

Rhode Island Lottery
A Component Unit of the
State of Rhode Island and Providence Plantations

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2002

Prepared by the Finance Department





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Introductory Section



THE RHODE ISLAND LOTTERY

Gerald S. Aubin
Executive Director

Commission Members

Representative Robert E. Flaherty
Chairman
Senator Maryellen Goodwin
Vice Chairwoman
Representative William San Bento, Jr.
Secretary
Senator David E. Bates
Senator Michael J. Damiani
Representative Joseph H. Scott
Robert A. Mancini
William A. White
Lynne A. Urbani

September 30, 2002

The Honorable Lincoln C. Almond, Governor
Representative Robert E. Flaherty, Chairman

We are pleased to present to you the **COMPREHENSIVE ANNUAL FINANCIAL REPORT** of the Rhode Island Lottery (the Lottery) for the fiscal year ended June 30, 2002. This report has been prepared by the Finance Department of the Lottery. The Lottery is responsible for the accuracy of the financial data and the completeness and fairness of the presentation, including all disclosures.

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

This report is presented in four sections – **Introductory, Financial, Statistical, and Compliance**. The Introductory Section, which is unaudited, includes the transmittal letter, the Lottery's organizational chart and list of principal officials. The Financial Section contains the Independent Auditor's Report, management's discussion and analysis, financial statements, notes to the financial statements, and supplementary information. The Statistical Section, which is also unaudited, contains selected financial, economic, and demographic data, including current and trend data specific to the national lottery industry. The Compliance Section contains the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.

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

THE LOT

1425 Pontiac Avenue Cranston, Rhode Island 02920 401-463-6500 www.rilot.com

History of the Lottery Industry

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

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

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

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

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

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

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

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

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

The concern about gambling, however, was often overwhelmed by the recognition that the lottery was a means that enabled the accomplishment of useful public projects. William Ames, a Cambridge teacher of many of the leaders of the Massachusetts Bay colony, denounced the playing of the lottery solely for the purpose of gain, but defended lotteries as long as they were intended for some pious end. The settlers of New England would find many virtuous purposes toward which to direct lottery proceeds. During the colonial period, the New England colonies authorized more lotteries than any other region of the country, which benefited colleges, churches, and every other manner of public works construction one could think of.

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

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

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

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

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

The full history of the decline of the lottery in America lasted from the Civil War until the resumption of the lottery in 1964 when New Hampshire established a state-run lottery for the purpose of raising money for education. New York, which had been the State to pass the first constitutional prohibition of lotteries in the United States in the 1820s, followed New Hampshire's return into the lottery business in 1967. In 1971, the State of New Jersey started their lottery and introduced a computer-

based weekly game, which offered inexpensive tickets (50 cents), convenience of sale, and a weekly prize of \$50,000. In its first year of operation, the New Jersey Lottery grossed \$142.5 million and set the trend for the lottery industry. New York and New Hampshire revamped their systems, and other states introduced lotteries utilizing New Jersey's operation as a model.

Lotteries, through the years, have become more diversified. The vast array of lottery games in existence today caters to a variety of consumer tastes. These changes are largely attributable to the work of marketing experts. With greater selections, come increased sales. Considerable changes and new possibilities were introduced in lotteries through major technological innovations such as centralized on-line computer systems (1971) and magnetic strip tickets (1992).

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

History of the Rhode Island Lottery

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

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

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

The first instant ticket game, Play Ball, was introduced on May 11, 1976. Since that time an additional 311 instant ticket games have been introduced.

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

The Multi-State Lottery Association (MUSL) was formed in 1988 for the purpose of affording small states the opportunity to offer games with a higher jackpot than their population alone would generate. Along with Rhode Island, the initial members were the District of Columbia, Iowa, Oregon, Kansas and West Virginia. The first such game was called Lotto-America, which was replaced with PowerBall on April 22, 1992. In February of 1998, Rhode Island replaced the Multi-State Daily

Millions Game with the introduction of its own lotto game called Roll Down. In turn, this lotto game has been replaced every eight to twenty-four months starting with Easy Win in March of 2000, Money Roll in November of 2000 and finally with Wild Money in January of 2002.

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

History of Lottery Games

Lotto Games

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

Today, the 6/49 matrix is the most widespread, with approximately 28% of lotteries worldwide utilizing this format. This is followed by the 6/45, 7/47 and 6/42. More than 100 formulas are available, and some lotteries run several different formulas at the same time.

72% of the lotteries offering lotto games have drawings twice a week. Approximately 24% have one weekly drawing. In the vast majority of cases, the top prize rolls over if a drawing does not produce a jackpot winner.

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

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

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

Instant Tickets

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

Video Lottery

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

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

Several years later, when the South Dakota Lottery was searching for new sources of revenue, it took up the idea of video lottery. In March of 1989, legislation allowing the establishment of the first server-connected video lottery was approved. In the fall of 1990, South Dakota offered the first operational video lottery in all of the United States. By 1992, Oregon, Rhode Island, and Louisiana had video lottery terminals up and running in their respective states.

Keno

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

Rhode Island Lottery Product Offerings

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

Instant Tickets

Instant (or scratch) tickets are played by scratching the latex covering off the play area on the ticket. In order to win, the player must match two or three of a kind, get like symbols or wild features. Instant ticket offerings in Rhode Island include card games, as well as whimsical, sports, money, and local landmark themes. A new instant game is introduced every 11 working days.

Daily Numbers

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

Keno

Keno was introduced in September of 1992 and quickly proved to be a very popular game. Rhode Island Keno has a 10 of 20 of 80 matrix, with a \$100,000 top prize. Players can wager on 1 to 10 numbers (spots) utilizing their own number selection or a computer “quick pick.” In January of 2000, Keno drawings increased from every 5 minutes to every 4 minutes. These Keno drawings occur from 6:00 a.m. to 12:45 a.m., Monday through Saturday and 7:00 a.m. to 12:45 a.m. on Sunday. In April of 2001, Keno Plus was introduced. Players have the option to purchase this feature that could increase their winnings by ten times, thus giving Keno players the potential to win up to \$1,000,000.

PowerBall

PowerBall is a Multi-State Lottery game offered in 22 states (including Rhode Island), plus the District of Columbia. Players select “5 out of 49” numbers and a PowerBall “1 out of 42.” Players can select their own numbers or utilize a computer “quick pick.” Jackpots start at \$10 million and grow by a minimum of \$2 million for each drawing not producing a jackpot winner. Televised drawings are shown on Wednesday and Saturday at 10:59 p.m. PowerPlay, which is a multiplier for PowerBall winnings, was introduced in March of 2001. Players who choose the PowerPlay option on their PowerBall ticket have the chance to increase their winnings by up to 5 times, however, the multiplier does not apply to a jackpot win.

Money Roll

Money Roll, which replaced Easy Win in November of 2000, is an on-line game based on the previously popular Roll Down game; however, Money Roll is designed to produce more winners as well as improved chances of winning top prizes. Players wager on 4 numbers out of 39 by picking their own numbers or by utilizing the computer “quick pick”. Cash prizes are offered to players matching 4, 3, or 2 numbers and prizes are paid on a pari-mutual basis with the jackpot being split evenly between the 3 of 4 winners if there are no 4 of 4 winners.

Wild Money

Wild Money, which replaced Money Roll in January 2002, is an on-line game with a starting jackpot of \$20,000 that continues to grow until a player matches 5 numbers selected out of a field of 35. A jackpot of \$315,869 was won on April 13, 2002.

Video Lottery

Video Lottery debuted in Rhode Island in September of 1992. There are a total of 2,478 video lottery terminals operating in the State’s two pari-mutuel facilities, Lincoln Greyhound Park and Newport Grand Jai Alai. Various card and reel games are offered on the video lottery terminals (VLTs). The VLTs afford Rhode Island a chance to compete with Native American casinos in a neighboring state.

Pull Tabs

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

Rhode Island Economic Outlook

The Rhode Island economy decreased slightly in 2001 with a loss of 4,384 jobs. However, the unemployment rate, which was .1% above the US rate in 2000, dropped to .1% below the national average. Furthermore, the unemployment rate at June 2002 has decreased by .7% to 4.0%.

Personal income in Rhode Island rose 3.8 percent, with per capita income increasing slightly by 2.99% to \$29,984.

While the total number of new construction housing permits declined by 2.6% in 2001, the permits issued for January – June 2002 increased by 4.9 % over the same period of 2001, and total construction costs increased by 15.5%.

Lottery Industry Economic Outlook

The United States Lottery Industry experienced yet another upswing during fiscal year 2001. Based on unaudited figures from the North American Association of State & Provincial Lotteries (NASPL), sales increased from \$37.63 billion in fiscal year 2000 to \$38.91 billion in fiscal year 2001. The Rhode Island Lottery ranked first in the nation in per capita sales and ranked third with a 13.19% sales increase for fiscal year 2001.

Highlights of Fiscal Year 2002

On February 11, 2002, play began on video progressives at Lincoln Park. Progressive play began at Newport Jai Alai the next day. Progressives are a string of terminals that are linked together through the central system. As games offered on the terminals are played, a jackpot continuously increases until it is hit. The amount of the jackpot is displayed on large signage above the string of terminals and players can watch it rapidly increase. The jackpots for the progressive terminals are linked by facility allowing for jackpots to reach higher amounts faster. Twenty jackpots were won in fiscal year 2002, the highest of which was \$255,310.

In October 2001, the Lottery introduced their first \$10 instant ticket game called “Rhode Island Holiday”.

A new on-line contract was signed with GTECH Corporation for a five-year term beginning October 1, 2001. During the term of this contract 250 additional on-line terminals will be added as well as 425 Express Point Units, 5 Easy Express Units and 400 Accuvue VFD Displays.

In June 2002, the Rhode Island Lottery sponsored the NASPL Region 1 Conference in Providence, Rhode Island. In attendance were over 100 delegates representing 13 Lotteries from around the world. This two-day program offered valuable information on marketing, video lottery, instant tickets and Keno, as well as on other topics.

The Rhode Island Lottery sponsored its 9th Annual Hat Night at McCoy Stadium in Pawtucket, Rhode Island. Invited guests included children with special needs, underprivileged children and area little leaguers.

GFOA Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate for Excellence in Financial Reporting to the Rhode Island Lottery for its Comprehensive Annual Financial Report (CAFR) for the last five consecutive fiscal years (1997, 1998, 1999, 2000 and 2001). The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Rhode Island Lottery received a certificate on its first attempt, in May of 1998, and on each subsequent attempt. We believe our current report will conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

Accounting Systems and Procedures

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

Budgetary Controls

The operating budget of the Rhode Island Lottery is submitted to the Lottery Commission for approval on an annual basis. This is a management tool, and is not a legally adopted budget. The Lottery also participates in semi-annual state revenue estimating conferences.

Internal Control Environment

Management of the Lottery is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft, or misuse and to ensure that the accounting system allows compilation of accurate and timely financial information. The structure is designed to provide reasonable assurance that these objectives are met.

Since the Lottery manages a valuable ticket inventory and controls the disbursement of prizes, the following steps are taken to ensure the operations remain honest and secure:

- Employing specialized security staff.
- Maintaining secure lottery facilities and limiting access to them.
- Performing background checks on retailers, vendors, and employees.

- Printing lottery tickets with special security features.
- Hiring an independent CPA firm to witness the recording of MUSL drawing results.
- Providing a variety of access and other controls in the computer system.
- Implementing a Video Lottery System Monitoring Plan to ensure the integrity of video lottery games and to ensure that control procedures are operating as designed.
- Performing unannounced video lottery inspections at each facility to ensure compliance with operating procedures.
- Monitoring video lottery terminals on a daily and weekly basis and reconciling to a cash management system.
- Processing daily transaction data of all vendor activity by Lottery personnel using the Lottery's internal control system programs and reconciling transactions to reports generated by the on-line system.
- Development of a comprehensive information security plan for the Lottery's on-line and video lottery systems.

The Lottery currently has 55 employees, all of whom are located at the headquarters in Cranston, Rhode Island. Separated from the headquarters, the drawing studio is located at the broadcast facilities of the television station that produces the nightly drawing.

Future Projects

In the fall of 2002, the Lottery will be introducing a new game enhancement called Instant Match for the on-line Daily Numbers game. When playing the Daily Numbers game players will have the opportunity to participate in the Instant Match game for an additional wager. With Instant Match the player has an immediate chance to win up to \$500, with no dependence on the Daily Numbers drawing or the player's outcome in that drawing.

Several new enhancements that have been designed to increase PowerBall jackpots and prizes for PowerPlay winners will be introduced on October 6, 2002. PowerPlay winners will be guaranteed to at least double their prize with the "1" being removed from the PowerPlay wheel, leaving the slots ranging from "2" to "5". Also to be introduced on October 6th is the Match 5 Bonus feature. This feature will kick in at no cost to the player whenever PowerBall reaches a record jackpot (currently the record is \$295.7 million). When the jackpot reaches a record amount, it will begin increasing in maximum increments of \$25 million, and part of the prize money will go towards the Bonus Prize Pool to enhance the Match 5 prizes when the jackpot is won. This could mean enhanced cash prizes of \$1 million or more for players matching 5 white balls when the jackpot is won.

A new video central system contract was awarded to GTECH Corporation in fiscal year 2002. This new system, which was completed August 31, 2002, was constructed using new equipment utilizing the latest technology. The system has been designed to meet the Lottery's current and future video lottery gaming needs.

In September 2002, the Lottery, in conjunction with Rhode Island Hospital and Rhode Island Problem Gambling, will introduce a new problem gambling point of sale campaign.

Independent Audit

The Rhode Island General Laws require semi-annual audits to be performed by the State Auditor General. The fiscal year 2002 audit of the financial statements has been completed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. The Independent Auditor's Report on the Lottery's financial statements is included in the financial section of this report.

Acknowledgements

Preparation of this report could not have been accomplished without the efforts of Gina Grant, Lisa Jackson, Ray Perry, Sandra Reynolds and Peg Rose.

