin River Lincoln Casino Resort and Bally's 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 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.

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

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

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.

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

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

(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*, 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 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) *Deposits held for Sportsbook patrons*

During fiscal year 2021, amounts funded by sportsbook patrons to their eWallet accounts which have not yet been wagered (online) were held by the Lottery and reflected as a current liability on the balance sheet. In fiscal year 2022, eWallets related to sportsbook patrons were held in custody by Bally's Twin River Lincoln Casino Resort.

(j) *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.

(k) *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.

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

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

(l) *Compulsive and Problem Gambling Program*

Pursuant to RIGL section 42-61.2-14, the Lottery is required to establish a program for compulsive and problem gamblers in conjunction with the casinos to include awareness, player self-exclusion, and promotion of a problem gambling hotline. The program is funded through aggregate reimbursements made by the casinos totaling not less than \$200,000 annually. The Lottery recognized program expenses totaling \$570,896 and related operating income in reimbursement from the gaming facility providers for fiscal year 2022. At June 30, 2022, a receivable from the gaming facility providers was recognized in the amount of \$492,811.

(m) *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.

(n) *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.

(o) *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.

(p) *New Accounting Pronouncements*

During fiscal year 2022, the Lottery implemented Governmental Accounting Standards Board (GASB) GASB Statement No. 87, *Leases*. This standard requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Lottery has adopted the requirements of the guidance effective July 1, 2021 and has applied the provisions of this standard to the beginning of the period of adoption. In applying this new standard, the Lottery considered total lease payments or receipts of \$100,000 or greater over the lease term.

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

(3) Deposits and Investment Risk

(a) *Deposits*

The Lottery's cash deposit balances at June 30, 2022 totaled \$8,614,847, with corresponding bank balances totaling \$8,650,392. The bank balances consisted of \$8,650,392 in collateralized deposit investment accounts. An additional demand deposit account was in a temporary overdraft position totaling \$9,101,723 due to the timing of liquidation instructions for certain short-term investments.

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, 2022 pursuant to Chapter 35-10.1 of the General Laws. However, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the uninsured deposit amounts. Of the total bank deposit balance totaling \$8,650,392 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, 2022, the Lottery had a single investment consisting of \$30,481,125 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The Lottery's OSIP investment represented 2.4% of the total OSIP Pool Trust at June 30, 2022. 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.

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

(3) Deposits and Investment Risk – (Continued)

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.

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 | \$ 8,614,847 |
| Investments classified as cash equivalents | <u>30,481,125</u> |
| Cash and cash equivalents | <u>\$ 39,095,972</u> |

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

(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, 2021 | 2022 Additions | 2022 Disposals | Balance at June 30, 2022 |
|--|--------------------------|-----------------------------|---------------------|---------------------|-----------------------------|
| <u>Cost</u> | | | | | |
| Building | 50 | \$ 1,437,912 | | | \$ 1,437,912 |
| Building improvements | 20 | 1,924,594 | | | 1,924,594 |
| Ticket production equipment | 5 | 8,105 | | | 8,105 |
| Office equipment | 5 | 31,555 | | | 31,555 |
| Furniture and fixtures | 5 | 108,691 | | (62,009) | 46,682 |
| Lottery drawing equipment | 5 | 276,315 | | (44,441) | 231,874 |
| Automobiles | 5 | 475,020 | | (78,166) | 396,854 |
| Computer equipment | 5 | 146,598 | | (48,045) | 98,553 |
| Right-to-use asset-lease | 4 | - | 1,268,131 | - | 1,268,131 |
| Total | | <u>\$ 4,408,790</u> | <u>\$ 1,268,131</u> | <u>\$ (232,661)</u> | <u>\$ 5,444,260</u> |
| <u>Less: Accumulated Depreciation and Amortization</u> | | | | | |
| Building | | \$ 1,437,912 | | | \$ 1,437,912 |
| Building improvements | | 1,878,636 | 6,815 | | 1,885,451 |
| Ticket production equipment | | 8,105 | | | 8,105 |
| Office equipment | | 18,293 | 5,424 | | 23,717 |
| Furniture and fixtures | | 105,369 | 3,322 | (62,009) | 46,682 |
| Lottery drawing equipment | | 113,862 | 46,324 | (44,441) | 115,745 |
| Automobiles | | 389,628 | 41,987 | (78,166) | 353,449 |
| Computer equipment | | 111,009 | 13,793 | (48,045) | 76,757 |
| Right-to-use asset-lease | | - | - | - | - |
| Total | | <u>\$ 4,062,814</u> | <u>\$ 117,665</u> | <u>\$ (232,661)</u> | <u>\$ 3,947,818</u> |
| Capital assets, net | | <u>\$ 345,976</u> | <u>\$ 1,150,466</u> | <u>\$ -</u> | <u>\$ 1,496,442</u> |

(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 2022 are reported as follows in the Lottery's financial statements:

| | |
|--|---------------------|
| Due to State's General Fund, beginning of year | \$ 3,358,186 |
| Transfers to State's General Fund | 388,641,696 |
| Cash paid during fiscal year | (388,692,039) |
| Due to State's General Fund, end of year | <u>\$ 3,307,843</u> |

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

(5) *Transfers to the State (Continued)*

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 | \$ 389,868,379 |
| Add: Pension expense in accordance with GASB Statement No. 68 | 1,785,612 |
| Less: Pension contributions made subsequent to measurement date | (2,066,286) |
| Add: OPEB expense in accordance with GASB Statement No. 75 | 68,979 |
| Less: OPEB contributions made subsequent to measurement date | (389,988) |
| Less: Contract revenue recognized in 2022 transferred to the General Fund in prior period | (625,000) |
| Transfers to State's General Fund | <u>\$ 388,641,696</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, amounts owed from the General Fund at year-end for operating expenses totaled \$3,948.

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

(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 Bally's Twin River Lincoln Casino Resort and Bally's 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 \$625,063 as of June 30, 2022 and is recorded as a liability in the Statement of Net Position. The current portion of \$294,330, as reported, was estimated based on a four-year average of employee utilization.

Changes in the reported liability for compensated absences for fiscal 2022 are as follows:

| | Balance at July 1, 2021 | Increase | Decrease | Balance at June 30, 2022 |
|--|----------------------------|-----------|-----------|-----------------------------|
| Liability for Compensated Absences | \$604,985 | \$531,231 | \$511,153 | \$625,063 |

(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, 2022 of \$625,000. 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, 2022.