This Comprehensive Annual Financial Report reflects our commitment to maintain the Rhode Island Lottery's financial statements and record keeping systems in compliance with the highest standards of accountability. Due credit should be given to Lottery Commission Chairman Robert E. Flaherty and the Members of the Lottery Commission for their commitment to operating the Lottery in a responsible and progressive manner.

Respectfully submitted,

Gerald S. Aubin
Executive Director

Dennis B. Tripodi
Finance Administrator

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Rhode Island Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Thomas A. Arave
President

Jeffrey L. Esser
Executive Director

Rhode Island Lottery Commission Structure

The Rhode Island Lottery Commission consists of nine Members, all of whom are citizens and residents of the State of Rhode Island. The Senate Majority Leader appoints three Members from the State Senate, and the Speaker of the House appoints three Members from the House of Representatives. Not more than two of the three Members appointed by either the Senate Majority Leader or the Speaker of the House can be from the same political party. The Governor appoints three Members who are representatives of the general public.

The Commission Members are appointed for three-year terms and can be reappointed. Any vacancy on the Commission, occurring for any reason prior to the expiration of the term, including but not limited to termination of active Members in the General Assembly, is filled for the unexpired term by the appointing authority in the same manner as the original appointment.

Commission Members receive no salaries but are allowed reasonable expenses in the performance of their official duties.

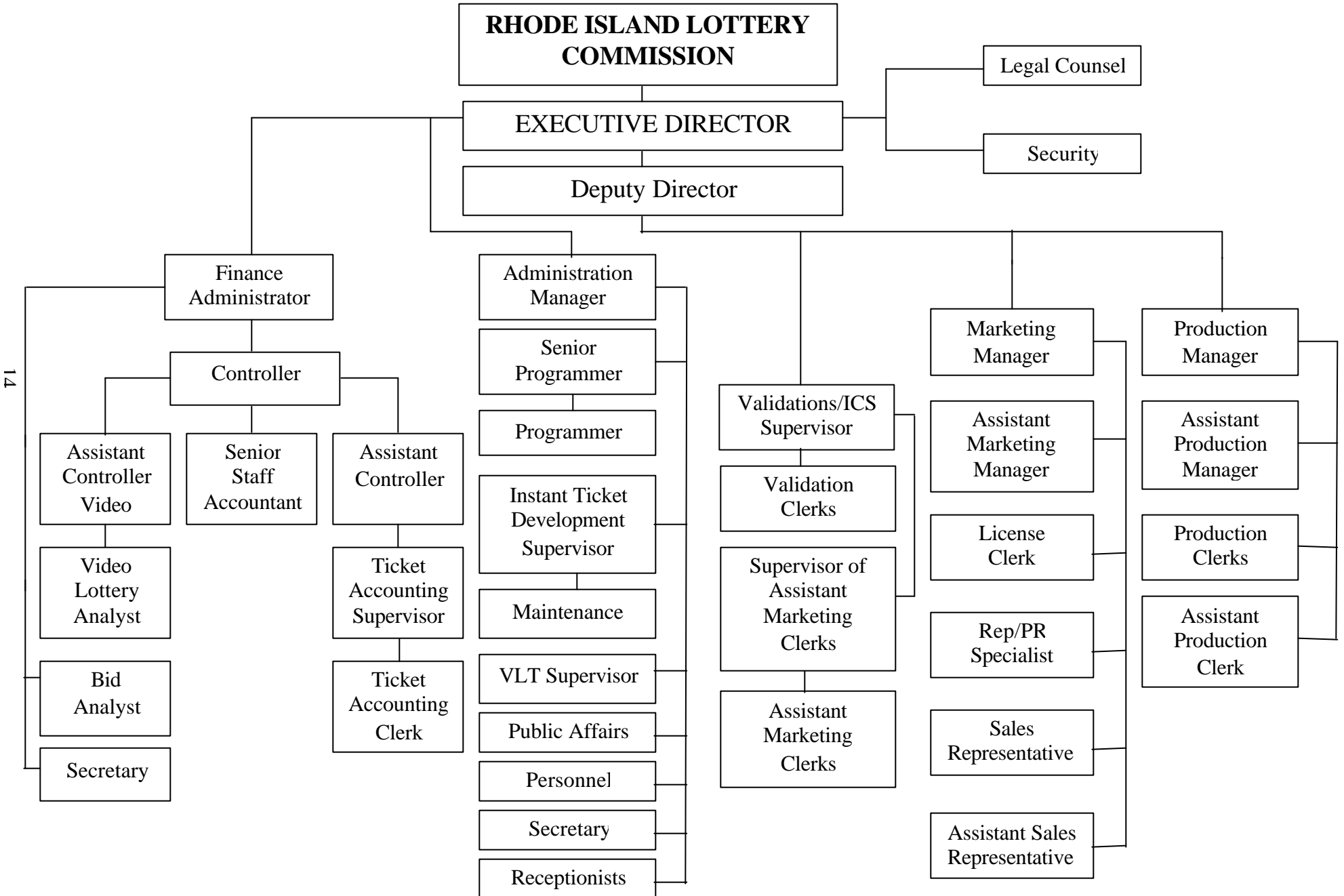
The duties of the Commission include meeting no less than nine times per year for the purpose of promulgating and reviewing rules and regulations relating to the Lottery, recommending and setting policy for the Lottery, approving or rejecting actions of the Executive Director, and transacting any other business that may be properly brought before the Commission.

The Lottery is under the immediate supervision and direction of the Executive Director. The Executive Director is appointed by the Governor, with the majority approval of the Commission, and serves at the pleasure of the Commission. Any vacancy occurring in the Office of the Executive Director shall be filled in the same manner as the original appointment. The Executive Director is required to devote his/her entire time and attention to the duties of his/her office and cannot engage in any other profession or occupation. The Commission sets the Executive Director's salary.

COMMISSION MEMBERS SERVING DURING FISCAL YEAR 2002

REPRESENTATIVE ROBERT E. FLAHERTY
SENATOR MARYELLEN GOODWIN
REPRESENTATIVE WILLIAM SAN BENTO, JR.
REPRESENTATIVE JOSEPH SCOTT
SENATOR DAVID BATES
SENATOR MICHAEL DAMIANI
MR. ROBERT MANCINI
MS. LYNNE URBANI
MR. WILLIAM WHITE

Rhode Island Lottery Organizational Chart



PRINCIPAL OFFICIALS

**GERALD S. AUBIN
EXECUTIVE DIRECTOR**

**RAYMOND E. GRIMES
DEPUTY DIRECTOR**

**DENNIS B. TRIPODI
FINANCE ADMINISTRATOR**

**MARGARET D. ROSE
ADMINISTRATION MANAGER**

**ROBERT E. MATTESON
MARKETING MANAGER**

**SANDRA REYNOLDS
CONTROLLER**

Financial Section



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STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS
GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

- ◆ INTEGRITY
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Rhode Island Lottery (Lottery), a component unit of the State of Rhode Island and Providence Plantations, as of and for the fiscal year ended June 30, 2002, as listed in the Table of Contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Lottery as of June 30, 2002, and the results of its operations and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, the Lottery adopted the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2002 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, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

We did not audit the data included in the statistical section and, accordingly, express no opinion thereon.



Ernest A. Almonte, CPA, CFE
Auditor General

September 6, 2002

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, 2002. This analysis is to be considered in conjunction with the financial statements to provide an objective analysis of the Lottery's financial activities based on facts, decisions, and conditions currently facing management.

Understanding the Lottery's Financial Statements

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

The most important relationship demonstrated within the Lottery's financial statements is the requirement that the Lottery transfer all 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 assets of the Lottery. It is also important to note that most financial statement balances have a direct or indirect relationship to revenue. As lottery sales increase, the 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 Statements of Net Assets represent current amounts such as cash and accounts receivable from lottery retailers. Most liabilities represent current prize awards payable and amounts due to the State's General Fund. Current assets approximate the amounts required to satisfy current liabilities at June 30. Few capital assets are required for Lottery operations. Additionally, the Lottery reports minimal net assets since all net income is paid to the State's General Fund.

Financial Highlights

The Rhode Island Lottery's sales for fiscal year 2002 totaled \$1,170,859,656; a 19.72% increase compared to fiscal year 2001 sales of \$978,019,702. A record amount of \$214,141,576 was paid to the State's General Fund in fiscal year 2002.

Instant ticket sales for the fiscal year ended June 30, 2002 exceeded sales for the previous fiscal year by \$8.6 million or 12.5%. The retailer incentive program, which ran for fiscal year 2002, rewarded bonus commissions to agents who increased their prior year instant ticket sales by the Lottery's fiscal year 2002 sales goal of 12.4%. A total of 393 retailers earned bonus commissions equaling \$1,129,274. The top retailer earned a bonus of \$38,209.

PowerBall sales for the fiscal year ended June 30, 2002 have outpaced the sales for the previous fiscal year by \$9.9 million or 27.1%.

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

Keno sales for the fiscal year ended June 30, 2002 increased \$9.7 million or 13.9% over fiscal year ended June 30, 2001.

Gross video lottery sales increased \$164.2 million with a resulting increase in net terminal income (sales less prize awards) of \$52.0 million for the fiscal year ended June 30, 2002 as compared with the previous fiscal year.

Because of the increases in sales highlighted in the previous paragraphs, the Lottery increased its payment to the State's General Fund by \$33.4 million to \$214.1 million for the fiscal year ended June 30, 2002 as compared to \$180.7 million for the fiscal year ended June 30, 2001.

Assets and Liabilities

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Assets:		
Cash and cash equivalents	\$ 6,387,682	\$ 4,366,168
Accounts receivable	7,594,080	6,004,682
Other assets	<u>3,637,142</u>	<u>3,515,866</u>
	\$ 17,618,904	\$ 13,886,716
Liabilities		
Due to State	\$ 2,141,576	\$ 1,443,897
Prizes payable	5,983,306	5,966,884
Accounts payable and other liabilities	<u>9,458,969</u>	<u>6,368,987</u>
	\$ 17,583,851	\$ 13,779,768
Net Assets	<u>\$ 35,053</u>	<u>\$ 106,948</u>

The majority of the Lottery's assets consist of cash (including amounts invested in cash equivalent type instruments) and accounts receivable derived from sales of the Lottery's games. At June 30, 2002, the Lottery's assets included \$6.4 million (net of a cash overdraft of \$0.2 million in the Lottery's primary bank account) in cash and cash equivalents as compared with \$4.4 million at June 30, 2001. The Lottery's accounts receivable approximated \$7.6 and \$6.0 million, respectively, at June 30, 2002 and 2001.

The Lottery's liabilities included at the balance sheet date are amounts owed to the State's General Fund for June's net operations, vendor payables, and prize obligations. The amount due to the General Fund approximated \$2.1 million at June 30, 2002 as compared with \$1.4 million at June 30, 2001. Vendor payables, made up largely of commissions due to video lottery participants, and prize obligations, attributable mostly to instant ticket games and PowerBall, were \$8.9 million and \$5.7 million, respectively. In comparison, vendor payables and prize obligations at June 30, 2001 were \$5.8 and \$5.0 million, respectively.

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.

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

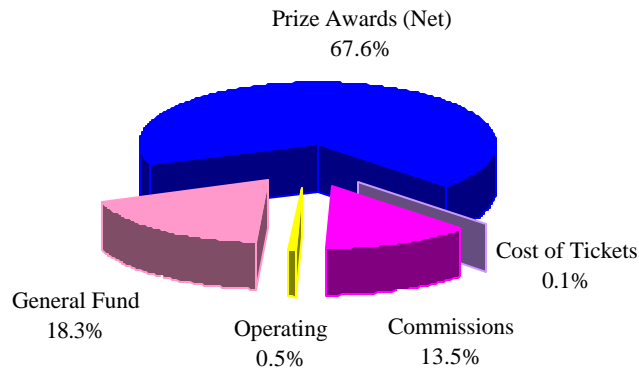
Investments for jackpot awards relating to the former Lot-O-Bucks game are sufficient to satisfy the outstanding prize liabilities (annual payments) owed to jackpot winners. Fixed assets reported on the Statement of Net Assets are not significant in relation to the Lottery's operations.

Lottery Operations

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Sales	\$ 1,170,859,656	\$ 978,019,702
Prize Awards Expense (net)	(793,539,127)	(662,974,491)
Commissions	(157,876,454)	(129,021,159)
Operating and other expenses	<u>(7,347,522)</u>	<u>(7,005,510)</u>
Operating income	212,096,553	179,018,542
Other income	1,973,128	1,653,460
Payments to State's General Fund	<u>(214,141,576)</u>	<u>(180,743,897)</u>
Change in net assets	<u>\$ (71,895)</u>	<u>\$ (71,895)</u>

Sales

Distribution of the year's revenue was as follows:



Lottery sales are categorized as on-line, instant and video lottery games. The first category is on-line games, which consisted of PowerBall, Keno, Daily Numbers, Money Roll and Wild Money at June 30, 2002. In total, on-line sales increased by \$20.0 million, which is mostly attributable to the growth of PowerBall and Keno sales.