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

(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, 2022 was \$16,557,874, which constitutes a significant portion of the unrestricted deficit reported on the Statement of Net Position at June 30, 2022. 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, 2022 was \$2,145,330, which constitutes a portion of the unrestricted deficit reported on the Statement of Net Position at June 30, 2022. 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, 2022 also includes its net investment in capital assets. The Lottery’s net investment in capital assets is inclusive of right-to-use-assets from leases net of the related lease liability.

(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, 2022

(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 2022, 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 28.01% of annual covered payroll for the fiscal year ended June 30, 2022. The Lottery contributed \$2,066,286, \$1,899,851 and \$1,899,769 for the fiscal years ended June 30, 2022, 2021 and 2020, 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, 2022, the Lottery reported a liability of \$16,557,874 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, 2021, 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, 2020, rolled forward to the June 30, 2021 measurement date. The Lottery's proportion of the net pension liability was based on its share of contributions to the ERS for fiscal year 2021 relative to the total contributions of all participating employers for that fiscal year. At the June 30, 2021 measurement date, the Lottery's proportion was 0.93097814%.

For the year ended June 30, 2022, the Lottery recognized pension expense of \$1,785,612. At June 30, 2022, 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, 2022

(9) Retirement Plans - (Continued)

Deferred Outflows of Resources

| | |
|---|-----------------------------------|
| Changes in assumptions | \$ 76,314 |
| Difference between expected and actual experience | 114,638 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 1,854,532 |
| Contributions subsequent to measurement date | <u>2,066,286</u> |
| Total Deferred Outflows of Resources | \$ <u><u>4,111,770</u></u> |

Deferred Inflows of Resources

| | |
|---|-----------------------------------|
| Difference between expected and actual experience | \$ 12,432 |
| Changes in assumptions | 316,596 |
| Net difference between projected and actual investment earnings | 3,012,314 |
| Changes in proportion and differences between employer | <u>389,204</u> |
| Total Deferred Inflows of Resources | \$ <u><u>3,730,546</u></u> |

Contributions of \$2,066,286 are reported as deferred outflows of resources related to pensions resulting from the Lottery's contributions in fiscal year 2022 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> |
|----------------------------|--|
| 2023 | \$ 35,577 |
| 2024 | (58,004) |
| 2025 | (693,576) |
| 2026 | (955,087) |
| 2027 | (13,972) |
| Thereafter | <u>-</u> |
| | \$ <u><u>(1,685,062)</u></u> |

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

(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 Method |
| Amortization Method | Level Percent of Payroll - Closed |
| Inflation | 2.50% |
| Salary Increases | 3.25% to 6.25% |
| Investment Rate of Return | 7.00% |

Mortality – Variants of the PUB (10) Tables for Healthy and Disabled Retirees,
projected with Scale Ultimate MP16.

The actuarial assumptions used in the June 30, 2020 valuation rolled forward to June 30, 2021 and the calculation of the total pension liability at June 30, 2021 were consistent with the results of an actuarial experience investigation study performed as of June 30, 2019.

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 39 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, 2021 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, 2022

(9) Retirement Plans - (Continued)

| Asset Class | Long-Term Target Asset Allocation | Long-Term Expected Arithmetic Real Rate of Return |
|--------------------------------|--|---|
| GROWTH | | |
| Global Equity | | |
| US Equity | 23.20% | 5.83% |
| International Developed Equity | 11.80% | 6.35% |
| Emerging Markets Equity | 5.00% | 8.04% |
| Sub-total | 40.00% | |
| Private Growth | | |
| Private Equity | 11.25% | 9.47% |
| Non-Core Real Estate | 2.25% | 5.32% |
| Opportunistic Private Credit | 1.50% | 9.47% |
| Sub-total | 15.00% | |
| INCOME | | |
| High Yield Infrastructure | 1.00% | 3.19% |
| REITS | 1.00% | 5.32% |
| Equity Options | 2.00% | 5.59% |
| EMD (50/50 Blend) | 2.00% | 1.96% |
| Liquid Credit | 2.80% | 3.19% |
| Private Credit | 3.20% | 3.19% |
| Sub-total | 12.00% | |
| STABILITY | | |
| Crisis Protection Class | | |
| Treasury Duration | 5.00% | -0.32% |
| Systematic Trend | 5.00% | 3.39% |
| Sub-total | 10.00% | |
| Inflation Protection | | |
| Core Real Estate | 3.60% | 5.32% |
| Private Infrastructure | 2.40% | 5.81% |
| TIPs | 2.00% | 0.30% |
| Sub-total | 8.00% | |
| Volatility Protection | | |
| IG Corp Credit | 3.25% | 1.14% |
| Securitized Credit | 3.25% | 1.14% |
| Absolute Return | 6.50% | 3.39% |
| Cash | 2.00% | -0.32% |
| Sub-total | 15.00% | |
| Total | 100.00% | |

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.

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

(9) *Retirement Plans* - (Continued)

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.

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

| Net Pension Liability | | |
|------------------------------------|------------------------------------|------------------------------------|
| 1% Decrease | | 1% Increase |
| <u>(6.0% Discount Rate)</u> | <u>(7.0% Discount Rate)</u> | <u>(8.0% Discount Rate)</u> |
| \$ 20,530,250 | \$ 16,557,874 | \$ 11,488,167 |

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

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

(9) Retirement Plans - (Continued)

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

The Lottery contributed and recognized as pension expense \$75,030 for the fiscal year ended June 30, 2022, equal to 100% of the required contributions for the fiscal year.

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

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

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

(10) Postemployment Healthcare

Plan 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>.

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

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

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.

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 5.28% of annual covered payroll for the fiscal year ended June 30, 2022. The Lottery contributed \$389,988, \$379,430 and \$477,641 for the fiscal years ended June 30, 2022, 2021 and 2020, 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, 2022, the Lottery reported a liability of \$2,145,330 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, 2021, 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, 2020 rolled forward to the June 30, 2021 measurement date. The Lottery's proportion of the net OPEB liability was based on its share of contributions to the System for fiscal year 2021 relative to the total contributions of all participating employers for that fiscal year. At the June 30, 2021 measurement date, the Lottery's proportion was 0.92487715%.

For the year ended June 30, 2022, the Lottery recognized OPEB expense of \$68,979. At June 30, 2022, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

(10) Postemployment Healthcare Plan- (Continued)

Deferred Outflows of Resources

| | |
|---|-----------------------------------|
| Changes in assumptions | \$ 107,145 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 633,282 |
| Contributions subsequent to measurement date | <u>389,988</u> |
| Total Deferred Outflows of Resources | <u><u>\$ 1,130,415</u></u> |

Deferred Inflows of Resources

| | |
|---|-----------------------------------|
| Difference between expected and actual experience | \$ 807,585 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 88,928 |
| Changes in assumptions | 421,501 |
| Net difference between projected and actual investment earnings | <u>504,353</u> |
| Total Deferred Inflows of Resources | <u><u>\$ 1,822,367</u></u> |

Contributions of \$389,988 are reported as deferred outflows of resources related to OPEB expense resulting from the Lottery's contributions in fiscal year 2022 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> |
|----------------------------|--|
| 2023 | \$ (219,763) |
| 2024 | (209,029) |
| 2025 | (196,076) |
| 2026 | (189,593) |
| 2027 | (117,672) |
| Thereafter | <u>(149,805)</u> |
| | <u><u>\$ (1,081,938)</u></u> |

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

(10) Postemployment Healthcare Plan- (Continued)

Actuarial Methods and Assumptions

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

| | |
|-----------------------------|--|
| Actuarial Cost Method | Entry Age Actuarial Cost Method |
| Amortization Method | Level Percent of Payroll - Closed |
| Inflation | 2.75% |
| Salary Increases | 3.25% to 6.25% |
| Investment Rate of Return | 5.00% |
| Health Care Cost Trend Rate | 7.5% in fiscal 2021 decreasing annually to 3.5% in fiscal year 2033 and later |

Mortality rates for male plan members were based on the PUB-10 Median Table for General Healthy Retiree Males, loaded by 115%, projected with Scale Ultimate MP16. Mortality rates for female plan members were based on the PUB-10 Median Table for General Healthy Retiree Females, loaded by 111%, projected with Scale Ultimate MP16.

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 39 nationally recognized investment consulting firms. The June 30, 2021 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Asset Allocation</u> | <u>Long-Term Expected Arithmetic Real Rate of Return</u> |
|--------------------|--|--|
| Domestic Equity | 65% | 5.72% |
| Fixed Income | 35% | 1.73% |

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

(10) Postemployment Healthcare Plan- (Continued)

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 | | |
|----------------------------------|-----------------------------|-----------------------------|
| Discount Rate Sensitivity | | |
| 1% Decrease | | 1% Increase |
| (4.0% Discount Rate) | (5.0% Discount Rate) | (6.0% Discount Rate) |
| \$ 2,856,507 | \$ 2,145,330 | \$ 1,551,151 |

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 7.5 percent 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 |
| \$ 1,355,255 | \$ 2,145,330 | \$ 3,135,210 |

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.

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

(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 Annual Comprehensive Financial Report (ACFR).

(12) Leases

The Lottery leases outdoor advertising structures for display of advertising copy at certain locations throughout the state of Rhode Island under a long-term, non-cancelable lease agreement. The lease commenced on June 17, 2022 and expires on June 30, 2026. The lease requires monthly payments, and the first annual payment is approximately \$330,000 with annual incremental increases. The lease does not require the Lottery to guarantee any residual values. At June 30, 2022, the Lottery recorded a right to use asset in the amount of \$1,268,131, and conversely a lease liability in the amount of \$1,268,131. There was no amortization expense incurred regarding this lease for fiscal year 2022. The Lottery did not recognize any variable lease payments regarding this lease during the year.

Total future minimum lease payments are as follows:

| <u>Year ended June 30:</u> | <u>Principal Payments</u> | <u>Interest Payments</u> | <u>Total</u> |
|--------------------------------|-------------------------------|------------------------------|---------------------|
| 2023 | \$ 300,459 | \$ 38,001 | \$ 338,460 |
| 2024 | 306,708 | 27,564 | 334,272 |
| 2025 | 323,715 | 16,713 | 340,428 |
| 2026 | 337,249 | 5,265 | 342,514 |
| | <u>\$ 1,268,131</u> | <u>\$ 87,543</u> | <u>\$ 1,355,674</u> |

See Note 4 for details of the right-to-use assets acquired through leases.

The Lottery, acting as lessor, leases office space at 1425 Pontiac Avenue, Cranston, RI under a long-term, non-cancelable lease agreement. The lease is for five (5) years, commencing on October 19, 2021 and expires on October 31, 2026, and by mutual agreement may be extended for two (2) five years periods, and one (1) additional four (4) year renewal period. The annual lease payment for the first year is approximately \$160,000 per year and is subject to a 2.5% increase per annum, including during the renewal period. During the year ended June 30, 2022, the Lottery recognized \$102,125 in lease revenue, and \$48,823 in lease interest revenue, pursuant to this agreement.

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

(12) Leases- (Continued)

Total future minimum lease payments are as follows:

| <u>Year ended June 30:</u> | <u>Total</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------------------|---------------------|---------------------|-------------------|
| 2023 | \$ 160,102 | \$ 88,732 | \$ 71,370 |
| 2024 | 162,771 | 93,716 | 69,055 |
| 2025 | 166,840 | 100,259 | 66,581 |
| 2026 | 171,011 | 107,075 | 63,936 |
| 2027 | 175,286 | 114,172 | 61,114 |
| Thereafter | <u>2,791,427</u> | <u>2,348,687</u> | <u>442,740</u> |
| | <u>\$ 3,627,437</u> | <u>\$ 2,852,641</u> | <u>\$ 774,796</u> |

There are no residual value guarantees, termination penalties or variable payments in the lease agreement.

(13) Commitments

As a result of the June 2021 enactment of the Marc A. Crisafulli Economic Development Act (Crisafulli Act), the State Lottery Division of the Department of Revenue (the Division) executed the Eighth Amendments to the Master Contracts with IGT Global Solutions (IGT) and the Rhode Island Affiliates of Bally’s Corporation (Bally’s) – Bally’s Twin River Casino Resort and Bally’s Tiverton Casino & Hotel during fiscal 2022.

(a) Gaming Systems Provider – IGT Global Solutions (IGT)

Effective February 17, 2022, the Division entered into a contract amendment with IGT, extending the term of the Master Contract through June 30, 2043. In consideration for being the exclusive gaming system provider, except for online sports betting, IGT will pay to the Division \$27 million in two annual installments of \$13.5 million by June 30, 2023 and June 30, 2024.

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

| Commission Percentages | |
|---|------------------------|
| On-Line and Instant Tickets | |
| <u>Total Lottery Sales in the Year</u> | <u>Percent Thereof</u> |
| \$0 - \$275 Million | 5.00% |
| Over \$275 Million - \$400 Million | 4.00% |
| Over \$400 Million | 5.00% |
| Video Lottery Central System | |
| <u>Total Net Terminal Income for the Year</u> | <u>Percent Thereof</u> |
| \$0 - \$500 Million | 2.50% |
| Over \$500 Million - \$1 Billion | 1.00% |
| Over \$1 Billion | 2.50% |

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

(13) *Commitments*- (Continued)

(b) Video Lottery Terminal Provider - IGT Global Solutions Corporation (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 Division.