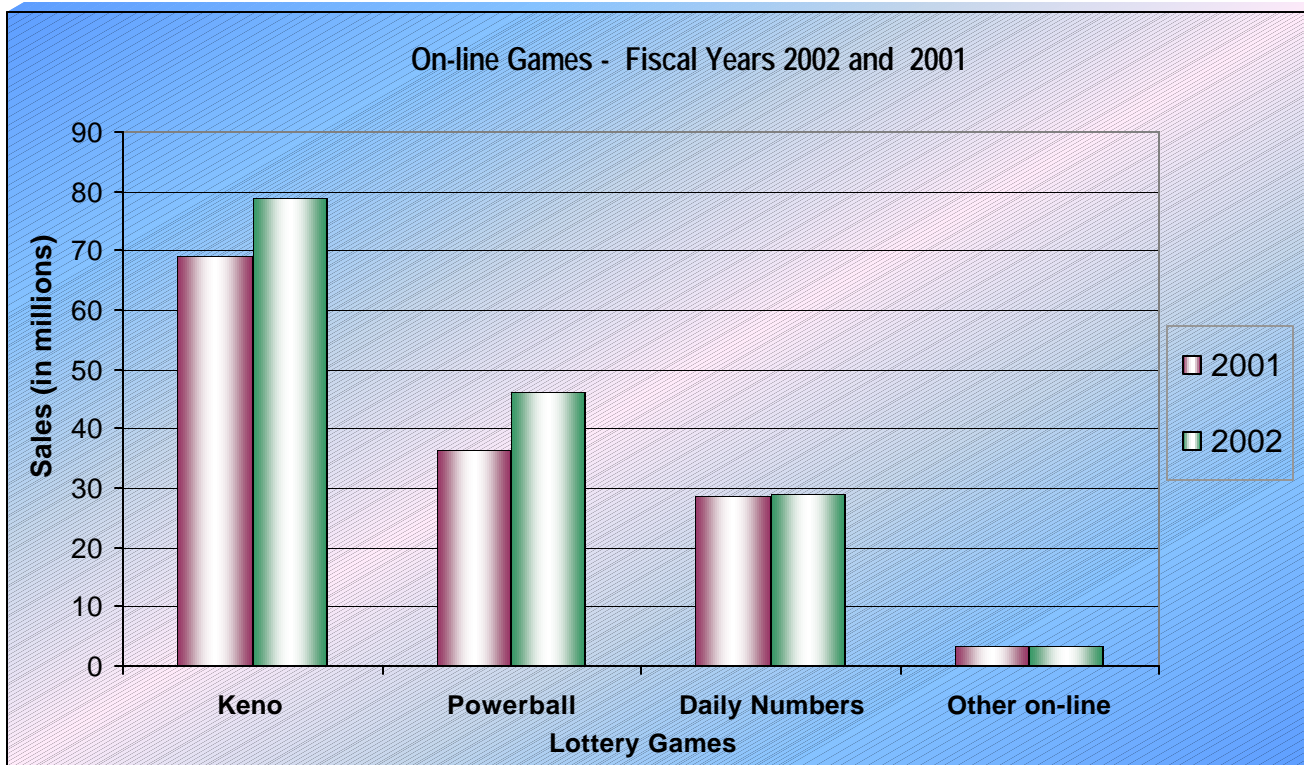
PowerBall sales for the fiscal year ended June 30, 2002 increased \$9.9 million or 27.1% over fiscal year 2001. This increase was largely attributable to a near record jackpot of \$295 million during August 2001, which generated sales for the month of \$15.0 million as compared with average monthly PowerBall sales of approximately \$3 million. There were no unusually large jackpots during the preceding fiscal year.

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

Keno sales for the fiscal year ended June 30, 2002 increased \$9.7 million or 13.9% over the prior fiscal year. This increase was largely attributable to the Lottery's implementation of the Keno Plus feature for the game on April 1, 2001. This feature allows the player to wager another dollar per game in the hopes of multiplying their winnings by a factor determined before the start of each game. The Keno Plus multiplier ranges between 0 and 10 times the single wager payout for each game.

The following graph depicts the Lottery's on-line sales for the fiscal year ended June 30, 2002 and 2001.



Instant tickets or “scratch” tickets are the second type of Lottery game offered to the public. Instant ticket sales for the fiscal year ended June 30, 2002 increased \$8.6 million or 12.5% over the preceding fiscal year. In addition to offering more popular and higher price point games (\$10 and \$5 tickets) to the public, the Lottery also launched a retailer incentive program in July 2001 that rewarded bonus commissions to retailers who surpassed their prior year instant sales volume by 12.4%. This bonus was implemented to enhance sales at each retail location.

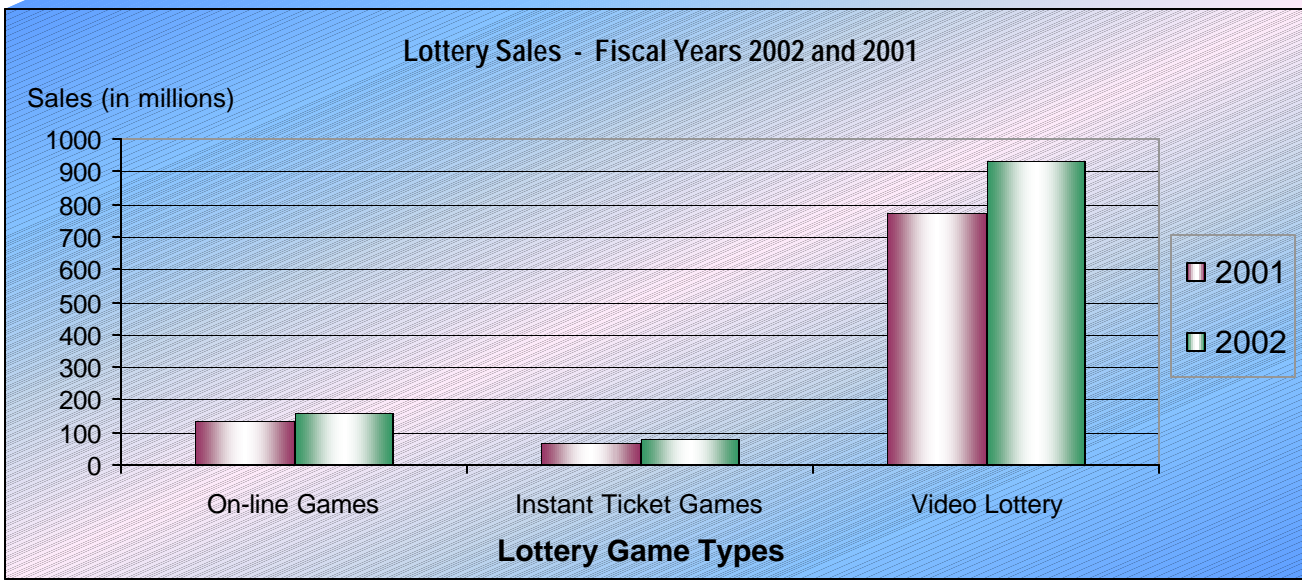
The third type of game offered is video lottery. Gross video lottery sales increased \$164.2 million with a resulting increase in net terminal income (sales minus prize awards) of approximately \$52.0 million for the fiscal year ended June 30, 2002 as compared with the previous year. Beyond the increasing popularity of video lottery within the State, the Lottery attributes increased sales to two main reasons. The Lottery has continued to base video terminal allocation among technology providers based on terminal play (sales). This periodic reallocation of terminals has resulted in a competitive environment among the technology providers to continually introduce newer and more popular games to the public.

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

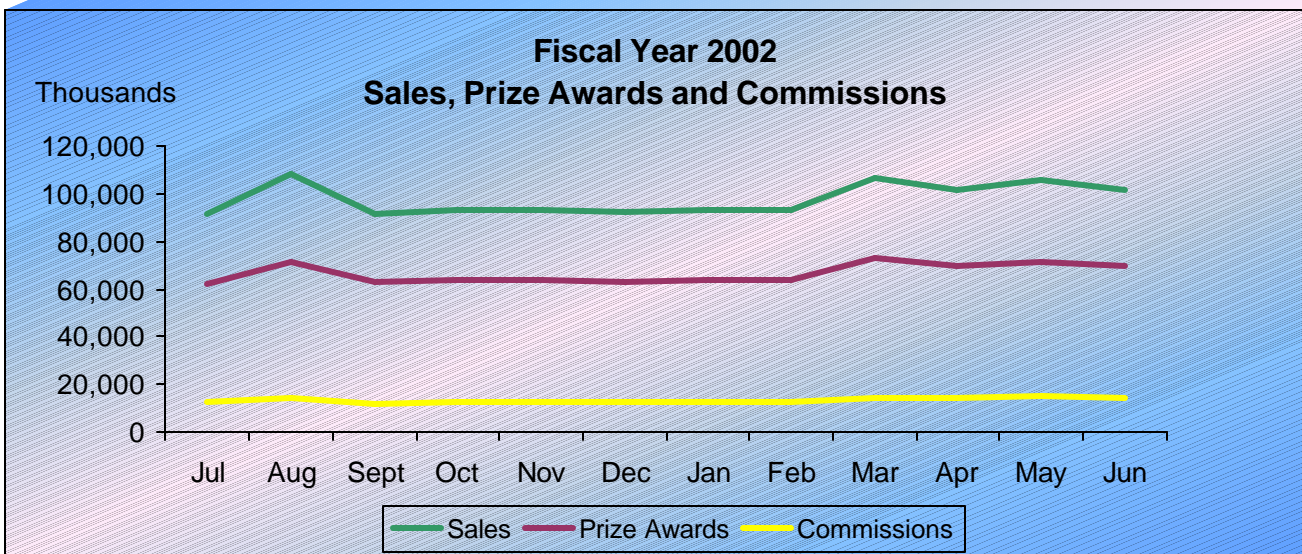
The second reason attributable to the increase in video sales has been the completed renovations at the State's two video lottery facilities. The new renovations have made for a more appealing and comfortable setting for video lottery patrons and have enhanced the popularity of video lottery in the State.

The following graph depicts the Lottery's on-line, instant, and video lottery sales for the fiscal year ended June 30, 2002 in comparison to fiscal year ended June 30, 2001.



Commissions and Prize Awards Expense

As the following graph designates, the Lottery's most significant expenses (commissions and prize awards) are predictable because they have a direct correlation to sales. As lottery sales increase, so do the related prizes and commissions paid by the Lottery. While each Lottery game has a designed prize pay-out structure the overall amount paid as prize award expense is consistent.

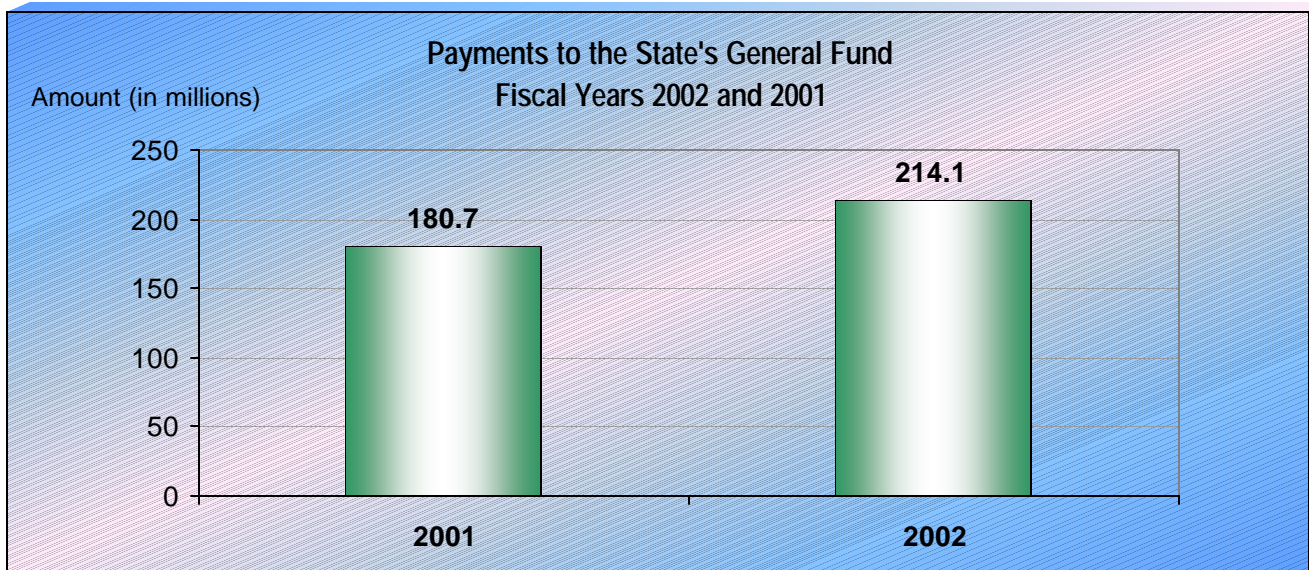


RHODE ISLAND LOTTERY

Management's Discussion and Analysis

Payments to the State's General Fund

The Lottery has continued its overall sales growth during the fiscal year ended June 30, 2002 allowing its payments to the General Fund to increase by \$33.4 million to a record \$214.1 million for the period as compared to \$180.7 million for the fiscal year ended June 30, 2001. Payments to the State's General Fund are estimated to reach \$226.9 million for the fiscal year ended June 30, 2003.



Debt Administration

The Lottery's long-term liabilities are payments owed to lotto jackpot winners. The payments due winners are fully funded by investments in United States Treasury zero coupon bonds. Jackpot prizes awarded under PowerBall are satisfied through investments purchased by MUSL. MUSL purchases United States 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 jackpot awards which are payable in installments from funds provided by MUSL.

Cash Management

The Lottery collects cash due for instant and on-line sales from its 1,100 retailers, through electronic transfer, on a bi-weekly basis. Cash collected from VLTs is deposited in designated banks and is electronically swept Monday through Friday. The Office of the General Treasurer invests the Lottery's excess cash in short-term financial instruments such as United States Treasury securities and repurchase agreements.

Risk Management

The Lottery's risk management and insurance program is independent of the State of Rhode Island. Lottery staff administers the program. Insurance with private carriers is maintained to prevent economic loss from uncontrollable risk.

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

Potential Factors Impacting Future Operations

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

- ❑ The State of Rhode Island is currently projecting budgetary shortfalls for fiscal year 2003. This caused the State to reevaluate the current commission percentages paid to video lottery participants with the intent of enhancing the Lottery's net income and payments to the State's General Fund. For fiscal year 2003, payments to the State's General Fund will be increased by reducing each of the facilities and the dog owner's commissions by ½%.
- ❑ The Lottery began paying a 1% bonus validation commission to instant ticket retailers at May 1, 2002. The Lottery is offering this bonus to reward retailers for the labor-intensive nature of instant tickets. The Lottery hopes this will be an incentive for retailers to offer as many games as possible to the public, which will in turn promote the continued growth of instant ticket sales.
- ❑ The Lottery's video lottery operations currently compete with Indian gaming casinos in nearby Connecticut. Proposals are continually made in Rhode Island, as well as neighboring Massachusetts, to seek approval from the voters to allow Indian Gaming Casinos in Rhode Island and Massachusetts. The Lottery's operations may be impacted by competition from other gaming interests that may be developed both within Rhode Island or neighboring states.
- ❑ The Lottery Commission has been requested to increase the number of authorized terminals at the video lottery facilities. An increase in the number of terminals normally results in an increase in video lottery revenues. In the past, an increase in the number of video terminals awarded to a facility has been a catalyst for facility renovations.

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 Financial Administrator, Rhode Island Lottery, 1425 Pontiac Avenue, Cranston, Rhode Island, 02920.

RHODE ISLAND LOTTERY

Statement of Net Assets

June 30, 2002

Assets

Current assets:

Cash and cash equivalents (note 3)	\$ 6,599,656
Investments for jackpot awards (note 3)	691,000
Accounts receivable-less allowance for doubtful accounts of \$342,937	7,594,080
Deposits with Multi-State Lottery Association (MUSL) (note 1)	401,981
Ticket inventory	885,699
Deferred charges	56,859
Total current assets	16,229,275
Investments for jackpot awards (note 3)	320,479
Property, plant and equipment, net (note 4)	1,281,124
Total assets	17,830,878

Liabilities

Current liabilities:

Cash overdraft (note 3)	211,974
Due to State's General Fund (note 5)	2,141,576
Current obligation for unpaid prize awards	5,662,827
Accounts payable	8,877,399
Accrued expenses	424,659
Deferred revenue	156,911
Total current liabilities	17,475,346
Long-term obligation for unpaid prize awards	320,479
Total liabilities	17,795,825

Net Assets

Investment in capital assets (note 8):	35,053
Total net assets	\$ 35,053

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Statement of Revenue, Expenses and Changes in Net Assets

Year Ended June 30, 2002

Sales (schedule 1):	
On-line games	\$ 157,616,590
Instant games	78,034,555
Video lottery	935,208,511
	<hr/>
Total sales	1,170,859,656
	<hr/>
Cost of sales:	
Commissions (note 6)	157,876,454
Prize awards	796,582,302
Unclaimed prize recovery	(3,043,175)
Cost of tickets	1,300,380
	<hr/>
Total cost of sales	952,715,961
	<hr/>
Gross profit	218,143,695
	<hr/>
Operating expenses:	
Personal services	3,331,963
Advertising	1,411,592
Contract services	105,068
Equipment leasing	260,783
Depreciation	224,648
Other	713,088
	<hr/>
Total operating expenses	6,047,142
	<hr/>
Operating income	212,096,553
	<hr/>
Nonoperating income (expenses):	
Interest and miscellaneous income	1,973,128
Payments to the State's General Fund (note 5)	(214,141,576)
	<hr/>
Change in net assets (note 8)	(71,895)
Total net assets, beginning of year	106,948
	<hr/>
Total net assets, end of year	\$ 35,053
	<hr/> <hr/>

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Statement of Cash Flows

Year Ended June 30, 2002

Cash flows from operating activities:	
Cash received from sales	\$ 1,169,266,319
Cash received from MUSL for grand prize winners	6,387,968
Cash received from miscellaneous sources	1,602,818
Cash paid for prizes other than MUSL grand prize winners	(793,596,769)
Cash paid to MUSL grand prize winners	(6,387,968)
Cash paid for commissions - retailers	(16,585,518)
Cash paid for commissions - video lottery	(130,758,688)
Cash paid for commissions - on-line games contractor	(7,989,218)
Cash paid to suppliers for goods and services	(3,368,424)
Cash paid to employees for services	(3,401,260)
Net cash provided by operating activities	<u>215,169,260</u>
Cash flows from noncapital financing activities:	
Payments to State's General Fund	(213,443,897)
Repayment of negative cash balance implicitly financed	(432,782)
Negative cash balance implicitly financed	211,974
Net cash used for noncapital financing activities	<u>(213,664,705)</u>
Cash flows from capital and related financing activities:	
Purchase of fixed assets	<u>(1,062,872)</u>
Net cash used for capital and related financing activities	<u>(1,062,872)</u>
Cash flows from investing activities:	
Proceeds from maturity of investments for jackpot awards	902,165
Interest income	456,858
Net cash provided by investing activities	<u>1,359,023</u>
Net increase in cash and cash equivalents	1,800,706
Cash and cash equivalents, beginning of year	<u>4,798,950</u>
Cash and cash equivalents, end of year	<u>\$ 6,599,656</u>

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Statement of Cash Flows

Year Ended June 30, 2002

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 212,096,553
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation	224,648
Installment payments for jackpot awards	(902,165)
Miscellaneous receipts classified as operating activities	1,586,613
Provision for doubtful accounts	28,345
(Increase) decrease in assets:	
Investment for jackpot awards	16,422
Accounts receivable	(1,617,742)
Inventory	(150,003)
Deposits with MUSL	(47,233)
Deferred charges	15,739
Increase (decrease) in liabilities:	
Obligation for unpaid prize awards	828,101
Accounts payable	3,125,254
Accrued expenses	(51,047)
Deferred revenue	15,775
Total adjustments	<u>3,072,707</u>
Net cash provided by operating activities	<u>\$ 215,169,260</u>

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Notes to Financial Statements

(1) Organization

The Lottery was created in 1974 under the General Laws of the State of Rhode Island (General Laws) to establish and operate lottery games for the purpose of generating resources for the State's General Fund. It is governed by the nine-member Rhode Island Lottery Commission (Commission).

The Lottery offers various on-line games that include: a daily numbers game, Keno, Wild Money and PowerBall, which is operated by the Multi-State Lottery Association (MUSL). The Lottery also sells instant lottery tickets, which do not involve prize drawings. All tickets are sold through licensed lottery retailers. In addition, the Lottery conducts video lottery games at two licensed facilities.

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.

<u>Game</u>	<u>Prize Payout</u>	<u>State's General Fund Share</u>
Daily Numbers Instant Ticket Games MUSL – PowerBall Wild Money (1) Money Roll (2)	Not less than 45% or more than 65% of sales	Not less than 25% of ticket sales
Keno	Not less than 45% or more than 72% of sales	Not less than 15% of ticket sales
Video Lottery	Prize payout not established by law	51% of net terminal income (video lottery credits purchased less credits redeemed or redeemable) less pro rata share of Lottery's operating expenses

(1) The Wild Money game began January 20, 2002.

(2) The Money Roll game ended January 19, 2002.

RHODE ISLAND LOTTERY

Notes to Financial Statements

(1) Organization - (Continued)

Chapter 42-61.2 of the General Laws authorizes the Commission to conduct and control video lottery games. This chapter stipulates the allocation of video lottery net terminal income (video lottery credits purchased less credits redeemed or redeemable). The Commission's share for deposit in the Lottery fund shall be no less than 51% of net terminal income. The remaining net terminal income is divided among licensed video lottery retailers, the technology providers (video lottery terminal providers), the central communications system provider, the city or town in which the video retailer is licensed, and the owners of dog kennels under contract with a licensed video lottery retailer.

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 has placed 2% of each drawing period's ticket sales for PowerBall, included as part of each member's prize liability, in prize reserve funds. The maximum balance on the prize reserve funds for PowerBall is \$77,000,000. Once the prize reserve funds exceed this designated cap, 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 the 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. At June 30, 2002, the prize reserve funds for the PowerBall game had reached a maximum balance of \$77,000,000 of which the Lottery's share was \$2,126,422. The Lottery has charged amounts placed into the prize reserve funds to prize awards expense as the related sales have occurred.

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's unreserved account is reported on the statement of net assets as "Deposits with MUSL". The Lottery is assessed its pro rata share of MUSL's annual operating expenses. MUSL reduced the Lottery's unreserved account by \$75,757 for operating expenses for the fiscal year ended June 30, 2002.

MUSL's independent auditors issue a publicly available annual financial report that may be obtained by writing to the Multi-State Lottery Association, 1701 48th Street, Suite 210, West Des Moines, Iowa 50266-6723.

RHODE ISLAND LOTTERY

Notes to Financial Statements

(2) Summary of Significant Accounting Policies

(a) *Basis of Accounting*

The financial records of the Lottery, a proprietary 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. In accordance with GASB Statement No. 20, in the absence of specific guidance from a GASB pronouncement, pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989 have been followed.

(b) *Reporting Entity*

The Lottery is a component unit of the State of Rhode Island and Providence Plantations (State) for financial reporting purposes. Accordingly, its annual financial statements are included in the State's Comprehensive Annual Financial Report (CAFR).

(c) *Revenues and Expenses*

The Lottery defines all revenues and expenses deriving from on-line, instant ticket and video lottery sales as operating. All other revenues and expenses are defined as non-operating.

Revenue from the sale of lottery tickets and video lottery, 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.
2. Instant ticket lottery games - when ticket packets are charged to retailers. Prize expense is recognized in proportion to the number of tickets sold based on the stated prize structure for a specific instant ticket game.
3. Video lottery games - when game credits are purchased and when game credits are redeemable. Video lottery revenue and prize expenses are recorded at the amount of credits purchased and the amount of credits redeemable. These amounts are net of credits won and played.

The Lottery accrues for the maximum prizes payable. Prize obligations, other than those relating to prizes payable in installments, which remain unclaimed one year after the drawing date, are reported as a reduction to the cost of sales.

RHODE ISLAND LOTTERY

Notes to Financial Statements

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

(d) *Depreciation*

Property, plant, and equipment are stated at historical cost. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets.

(e) *Cash Equivalents*

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

(f) *Investments for Jackpot Awards and Obligations for Unpaid Prize Awards*

Jackpot awards for the Lot-O-Bucks game, which is no longer active, are paid in annual installments. The Lottery satisfied these obligations by purchasing investments with maturities corresponding to the jackpot award annual installments. Investments for jackpot awards purchased since November 15, 1983 are in the name of the Lottery. Accordingly, the Lottery has a direct obligation to make future installment payments to the jackpot winner. These investments and related obligations are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair value of investments for jackpot awards is generally based on published market prices and quotations from national security exchanges and securities pricing services.

For certain other games, annuity contracts were purchased in the name of, and paid directly to, the jackpot winner. Accordingly, the Lottery has not recorded an obligation for prize awards satisfied through annuity contracts purchased in the name of the winner.

(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) *Deferred Revenue*

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. Sales pertaining to future drawings are reported as deferred revenue.

RHODE ISLAND LOTTERY

Notes to Financial Statements

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

(i) *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.

(j) *Adoption of Governmental Accounting Standards Board Pronouncements*

The Lottery adopted the provisions of the GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Statement No. 34 establishes new financial reporting requirements for all state and local governments. For the Lottery, adoption of this pronouncement required inclusion of management’s discussion and analysis to provide an overview of the Lottery’s financial activities. The Lottery has also adopted GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements require changes to the format and terminology used in the Lottery’s financial statements.

(3) Deposits and Investment Risk

(a) *Deposits*

A cash overdraft of \$211,974 existed at June 30, 2002; the bank balance at that date was \$196,299. The primary difference between the book and bank balances was outstanding checks. The State General Treasurer held the entire bank balance at June 30, 2002. All General Treasurer accounts at a single institution are aggregated for purposes of determining Federal Depository Insurance coverage.

(b) *Investments*

The Lottery’s investments are categorized below to provide an indication of the level of market and credit risk assumed by the Lottery at June 30, 2002. Investments for jackpot awards were made by the Lottery in accordance with guidelines established by the Commission. All other investments, principally cash equivalent type investments, are made by the State General Treasurer in accordance with guidelines established by the State Investment Commission, which is responsible for the investment of all State funds. Pursuant to Chapter 35-10 of the General Laws, the State Investment Commission 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.”

RHODE ISLAND LOTTERY

Notes to Financial Statements

(3) Deposits and Investment Risk - (Continued)

- Category 1 includes investments that are insured or registered, or are held by the Lottery or its agent in the Lottery's name.
- Category 2 includes investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the Lottery's name.
- Category 3 includes investments that are uninsured and unregistered, and are held by the counterparty, or by its trust department or agent but not in the Lottery's name.

All of the Lottery's investments are Category 1 investments, which are summarized below.

	<u>Fair Value</u>
Zero coupon U.S. Treasury bonds	\$ 1,011,479
U.S. Government Agency Notes	<u>6,599,656</u>
Total investments	7,611,135
Less amounts classified as cash equivalents	<u>6,599,656</u>
Total investments for jackpot awards	1,011,479
Less short-term investments for jackpot awards	<u>691,000</u>
Long-term investments for jackpot awards	<u><u>\$ 320,479</u></u>

(c) Cash and Cash Equivalents

Cash and cash equivalents on the balance sheets consist of the following:

Cash balance per books	\$ -
Investments reclassified as cash equivalents	<u>6,599,656</u>
Cash and cash equivalents	<u><u>\$ 6,599,656</u></u>

RHODE ISLAND LOTTERY

Notes to Financial Statements

(4) Property, Plant and Equipment

A summary of property, plant and equipment follows:

	<u>Estimated Useful Life</u>	
Warehouse	20	\$ 185,338
Buildings	20	1,468,983
Building improvements	10	129,762
Ticket production equipment	10	19,612
Office equipment	10	140,202
Furniture and fixtures	10	26,265
Lottery drawing equipment	3	89,628
Automobiles	3	282,582
Computer equipment	3	394,146
Trucks	3	22,445
Construction in Progress		<u>751,119</u>
		3,510,082
Less: Accumulated depreciation		<u>2,228,958</u>
Property, plant and equipment (net)		<u>\$ 1,281,124</u>

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 assets. The Lottery's capitalization threshold is \$500.

(5) Due to State's General Fund

Due to State's General Fund represents the balance of net income for the period (after adjustment for depreciation expense on the Lottery's headquarters - see Note 8) that is to be paid to the State's General Fund. The amounts paid and amounts due to State's General Fund are summarized below:

Payments to State's General Fund	\$ 214,141,576
Cash paid during fiscal year	(213,443,897)
Amount due to State's General Fund, beginning of fiscal year	<u>1,443,897</u>
Due to State's General Fund, end of fiscal year	<u>\$ 2,141,576</u>

RHODE ISLAND LOTTERY

Notes to Financial Statements

(6) Commissions

The Lottery pays commissions to ticket retailers and its on-line games contractor based on a percentage of gross ticket sales. Video lottery commissions, as specified in the General Laws, are paid to the facility operators, technology providers (video 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).