Pursuant to the Crisafulli Act, IGT will execute an Assignment and Assumption Agreement to transfer its Video Lottery Terminal Technology Provider License Agreement to the VLT Joint Venture. The VLT Joint Venture will be effective January 1, 2023 through June 30, 2043. The VLT Joint Venture will be owned by IGT and or Affiliates of IGT and Bally's or Affiliates of Bally's but controlled by IGT or an Affiliate of IGT. The VLT Joint Venture will be the exclusive Technology Provider of VLTs, and shall be regulated by the Division as a Technology Provider.

(c) Sportsbook – IGT Global Solutions Corporation (IGT)

In August 2018, the Division executed a Sports Betting Agreement with IGT to provide a proprietary sports betting solution for all sports betting at the Bally's Twin River Lincoln Casino Resort and the Bally's Tiverton Casino & Hotel facilities. The initial term of the agreement is five years from launch date (November 26, 2018), and upon mutual agreement of the parties, there are two successive five-year renewal options. IGT's revenue share is allocated in accordance with R.I. Gen. Laws § 42-61.2-5. 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 Division executed the first amendment to the Sports Betting Agreement, as amended, authorizing IGT to supply the equipment, software, and services for online sports wagering. This is in accordance with authorized online sports wagering legislation enacted in June 2019. Effective April 30, 2021, the Division is responsible for two-thirds (2/3) payment of all transaction processing fees.

(d) Licensed Gaming Facilities (Bally's Twin River Casino Resort and Bally's Tiverton Casino and Hotel)

Each licensed facility operates under a Master Contract with the Division. Effective February 17, 2022, the Division entered into contract amendments with Bally's Affiliate UTGR, Inc. and Bally's Affiliate Twin River-Tiverton, LLC extending the respective terms through June 30, 2043. The contracts entitle the owners to compensation ranging from 26% to 28.85% of video lottery net terminal income at the respective facility.

Effective July 1, 2021 through December 31, 2022, pursuant to the Crisafulli Act, UTGR, Inc. became a technology provider of video lottery terminals and receives a compensation equal to 7% of the net terminal income in accordance with the provisions of R.I Gen. Laws § 42-61.2-7, as may be amended from time to time. Effective January 1, 2023, Bally's or Affiliates of Bally's will be part of a VLT Joint Venture with IGT to be the exclusive technology provider of video lottery terminals through June 30, 2043.

The Master Contracts reflect the statutory authorization of a consolidated promotional points program at the licensed gaming facilities. For fiscal year 2022, allowable promotional points are 20% of prior year net terminal income plus \$1,500,000. In fiscal 2022, the combined promotional points authorized and issued were approximately \$100.1 million to facility patrons.

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

(13) Commitments- (Continued)

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

| <u>Marketing Expense Level</u> | <u>Lottery Reimbursement Percentage</u> |
|--|---|
| Bally's Twin River Lincoln Casino Resort: | |
| \$1 up to \$4,000,000 | 60.67% |
| \$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 |
| Bally's Tiverton Casino & Hotel: | |
| \$1 up to \$560,000 | 59.87% |
| \$560,001 up to \$1,400,000 | State Share of NTI |

The Division is required to reimburse the gaming facilities for allowable marketing expenses incurred at the same percentage as the Division's share of net terminal income for the fiscal year 2022 (60.67% for Bally's Twin River Lincoln Casino Resort and 59.87% for Bally's Tiverton Casino & Hotel). For fiscal year 2022, the Division accrued \$3,640,200 and \$502,908 in reimbursable marketing expenses for Bally's Twin River Lincoln Casino Resort and Bally's Tiverton Casino & Hotel, respectively.

Table games are operated at the Bally's Twin River Lincoln Casino Resort and Bally's Tiverton Casino & Hotel. Commissions for both casino facilities and the respective host community were 83.5% and 1%. In June 2022, legislation was enacted, requiring a guaranteed minimum \$3 million payment to be made to the Towns of Lincoln and Tiverton, RI from net table games revenue and video lottery net terminal income, with any shortfall coming from the State's share of table games net revenue and video lottery net terminal income. In fiscal year 2022, there was a shortfall to the Town of Tiverton, RI, therefore the State was required to make a payment of \$1,140,067 to bring the minimum required payment up to \$3 million. Effective July 1, 2021, the annual flat commissions paid to the Towns of Lincoln and Tiverton increased to \$200,000/per town.

In November 2018, the Division also entered into a Sports Wagering Hosting Agreement, as amended, with UTGR, Inc and Twin-River Tiverton, LLC to host in-person and on-line sports wagering. 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.

(14) Contingencies

- (a) The Division's master contracts with its video lottery facilities contain revenue protection provisions in the event that existing video lottery facilities incur revenue losses caused by new gaming ventures within the State.
- (b) The facilities face increasing competition from surrounding casinos including planned gaming expansion in Connecticut and Massachusetts. In May 2021, Connecticut legalized sports wagering and online gambling, greatly expanding gambling to tablets, phones and laptops. The law also authorizes the Connecticut Lottery Corporation to operate 15 sports betting locations across the state. Connecticut sports betting opened its first retail sportsbook in September 2021, followed by online sports betting sites and betting apps in October 2021. Sports betting in Connecticut is tied closely with the traditional

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

(14) Contingencies (Continued)

tribal gaming casinos. In August 2022, the Massachusetts Sports Wagering Act was signed into law. As of early September 2022, there is no definite launch date. Additionally, Massachusetts lawmakers have considered additional slot machines and adding table games at Plainridge Park Casino, in Plainville, MA, to date this has not occurred. The Division 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.

- (c) The Narragansett Indian Tribe filed a complaint against the State of Rhode Island in 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 gaming facilities remains pending in the Superior Court.

- (d) A plaintiff filed suit against the Division and Department of Revenue 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 judgment 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.
- (e) In the event of default on an insurance annuity contract for a Rhode Island winner of the Lucky for Life® jackpot prize award, the Division may be contingently liable for any remaining prize amounts due the winner.
- (f) While the Division's operations experienced a significant rebound in fiscal 2022 over the prior year, effects of the Coronavirus Public Health Emergency and the possibility of future impacts to operations from the Public Health Emergency, while deemed less likely, remains.

(15) 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 2022, the Lottery maintained its amount of purchased insurance coverage. Claims and settlements incurred for fiscal years 2022, 2021 and 2019 have not exceeded the Lottery's insurance coverage.

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

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2022

(15) Risk Management (Continued)

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.