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 and accumulated vested sick pay for those employees eligible for retirement. As of June 30, 2002, the estimated liability was \$238,489. The liability is calculated using the current hourly rates of pay.

(8) Net Assets – Investments in Capital Assets

The Lottery retained \$1,458,275 of its earnings during the years 1980 to 1983 to finance construction of a new office headquarters. It adopted the policy of reducing investment in capital assets by the annual building depreciation expense of \$71,895.

(9) Retirement Plan

Plan Description:

All Lottery employees must participate in a cost-sharing multiple-employer defined benefit pension plan administered by the State of Rhode Island Employees' Retirement System (ERS). The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to state employees is established by Chapter 36-10 of the General Laws, which is subject to amendment by the General Assembly. The ERS 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 by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903.

RHODE ISLAND LOTTERY

Notes to Financial Statements

(9) Retirement Plan – (Continued)

Funding Policy:

The funding policy, as set forth in the General Laws, Section 36-10-2, provides for actuarially determined periodic contributions to the plan. However, the actuarially determined contribution rates can be statutorily changed by the legislature. Lottery employees are required to contribute 8.75% of their annual covered salary. The Lottery is required to contribute at an actuarially determined rate; the rate is 5.59% of annual covered payroll for the fiscal year ended June 30, 2002. The Lottery contributed \$136,845, \$178,730, and \$181,386 for the fiscal years ended June 30, 2002, 2001 and 2000, respectively, equal to 100% of the required contributions for each year.

(10) Postemployment Benefits

In accordance with the General Laws, postemployment healthcare benefits are provided to all state employees who retire on or after July 1, 1989. The benefits in general cover medical and hospitalization costs for pre-Medicare eligible retirees and a Medicare supplement for Medicare eligible retirees. The retiree is required to pay a portion of the monthly premium. This payment varies with years of service and ranges from 50% for retirees with 10-15 years of service to 0% for retirees with 35 years of service. The Lottery contributed .95% of covered payroll for the fiscal year ended June 30, 2002 to fund the cost of these benefits. This benefit program is administered by the State, therefore all required disclosures are included in the State's CAFR.

(11) Deferred Compensation

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

(12) Commitments

The Lottery has contracted with a vendor to furnish computer hardware and software together with the related services necessary for the operation of the Lottery's computerized games. Commissions range from 4% to 4.8% of sales from the on-line games. The Lottery leases a portion of its headquarters to the vendor to house computer hardware necessary for the on-line games. The term of the lease coincides with the vendor contract and provides for a rent of \$41,520 per annum. This contract is effective through October 18, 2007.

The Lottery has also contracted with this vendor to install, operate and maintain a central communications system for the operation of its video lottery games. This contract is effective through August 28, 2007 and allows the Lottery the option of extending the agreement for five one-year terms. Commissions, currently mandated by General Laws at 2.5% of net terminal income from video lottery sales, are paid from the technology provider's share of net terminal income.

RHODE ISLAND LOTTERY

Notes to Financial Statements

(13) Contingencies

Litigation

A suit was filed by a former Lottery employee against the members of the Commission in their official capacity, the Governor and the Director of Administration. The litigation concerns the former employee's claim that his termination on March 25, 1996 was unlawful. In February 2001, a judge decided that the Commission was in violation of the Open Meetings Act at its meeting on March 25, 1996, however, the employee was not reinstated to his former position. The Commission was fined and the plaintiffs were awarded attorney's fees and costs. These amounts have been accrued at June 30, 2002 but continue to be appealed by both parties.

Damage to Lottery Headquarters

On March 6, 2001, due to a severe storm, a significant portion of the roof collapsed at the Lottery headquarters. The Lottery has contracted to repair the building and expand the existing warehouse facility. The cost of the construction contract is \$1.37 million of which the Lottery has incurred construction in progress costs of \$751,119 at June 30, 2002. The Lottery estimates that construction will be completed during September 2002.

As a result of the roof collapse, the Lottery entered into a sublease agreement for temporary office space located at 1210 Pontiac Avenue, Cranston, Rhode Island. The terms of the arrangement require the Lottery to pay an annual rent of \$103,950. The Lottery is also responsible for its pro rata share of all other amounts required to be paid as additional rent under the master lease agreement. The Lottery expects the majority of the building repairs and rent to be covered by insurance proceeds.

Supplementary Information

RHODE ISLAND LOTTERY

Sales, Commissions and Prize Awards Expense

Year Ended June 30, 2002

Schedule 1

	<u>Sales</u>	<u>Commissions</u>	<u>Prize Awards Expense</u>	<u>Unclaimed Prize Recovery</u>	<u>Cost of Tickets</u>	<u>Cost of Sales</u>	<u>Gross Profit</u>
Lottery games:							
On-line games							
Keno	\$ 78,837,210	9,707,707	51,201,531	(497,168)	-	60,412,070	18,425,140
Powerball	46,295,253	5,700,617	23,154,522	(890,600)	-	27,964,539	18,330,714
Daily Numbers	28,994,464	3,570,266	15,115,247	(260,102)	-	18,425,411	10,569,053
Wild Money	2,207,213	157,916	1,185,807	-	-	1,343,723	863,490
Money Roll	<u>1,282,450</u>	<u>271,788</u>	<u>643,761</u>	<u>(74,151)</u>	<u>-</u>	<u>841,398</u>	<u>441,052</u>
	157,616,590	19,408,294	91,300,868	(1,722,021)	-	108,987,141	48,629,449
Instant tickets	78,034,555	6,352,140	51,110,228	(1,264,281)	1,300,380	57,498,467	20,536,088
Video Lottery	<u>935,208,511</u>	<u>132,116,020</u>	<u>654,171,206</u>	<u>(56,873)</u>	<u>-</u>	<u>786,230,353</u>	<u>148,978,158</u>
Totals	<u>\$ 1,170,859,656</u>	<u>\$ 157,876,454</u>	<u>\$ 796,582,302</u>	<u>\$ (3,043,175)</u>	<u>\$ 1,300,380</u>	<u>\$ 952,715,961</u>	<u>\$ 218,143,695</u>
Video Commissions - Detail							
Facilities		\$ 85,963,080					
Technology Providers		23,257,843					
Central Communications Provider		7,025,464					
Dog Kennel Owners		13,059,447					
City/Town		<u>2,810,186</u>					
Total		<u>\$ 132,116,020</u>					

See independent auditor's report.

Statistical Section

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Rhode Island Statistics

RHODE ISLAND LOTTERY

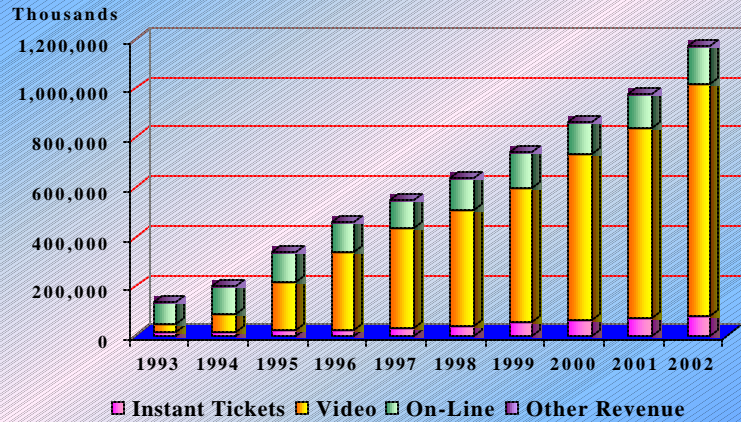
Revenues

Fiscal Years 1993 through 2002

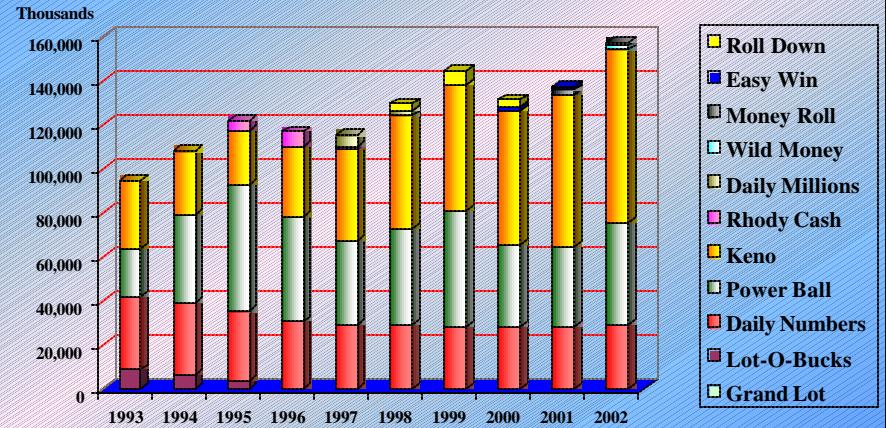
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
SALES										
<i>Instant Tickets</i>										
Instant Tickets	\$ 10,922,026	\$ 11,300,376	\$ 20,840,747	\$ 23,339,726	\$ 27,356,236	\$ 40,323,292	\$ 51,372,959	\$ 61,813,004	\$ 69,394,994	\$ 78,034,555
<i>Video</i>										
VLTs	32,725,369	76,694,627	192,018,304	314,882,436	406,108,530	464,068,675	545,474,154	670,764,767	771,019,263	935,208,511
<i>On-Line</i>										
Grand Lot	21,367	-	-	-	-	-	-	-	-	-
Lot-O-Bucks	8,709,942	6,639,796	3,974,231	-	-	-	-	-	-	-
Daily Numbers	33,271,675	32,325,382	31,196,077	30,600,023	29,405,124	29,257,141	28,221,328	28,159,762	28,459,883	28,994,464
PowerBall	21,612,441	40,562,732	57,474,718	47,622,832	37,881,052	43,345,345	52,582,676	37,456,233	36,437,944	46,295,253
Keno	30,794,180	28,399,977	24,927,298	32,003,602	41,801,453	51,617,137	57,637,832	60,801,993	69,190,444	78,837,210
Rhody Cash	-	-	4,115,596	6,849,222	1,112,026	-	-	-	-	-
Daily Millions	-	-	-	-	5,051,443	2,162,126	-	-	-	-
Wild Money	-	-	-	-	-	-	-	-	-	2,207,213
Money Roll	-	-	-	-	-	-	-	-	1,971,470	1,282,450
Easy Win	-	-	-	-	-	-	-	1,802,708	1,545,704	-
Roll Down	-	-	-	-	-	3,300,928	5,880,770	3,293,258	-	-
Total On-line	94,409,605	107,927,887	121,687,920	117,075,679	115,251,098	129,682,677	144,322,606	131,513,954	137,605,445	157,616,590
TOTAL SALES	138,057,000	195,922,890	334,546,971	455,297,841	548,715,864	634,074,644	741,169,719	864,091,725	978,019,702	1,170,859,656
<i>Other Revenues</i>										
Investment Earnings	194,424	257,711	521,709	456,930	421,123	488,379	528,425	766,591	969,516	456,858
Net Pull Tab Sales	205,278	185,454	185,639	162,788	163,067	196,280	214,300	229,991	211,876	238,905
Miscellaneous	27,207	26,475	182,147	105,147	169,343	264,405	169,985	1,072,583	472,068	1,277,365
TOTAL OTHER REVENUES	426,909	469,640	889,495	724,865	753,533	949,064	912,710	2,069,165	1,653,460	1,973,128
REVENUES	\$ 138,483,909	\$ 196,392,530	\$ 335,436,466	\$ 456,022,706	\$ 549,469,397	\$ 635,023,708	\$ 742,082,429	\$ 866,160,890	\$ 979,673,162	\$ 1,172,832,784

Source: Rhode Island Lottery

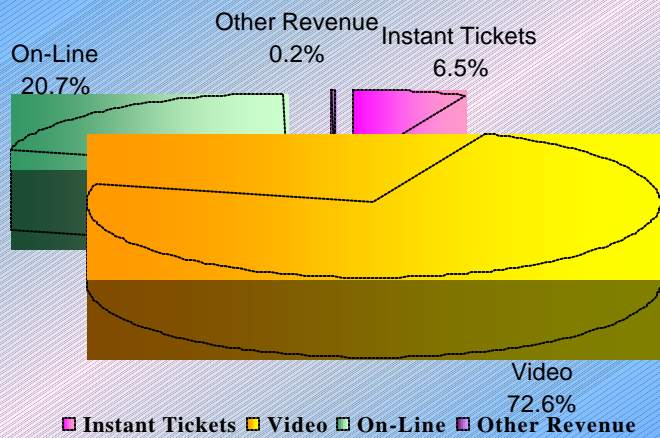
REVENUES Fiscal Years 1993 ~ 2002



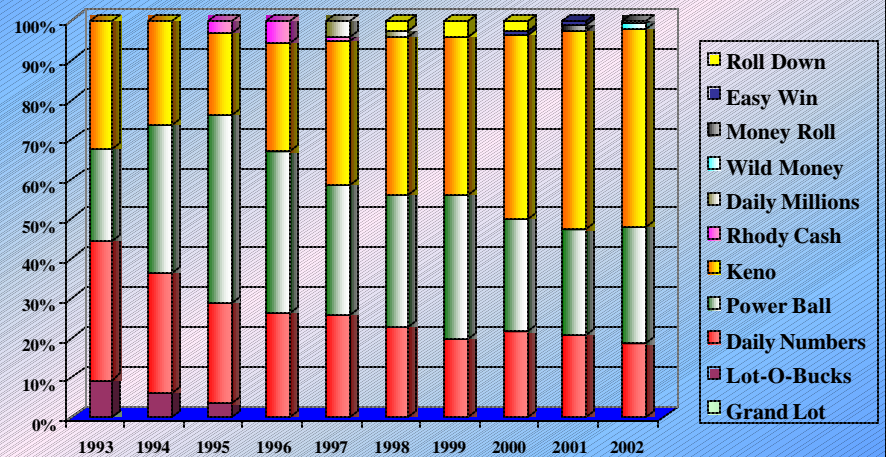
ON-LINE REVENUES Fiscal Years 1993 ~ 2002

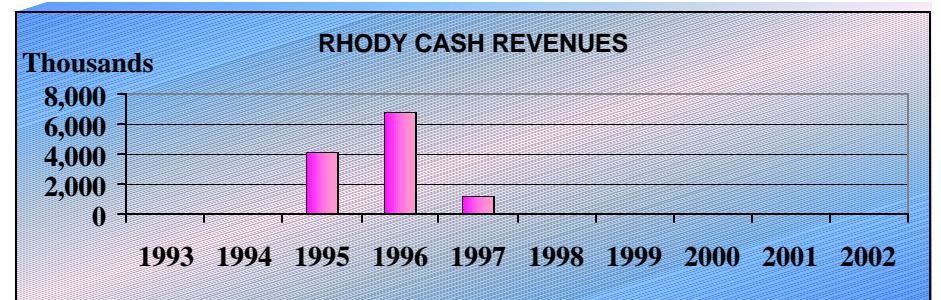
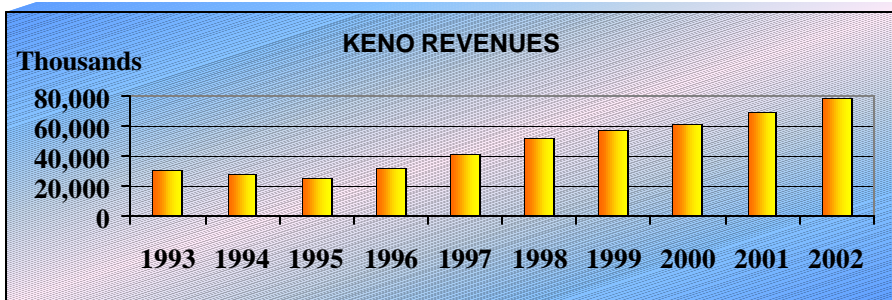
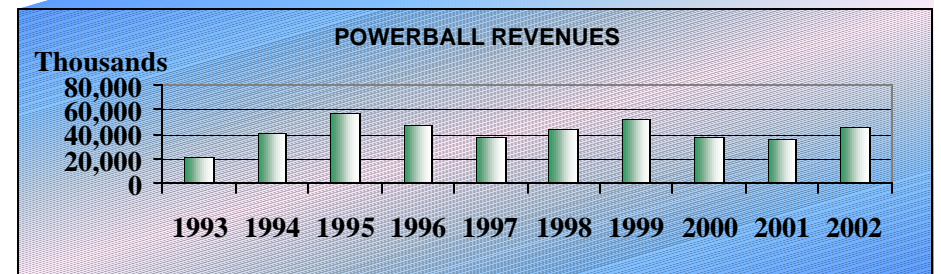
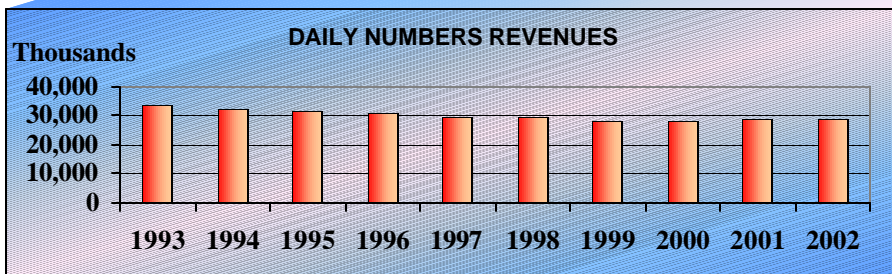
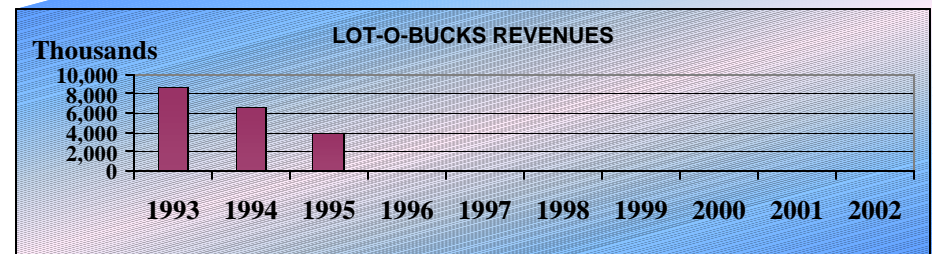
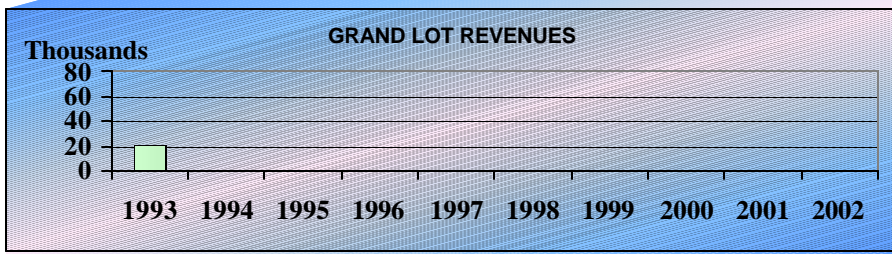
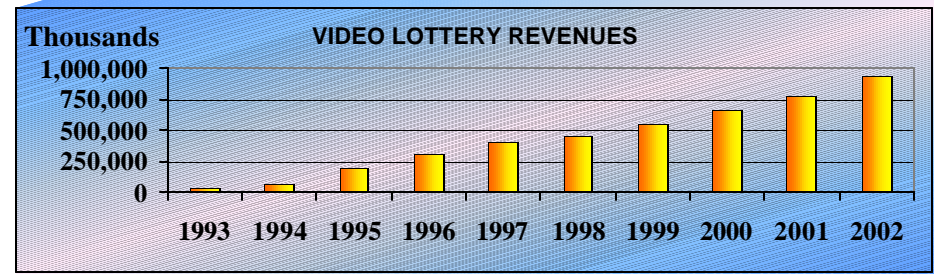
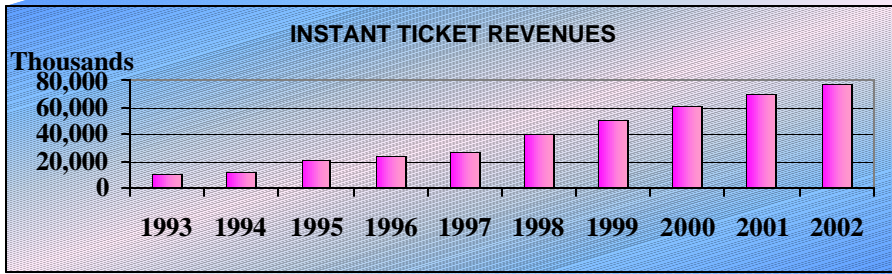


BREAKDOWN OF TOTAL REVENUES Fiscal Years 1993 ~ 2002

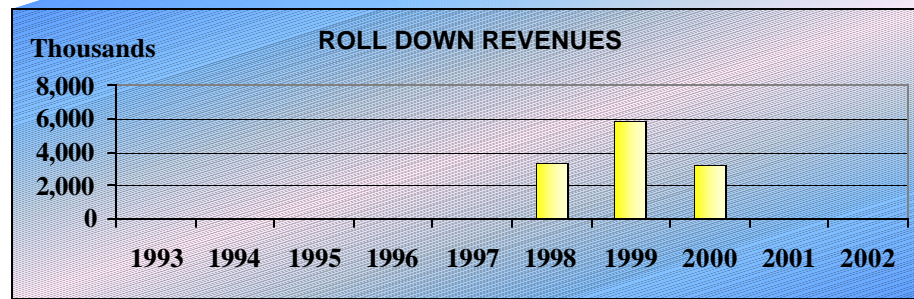
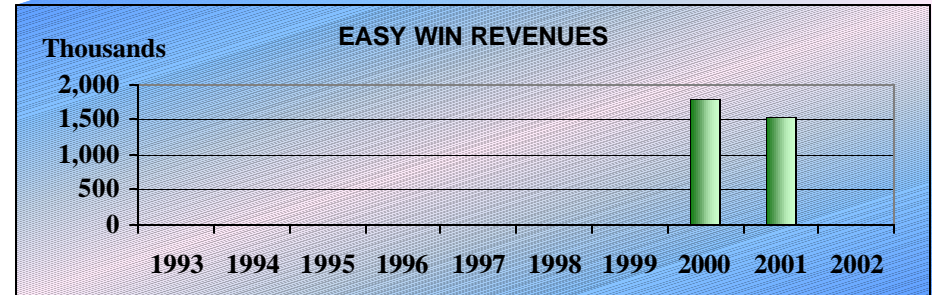
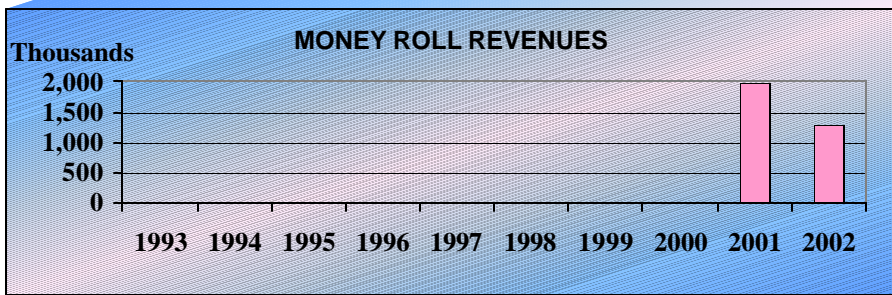
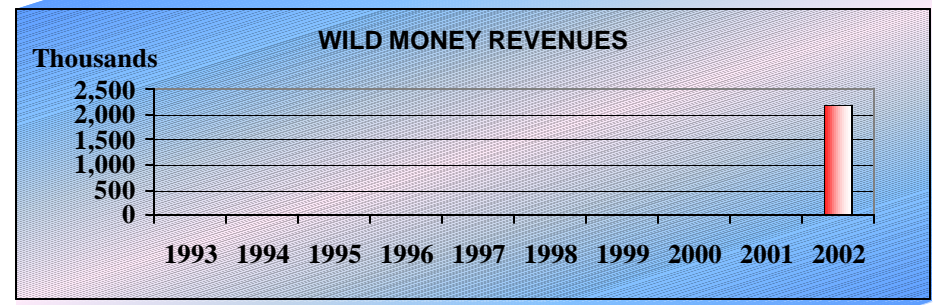
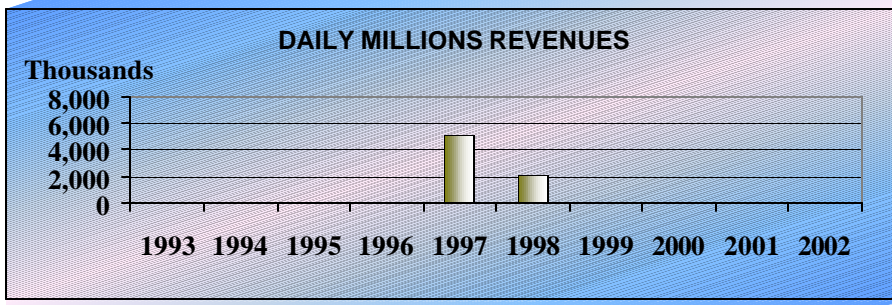


BREAKDOWN OF ON-LINE REVENUES Fiscal Years 1993 ~ 2002





Source: Rhode Island Lottery



Note: Not all games were active during this 10-year period.
 Grand Lot ended in fiscal year 1993
 Lot-O-Bucks ended in fiscal year 1995
 Keno began in fiscal year 1993
 Rhody Cash began in fiscal year 1995 and ended in fiscal year 1997
 Daily Millions began in fiscal year 1997 and ended in fiscal year 1998
 Wild Money began in fiscal year 2002
 Money Roll began in fiscal year 2001 and ended in fiscal year 2002
 Easy Win began in fiscal year 2000 and ended in fiscal year 2001
 Roll Down began in fiscal year 1998 and ended in fiscal year 2000