(16) Subsequent Events

Effective July 1, 2022, the General Laws were amended to require the amount of payments of prize awards to holders of winning lottery tickets shall not be less than forty-five percent (45%) nor more than seventy-one percent (71%) of the total revenue accruing from the sale of lottery tickets.

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, 2022 | June 30, 2021 | June 30, 2020 | June 30, 2019 | June 30, 2018 | June 30, 2017 | June 30, 2016 | June 30, 2015 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Component Unit's proportion of the net pension liability | 0.93097814% | 0.95210284% | 0.91995341% | 0.76161477% | 0.74815308% | 0.76619002% | 0.75882900% | 0.74724193% |
| Component Unit's proportionate share of the net pension | \$ 16,557,874 | \$ 21,652,204 | \$ 20,850,027 | \$ 17,142,457 | \$ 16,869,023 | \$ 16,260,567 | \$ 15,073,593 | \$ 13,315,141 |
| Component Unit's covered payroll (at measurement date) | \$ 6,898,515 | \$ 7,198,822 | \$ 6,612,770 | \$ 5,311,202 | \$ 5,185,935 | \$ 5,155,796 | \$ 5,070,849 | \$ 4,891,380 |
| Component Unit's proportionate share of the net pension a percentage of its covered payroll | 240.02% | 300.77% | 315.30% | 322.76% | 325.28% | 315.38% | 297.26% | 272.22% |
| Plan fiduciary net position as a percentage of the total pension liability | 63.2% | 52.6% | 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>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Statutorily determined contribution | \$ 2,066,286 | \$ 1,899,851 | \$ 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 | 2,066,286 | 1,899,851 | 1,899,769 | 1,737,836 | 1,320,896 | 1,314,116 | 1,219,209 | 1,183,029 |
| Contribution deficiency (excess) | <u>\$ -</u> |
| Lottery's covered payroll | 7,376,958 | 6,898,515 | \$ 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 | 28.01% | 27.54% | 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, 2022 | June 30, 2021 | June 30, 2020 | June 30, 2019 | June 30, 2018 |
|---|---------------|---------------|---------------|---------------|---------------|
| | June 30, 2021 | June 30, 2020 | June 30, 2019 | June 30, 2018 | June 30, 2017 |
| Lottery's proportion of the net OPEB liability | 0.92487715% | 0.94750704% | 0.91422568% | 0.76106927% | 0.74378532% |
| Lottery's proportionate share share of the net OPEB liability | \$ 2,145,330 | \$ 3,419,593 | \$ 3,990,381 | \$ 3,876,354 | \$ 3,863,547 |
| Lottery's covered payroll (at measurement date) | \$ 6,911,293 | \$ 7,182,571 | \$ 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 | 31.04% | 47.61% | 59.51% | 73.02% | 74.50% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 60.52% | 42.51% | 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>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|--------------|--------------|--------------|--------------|--------------|
| Statutorily determined contribution | \$ 389,988 | \$ 379,430 | \$ 477,641 | \$ 400,960 | \$ 317,442 |
| Contributions in relation to the statutorily determined contribution | \$ 389,988 | 379,430 | 477,641 | 400,960 | 317,442 |
| Contribution deficiency (excess) | <u>\$ -</u> |
| Lottery's covered payroll | \$ 7,386,136 | \$ 6,911,293 | \$ 7,182,571 | \$ 6,705,017 | \$ 5,308,395 |
| Contributions as a percentage of covered payroll | 5.28% | 5.49% | 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, 2022

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, 2021 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, 2021 measurement date compared to the June 30, 2020 measurement date.

June 30, 2020 measurement date:

As part of the 2020 Actuarial Experience Study for the six-year period ending June 30, 2019 as approved by the System Board on May 22, 2020, certain assumptions were modified and reflected in the determination of net pension liability (asset) at the June 30, 2020 measurement date. The following summarizes the more significant changes in assumptions:

- Updated the underlying mortality tables from the RP-2014 set of tables to the public sector-based PUB (10) tables.
- Increased slightly the probabilities of turnover.
- Decreased slightly the probabilities of retirement.
- Modified slightly the probabilities of disability, including adding material incidence of disability for members in the age ranges that historically have been eligible to retire but under prospective provisions are not.

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.

RHODE ISLAND LOTTERY
Notes to Required Supplementary Information
Year Ended June 30, 2022

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

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.

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.

RHODE ISLAND LOTTERY
Notes to Required Supplementary Information
Year Ended June 30, 2022

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

- 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 2022 for the plan was based on a valuation performed as of June 30, 2018.

RHODE ISLAND LOTTERY
Notes to Required Supplementary Information
Year Ended June 30, 2022

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, 2021 measurement date:

Assumption changes included updated rates of mortality, retirement, withdrawal, disability and salary increases consistent with the Employees’ Retirement System of Rhode Island, as applicable.

June 30, 2020 measurement date:

The “Cadillac tax”, which was a tax provision from the federal Affordable Care Act (ACA), was repealed in December 2019. As a result, liability amounts previously included for the “Cadillac tax” within the development of the total OPEB liability has been removed as of the June 30, 2020 measurement date.

June 30, 2019 measurement date:

The June 30, 2018 actuarial valuation rolled forward to the June 30, 2020 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

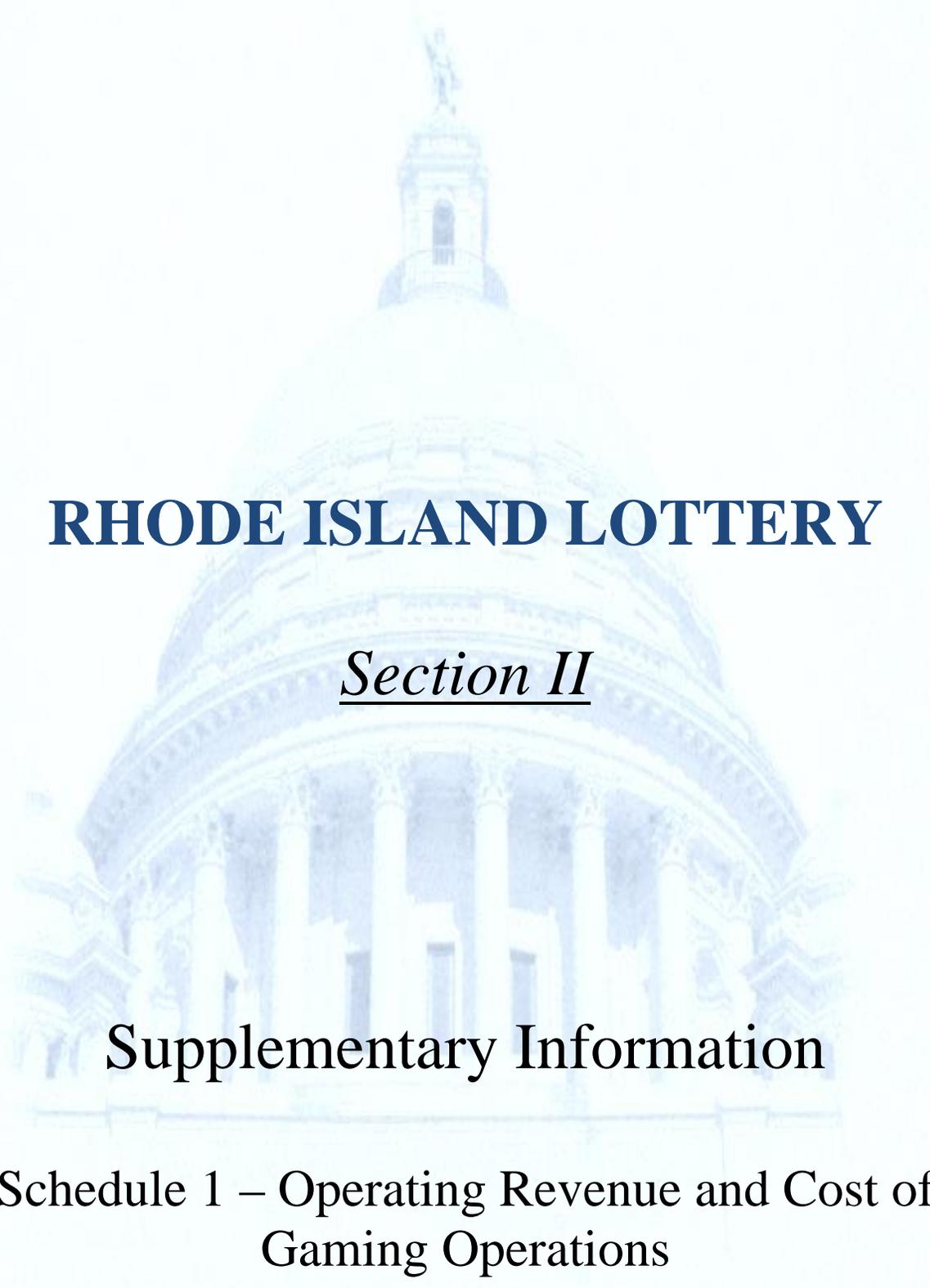
RHODE ISLAND LOTTERY
Notes to Required Supplementary Information
Year Ended June 30, 2022

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

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 2022 for the plan were determined based on the June 30, 2020 valuation of the State Employees' OPEB Plan.