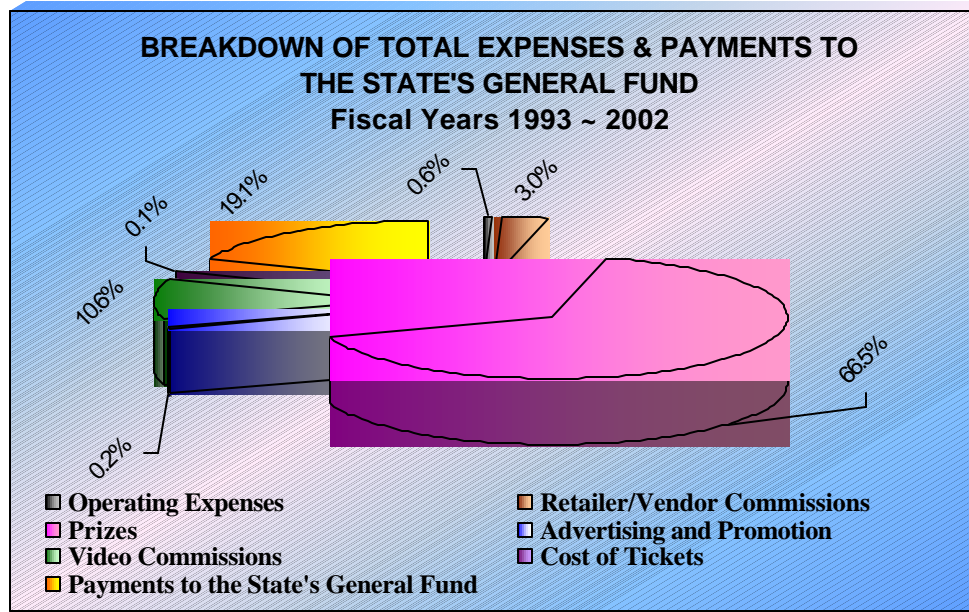
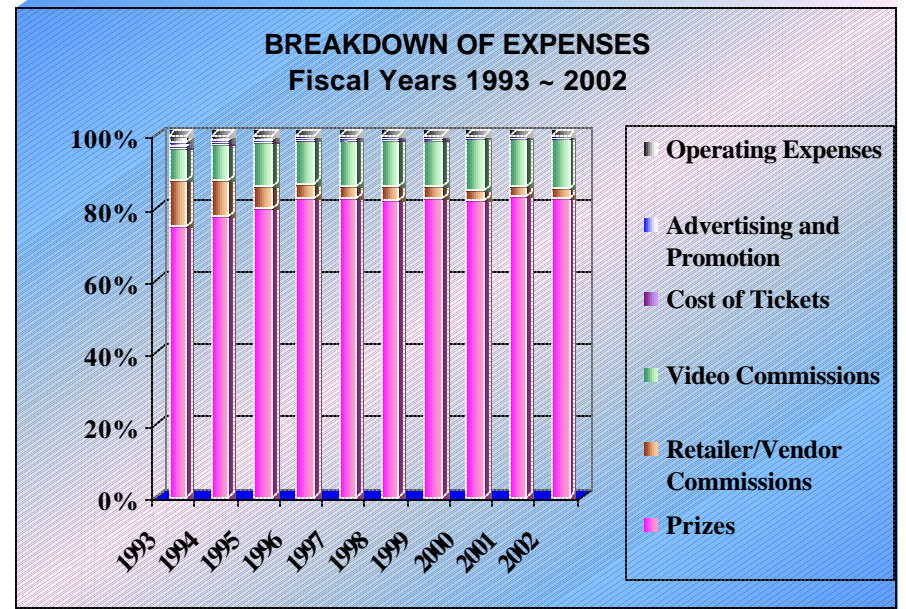
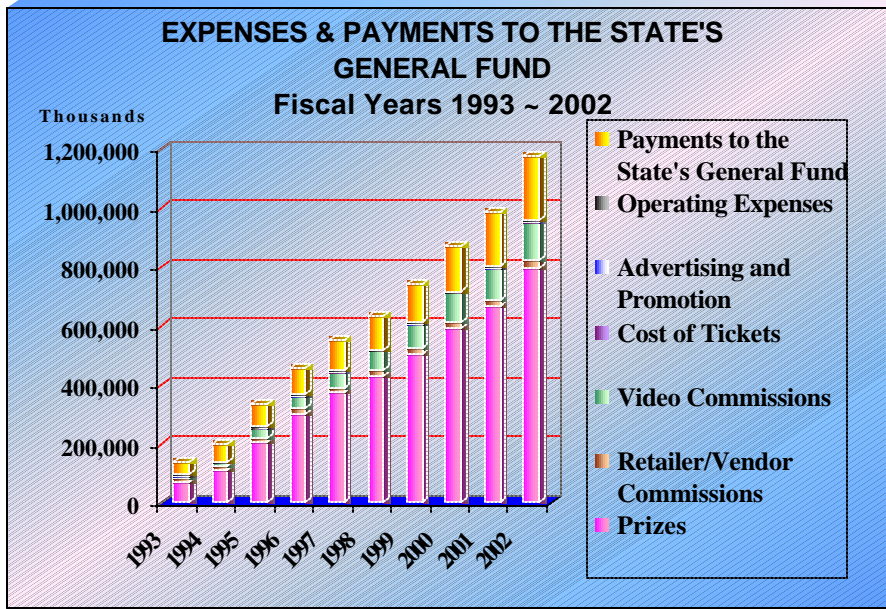
Source: Rhode Island Lottery

RHODE ISLAND LOTTERY

Expenses and Payments to the State's General Fund

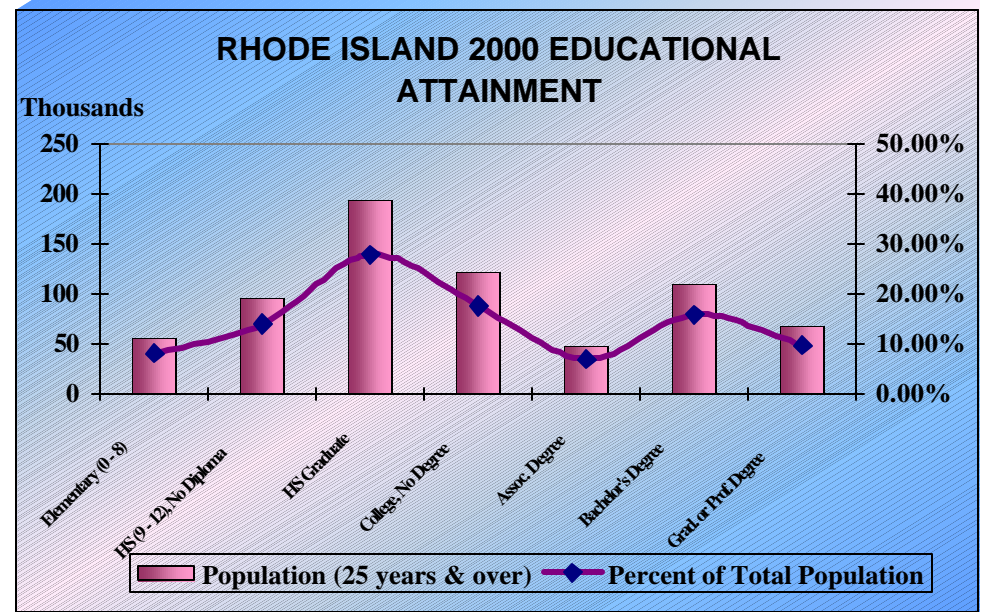
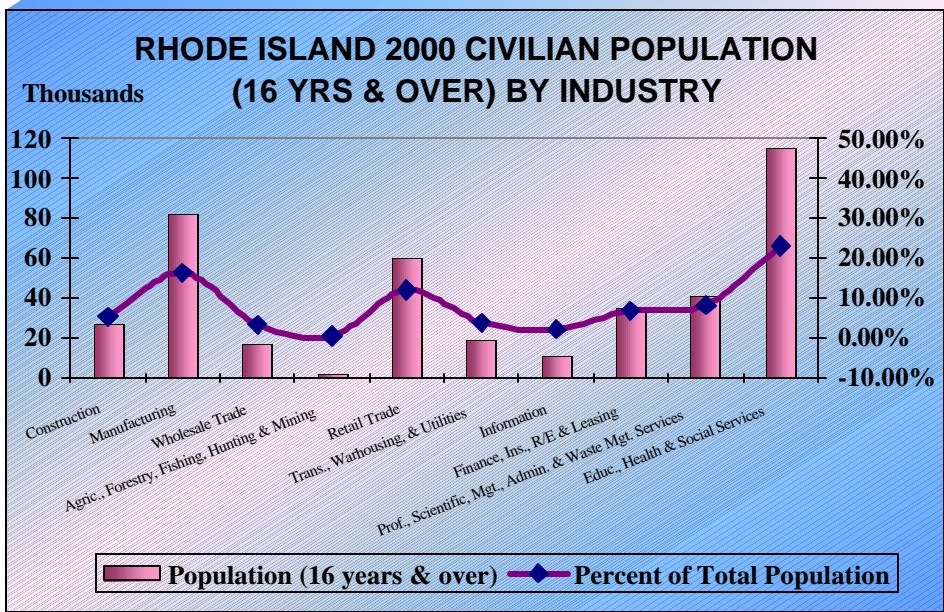
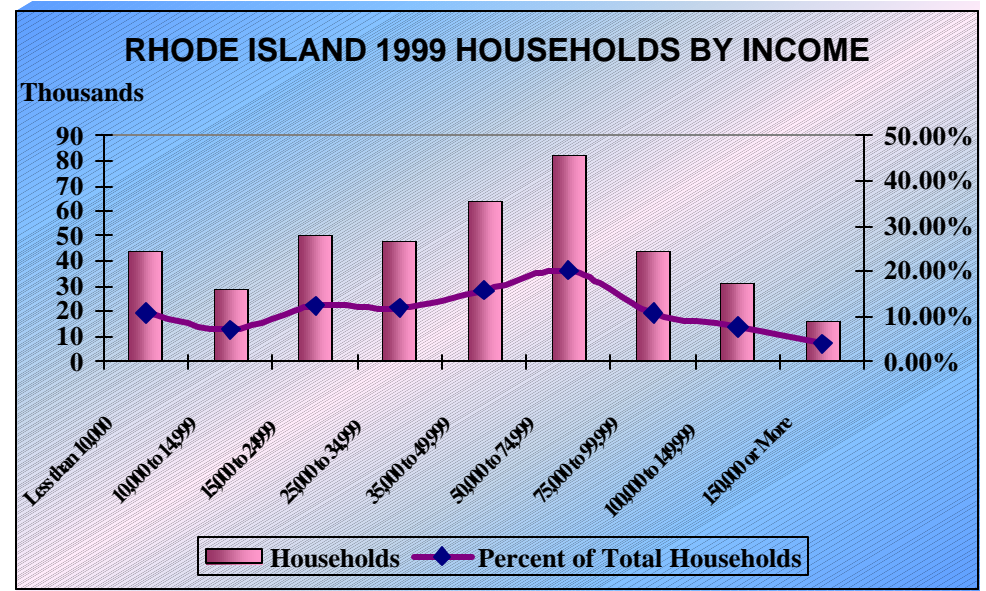
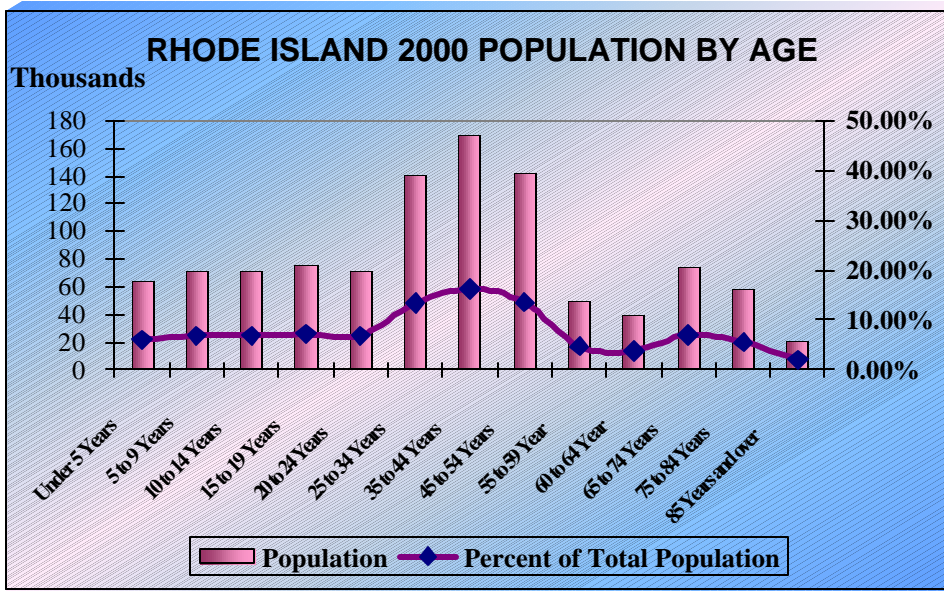
Fiscal Years 1993 through 2002