RHODE ISLAND LOTTERY

Section II

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, 2022

Schedule 1

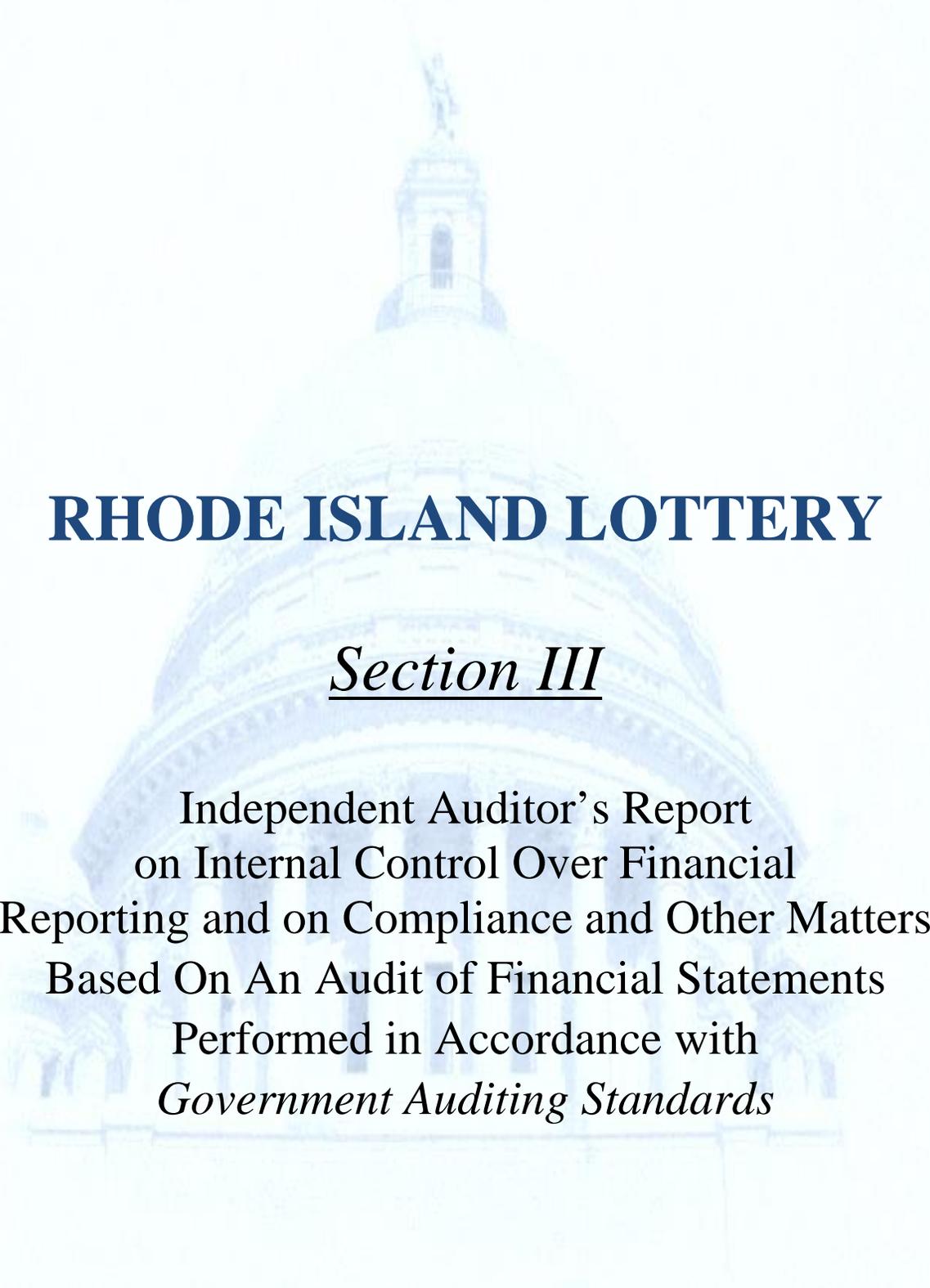
| | Revenue ⁽¹⁾ | Prize Awards Expense | Commissions | Incentive Programs Video Lottery | Marketing/Advertising Expense | Cost of Tickets | Transaction Fees - Online Wagering | Unclaimed Prize Recovery | Cost of Gaming Operations | Gross Profit |
|--|-------------------------|-----------------------|-----------------------|----------------------------------|-------------------------------|---------------------|------------------------------------|--------------------------|---------------------------|-----------------------|
| Games reported -- gross revenue | | | | | | | | | | |
| On-line Games | | | | | | | | | | |
| Keno | \$ 89,730,021 | \$ 58,932,746 | \$ 11,580,699 | \$ - | \$ 155,976 | \$ - | \$ - | \$ (295,118) | \$ 70,374,303 | \$ 19,355,718 |
| Bingo | 1,432,895 | 926,456 | 185,186 | - | 801 | - | - | (6,591) | 1,105,852 | 327,043 |
| PowerBall [®] | 26,184,419 | 13,096,913 | 3,380,332 | - | 938,981 | - | - | (361,176) | 17,055,050 | 9,129,369 |
| Daily Numbers | 22,855,155 | 12,031,281 | 2,951,567 | - | 12,704 | - | - | (242,996) | 14,752,556 | 8,102,599 |
| Mega Millions [®] | 10,907,256 | 5,470,964 | 1,407,998 | - | 345,682 | - | - | (169,750) | 7,054,894 | 3,852,362 |
| Wild Money | 5,859,173 | 3,288,147 | 756,249 | - | 138,522 | - | - | (127,983) | 4,054,935 | 1,804,238 |
| Lucky for Life [®] | 8,056,757 | 4,914,350 | 1,039,696 | - | 307,926 | - | - | (88,596) | 6,173,376 | 1,883,381 |
| | <u>165,025,676</u> | <u>98,660,857</u> | <u>21,301,727</u> | <u>-</u> | <u>1,900,592</u> | <u>-</u> | <u>-</u> | <u>(1,292,210)</u> | <u>120,570,966</u> | <u>44,454,710</u> |
| Instant Tickets | 130,562,609 | 91,054,013 | 13,852,851 | - | 831,806 | 1,004,530 | - | (2,475,160) | 104,268,040 | 26,294,569 |
| iLottery ⁽⁴⁾ | 9,498,777 | 6,508,993 | 465,312 | - | 73,971 | - | 87,656 | (1,650) | 7,134,282 | 2,364,495 |
| Sportsbook | 517,229,614 | 477,480,095 | 19,599,758 | - | 166,339 ⁽³⁾ | - | 846,011 | (729,653) | 497,362,550 | 19,867,064 |
| Games reported -- revenue net of related prize awards | | | | | | | | | | |
| Video Lottery ⁽²⁾ | 481,150,833 | - | 188,354,850 | 4,232,235 | - | - | - | (268,549) | 192,318,536 | 288,832,297 |
| Table Games | 125,047,864 | - | 105,725,985 | - | - | - | - | (10,641) | 105,715,344 | 19,332,520 |
| Other operating revenue | 570,896 | - | - | - | - | - | - | - | - | 570,896 |
| Totals | <u>\$ 1,429,086,269</u> | <u>\$ 673,703,958</u> | <u>\$ 349,300,483</u> | <u>\$ 4,232,235</u> | <u>\$ 2,972,708</u> | <u>\$ 1,004,530</u> | <u>\$ 933,667</u> | <u>\$ (4,777,863)</u> | <u>\$ 1,027,369,718</u> | <u>\$ 401,716,551</u> |
| Lottery games commissions - detail by game | | | | | | | | | | |
| | | <u>Video Lottery</u> | <u>Table Games</u> | <u>Sportsbook</u> | | | | | | |
| Facilities | \$ | 134,589,407 | \$ 104,414,967 | \$ 6,661,141 | | | | | | |
| Technology Providers | | 33,051,821 | - | 12,538,617 | | | | | | |
| Central Communications Provider | | 12,028,771 | - | - | | | | | | |
| Towns | | 8,056,215 | 1,311,018 | 400,000 | | | | | | |
| Narragansett Indian Tribe | | 628,636 | - | - | | | | | | |
| Total | \$ | <u>188,354,850</u> | <u>\$ 105,725,985</u> | <u>\$ 19,599,758</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 Sportsbook 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, 2022.



RHODE ISLAND LOTTERY

Section III

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



Office of the Auditor General

State of Rhode Island - General Assembly
Dennis E. Hoyle, CPA - Auditor General

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**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**

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

We have audited, 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, the 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, 2022, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated November 4, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lottery's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lottery's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying Schedule of Findings and Responses as Finding 2022-01 that we consider to be a significant deficiency.

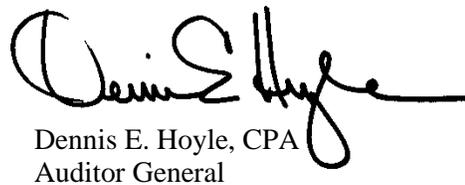
Joint Committee on Legislative Services, General Assembly, State of Rhode Island

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lottery's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

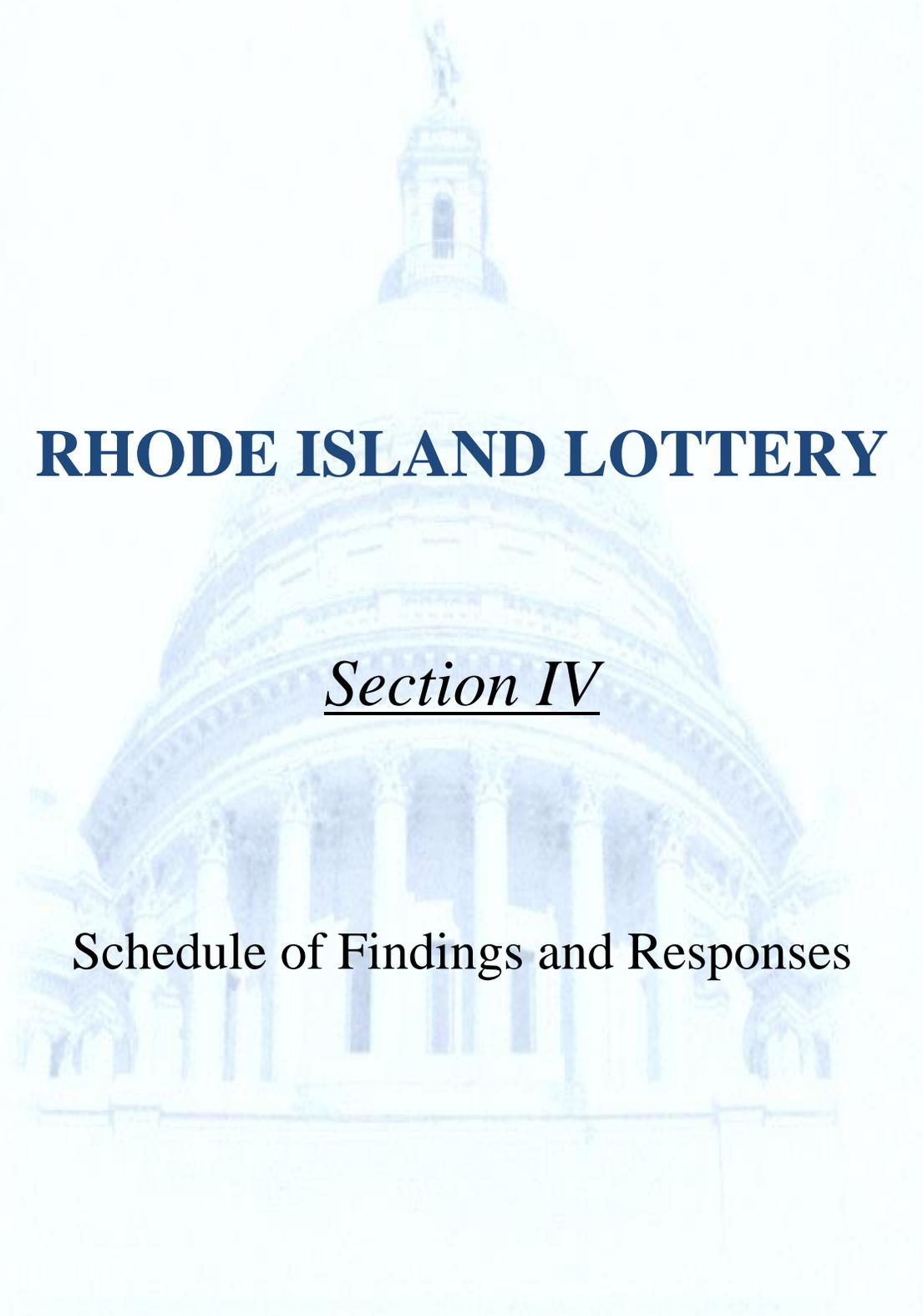
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lottery's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dennis E. Hoyle, CPA
Auditor General

November 4, 2022



RHODE ISLAND LOTTERY

Section IV

Schedule of Findings and Responses

INFORMATION SECURITY CONTROLS OVER SPORTSBOOK

Controls over sportsbook system access must be enhanced by requiring the sportsbook system contractor to (1) review and improve documentation of the bookmaker’s access to the system and (2) obtain coverage of complementary subservice organization controls of the bookmaker.

Background: IGT Global Solutions Corporation (sportsbook system contractor), Bally’s Corporation (owner and operator of the State’s two casinos) and other third parties (e.g., bookmaker) are utilized by the Lottery to administer the overall sportsbook functionality. The Lottery only has a contractual relationship with the sportsbook system contractor; however, controls provided by certain subcontractors are integral to the overall control structure for sportsbook operations. For example, William Hill is the bookmaker contracted by IGT to provide odds and lines for the various sports markets being offered by the Rhode Island Sportsbook. The bookmaker’s role is a key part of the sportsbook operation which requires the contractor to access the sportsbook system.

Criteria: System user’s access should be limited to their business requirements (rule of least privilege). Design and granting of system access should support segregation of duties within the operation of the system and be consistent with overall internal control objectives.

Condition: Since the introduction of sports betting in Rhode Island, the Lottery has implemented a variety of processes and procedures designed to ensure proper financial and operational control over the sportsbook operations. These procedures, including enhanced monitoring of system access, continue to evolve to ensure that risks associated with sportsbook operations are effectively mitigated. During fiscal 2022, the Lottery contracted for an IT security audit to evaluate IGT and William Hill’s policies and procedures relating to the sportsbook system. For several of the control objectives including those specific to William Hill’s utilization of the sportsbook system, IGT could not provide documentation supporting the implementation and operation of those control objectives.

In addition, IGT is required to contract for the performance of a Service Organization Control (SOC) Report over the Rhode Island Sportsbook operations. The scope of that review did not extend to certain functions/processes of the subservice organization (i.e., William Hill). Specifically, the report details certain complementary subservice organization controls which are assumed to be implemented by the subservice organization and are integral to achieve the overall control objectives.

Controls should be enhanced by exploring options to ensure coverage of key controls within the overall sportsbook system functionalities performed by William Hill including both the evaluation and testing of relevant internal controls. This would provide the Lottery with assurances regarding the implementation and effectiveness of the bookmaker’s controls over data submission, system access, and data integrity given their significant role in sportsbook operations. The Lottery should also continue monitoring sportsbook system access to ensure that established roles restrict access and align with the underlying user’s sportsbook responsibilities.

Cause: IGT’s responses to both the IT security audit and the SOC Report indicated that the defined subservice organization controls assessment had not been performed and documented. Insufficient evidence that these complementary subservice organization controls are in place and operating effectively is a weakness in internal control over the RI Sportsbook operation.

Effect: Inappropriate system access could undermine segregation of duty controls intended within the sportsbook operation.

RECOMMENDATIONS

- 2022-01a Explore options to ensure coverage of key controls within the overall sportsbook system functionalities performed by the subservice organization (William Hill).
- 2022-01b Continue monitoring of sportsbook system access to ensure that established roles restrict access and align with the underlying user's sportsbook responsibilities.

Auditee Views and Corrective Action Plan:

The Lottery provides oversight of IGT and requires IGT to perform reviews over the sportsbook to ensure that policy, procedures, and controls are in place to monitor sports betting system access and ensure that activity within the sports betting system is reviewed and approved. IGT has the agreement with William Hill and IGT also has the oversight responsibility over William Hill to ensure they (William Hill) perform the functions as defined in IGT's agreement with the Lottery. IGT has stated to the Lottery that they have reviewed William Hill's access and is satisfied with the level of access to perform their job function within the system. IGT has provided the Lottery with dates for enhancing and providing additional documentation to control areas within the sportsbook.

The Lottery will continue to require IGT to provide sufficient evidence that IGT's subservice organizational controls are in place and operating effectively by William Hill. The Lottery will continue to require that the SOC report will extend to the financial reporting controls over IGT's subservice organization.

The Lottery (where contractually possible) will continue to ensure that IGT provides the necessary coverage oversight controls as it pertains to subservice organizations. The Lottery will continue to require IGT to effectively evaluate, test, and monitor its subservice organization's procedures and controls.