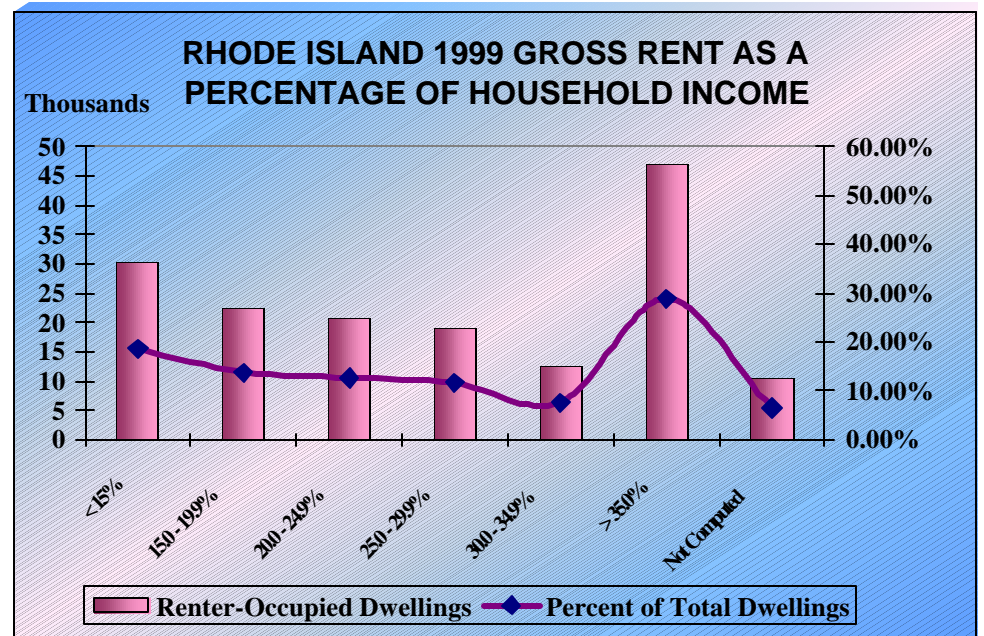
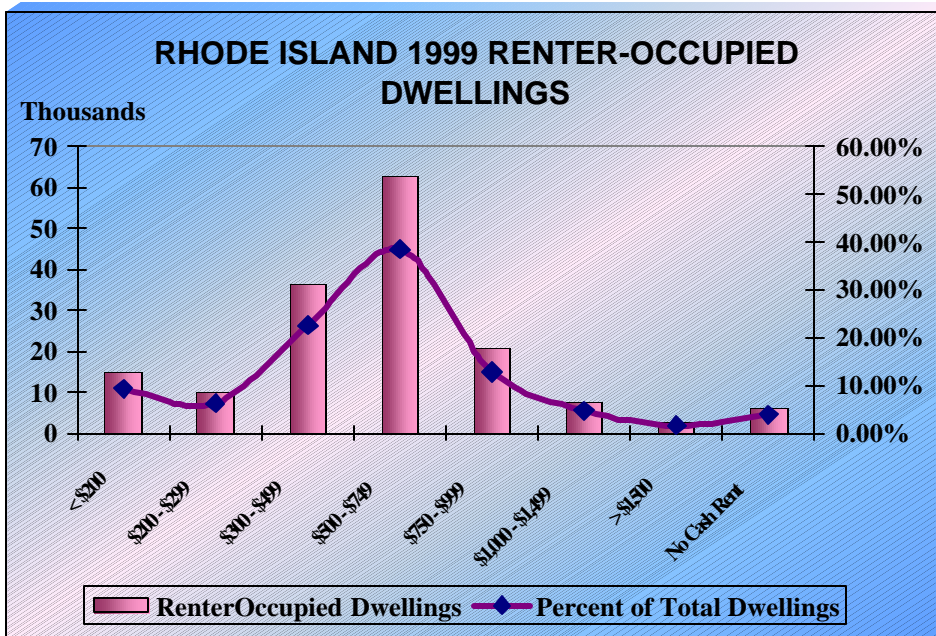
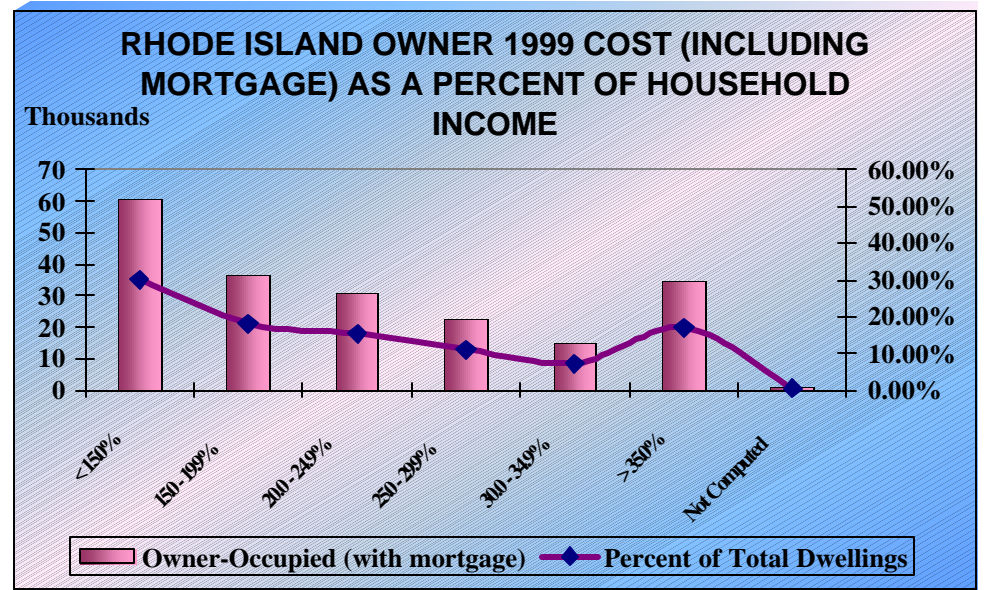
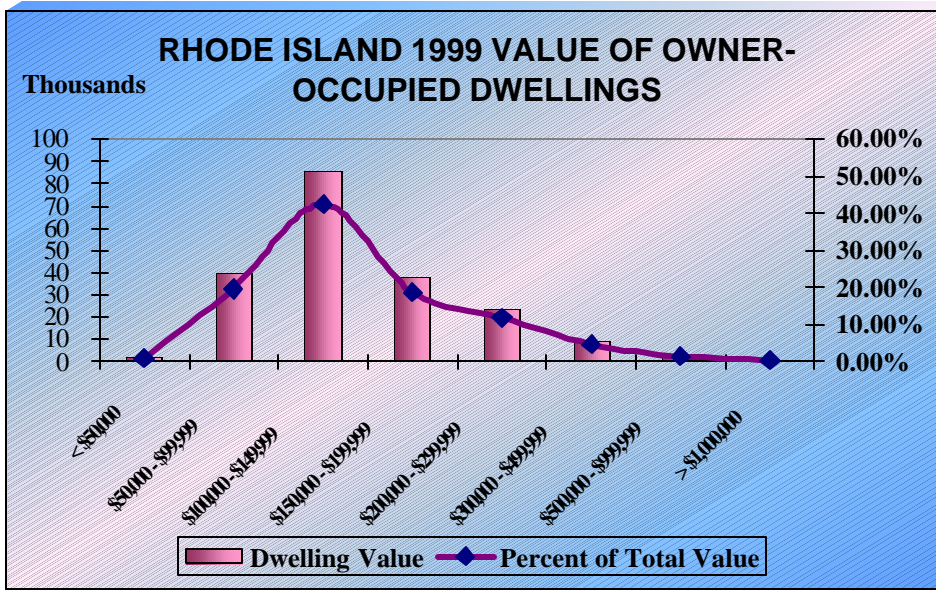
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
EXPENSES										
Prizes	\$ 70,978,039	\$ 109,803,118	\$ 207,427,166	\$ 303,401,899	\$ 373,056,150	\$ 429,277,957	\$ 503,522,789	\$ 590,679,183	\$ 666,947,849	\$ 796,582,302
Retailer/Vendor Commissions	12,075,388	13,987,194	16,090,163	15,629,373	15,715,397	18,442,716	21,219,277	20,392,735	21,584,246	25,760,434
Video Commissions	8,741,973	14,436,084	32,281,395	43,869,000	57,444,162	67,859,963	80,153,944	100,930,356	107,436,913	132,116,020
Cost of Tickets	417,581	379,050	567,290	619,223	843,610	1,102,638	985,173	990,209	1,112,469	1,300,380
Unclaimed Prize Recovery	(996,235)	(1,237,054)	(1,688,010)	(2,110,340)	(2,080,535)	(1,849,978)	(2,299,067)	(2,778,517)	(3,973,358)	(3,043,175)
Advertising and Promotion	771,543	647,021	1,156,710	1,263,390	1,102,533	1,384,429	1,242,550	1,511,749	1,220,577	1,411,592
Operating Expenses	<u>1,988,840</u>	<u>2,142,081</u>	<u>2,878,608</u>	<u>3,046,570</u>	<u>3,427,737</u>	<u>3,806,256</u>	<u>3,854,611</u>	<u>4,223,435</u>	<u>4,672,464</u>	<u>4,635,550</u>
TOTAL EXPENSES	<u>\$ 93,977,129</u>	<u>\$ 140,157,494</u>	<u>\$ 258,713,322</u>	<u>\$ 365,719,115</u>	<u>\$ 449,509,054</u>	<u>\$ 520,023,981</u>	<u>\$ 608,679,277</u>	<u>\$ 715,949,150</u>	<u>\$ 799,001,160</u>	<u>\$ 958,763,103</u>
PAYMENTS TO THE STATE'S GENERAL FUND	<u>\$ 44,578,444</u>	<u>\$ 56,306,931</u>	<u>\$ 76,795,039</u>	<u>\$ 90,375,486</u>	<u>\$ 100,032,238</u>	<u>\$ 115,071,622</u>	<u>\$ 133,475,047</u>	<u>\$ 150,283,635</u>	<u>\$ 180,743,897</u>	<u>\$ 214,141,576</u>



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Rhode Island Demographics





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National Statistics

**U.S. LOTTERIES PER CAPITA SALES
FISCAL YEAR 2001**

LOTTERY	TOTAL SALES (\$M)	POPULATION (M)	PER CAPITA SALES
<i>RHODE ISLAND (2)</i>	<i>978.36</i>	<i>1.05</i>	<i>\$931.77</i>
South Dakota (2)	586.83	0.75	\$782.44
Delaware (1)	601.16	0.78	\$770.72
Massachusetts	3,969.12	6.35	\$625.06
District of Columbia ***	223.72	0.57	\$392.49
West Virginia (1)	596.89	1.81	\$329.77
Georgia	2,193.81	8.19	\$267.86
Connecticut	839.71	3.41	\$246.25
Oregon (1)	794.73	3.42	\$232.38
Maryland	1,212.74	5.30	\$228.82
New York *	4,185.00	18.98	\$220.50
New Jersey	1,806.69	8.41	\$214.83
Ohio	1,919.90	11.35	\$169.15
Michigan ***	1,614.67	9.94	\$162.44
New Hampshire	198.65	1.24	\$160.20
Kentucky	590.85	4.04	\$146.25
Pennsylvania	1,779.83	12.28	\$144.94
Florida	2,274.73	15.98	\$142.35
Virginia	1,002.83	7.08	\$141.64
Vermont	81.20	0.61	\$133.11
Texas **	2,825.30	21.27	\$132.83
Illinois	1,449.04	12.42	\$116.67
Maine	146.59	1.27	\$115.43
Missouri	508.40	5.60	\$90.79
Indiana	548.30	6.08	\$90.18
California	2,894.84	33.87	\$85.47
Washington	483.90	5.97	\$81.06
Colorado	350.63	4.46	\$78.62
Wisconsin	401.35	5.36	\$74.88
Minnesota	366.18	4.92	\$74.43
Kansas	184.86	2.69	\$68.72
Louisiana	284.47	4.47	\$63.64
New Mexico	115.64	1.82	\$63.54
Idaho	81.74	1.29	\$63.36
Iowa	174.93	2.93	\$59.70
Arizona	272.67	5.13	\$53.15
Nebraska	66.45	1.71	\$38.86
Montana	30.34	0.90	\$33.71
TOTAL	38,637.05	243.70	\$158.54

* FY ends 3/31

** FY ends 8/31

*** FY ends 9/30

(1) Includes net VLT sales (cash in less cash out)

(2) Includes gross VLT sales (cash in)

Source: North American Association of State & Provincial Lotteries

**U.S. LOTTERIES RANKED
BY FISCAL YEAR 2001 SALES**

RANK	LOTTERY	FY '00 SALES (\$M)	FY '01 SALES (\$M)
1	New York *	3,629.26	4,185.00
2	Massachusetts	3,697.97	3,969.12
3	California	2,598.38	2,894.84
4	Texas **	2,657.29	2,825.30
5	Florida	2,248.50	2,274.73
6	Georgia	2,313.55	2,193.81
7	Ohio	2,150.40	1,919.90
8	New Jersey	1,839.80	1,806.69
9	Pennsylvania	1,686.78	1,779.83
10	Michigan ***	1,694.75	1,614.67
11	Illinois	1,503.86	1,449.04
12	Maryland	1,175.14	1,212.74
13	Virginia	973.00	1,002.83
14	RHODE ISLAND (2)	864.32	978.36
15	Connecticut	837.51	839.71
16	Oregon (1)	760.01	794.73
17	Delaware (1)	556.45	601.16
18	West Virginia (1)	447.97	596.89
19	Kentucky	583.68	590.85
20	South Dakota (2)	579.30	586.83
21	Indiana	582.54	548.30
22	Missouri	508.02	508.40
23	Washington	452.81	483.90
24	Wisconsin	406.70	401.35
25	Minnesota	397.29	366.18
26	Colorado	370.96	350.63
27	Louisiana	276.38	284.47
28	Arizona	255.55	272.67
29	District of Columbia ***	215.51	223.72
30	New Hampshire	190.81	198.65
31	Kansas	192.56	184.86
32	Iowa	178.21	174.93
33	Maine	147.91	146.59
34	New Mexico	110.61	115.64
35	Idaho	86.51	81.74
36	Vermont	75.92	81.20
37	Nebraska	68.17	66.45
38	Montana	29.89	30.34
	TOTAL	37,344.27	38,637.05

**U.S. LOTTERIES RANKED
BY SALES % CHANGE**

RANK	LOTTERY	% CHANGE
1	West Virginia (1)	33.2%
2	New York *	15.3%
3	RHODE ISLAND (2)	13.2%
4	California	11.4%
5	Delaware (1)	8.0%
6	Massachusetts	7.3%
7	Vermont	7.0%
8	Washington	6.9%
9	Arizona	6.7%
10	Texas **	6.3%
11	Pennsylvania	5.5%
12	Oregon (1)	4.6%
13	New Mexico	4.5%
14	New Hampshire	4.1%
15	District of Columbia ***	3.8%
16	Maryland	3.2%
17	Virginia	3.1%
18	Louisiana	2.9%
19	Montana	1.5%
20	South Dakota (2)	1.3%
21	Florida	1.2%
22	Kentucky	1.2%
23	Connecticut	0.3%
24	Missouri	0.1%
25	Maine	-0.9%
26	Wisconsin	-1.3%
27	Iowa	-1.8%
28	New Jersey	-1.8%
29	Nebraska	-2.5%
30	Illinois	-3.6%
31	Kansas	-4.0%
32	Michigan ***	-4.7%
33	Georgia	-5.2%
34	Colorado	-5.5%
35	Idaho	-5.5%
36	Indiana	-5.9%
37	Minnesota	-7.8%
38	Ohio	-10.7%
	TOTAL	3.46%

* FY ends 3/31

** FY ends 8/31

*** FY ends 9/30

(1) Includes net VLT sales (cash in less cash out)

(2) Includes gross VLT sales (cash in)

Source: North American Association of State & Provincial Lotteries

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Compliance Section



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STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

- ◆ INTEGRITY
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited the financial statements of the Rhode Island Lottery (Lottery), a component unit of the State of Rhode Island and Providence Plantations, as of and for the fiscal year ended June 30, 2002 and have issued our report thereon dated September 6, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lottery's financial statements are free of 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 determination of financial statement amounts. 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lottery's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Lottery's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Reportable Condition

Logical access security to the computer systems used to operate the Lottery's games should be improved by (1) fully utilizing certain designed functions of the systems, (2) strengthening other system security aspects, and (3) implementing a comprehensive security plan for these computer systems that includes delegating certain aspects of security to the Lottery and monitoring by the Lottery of the overall system security function. As of June 30, 2002, the Lottery continued its implementation of a formal comprehensive security plan. The Lottery plans to complete implementation and obtain independent verification of its security plan during fiscal year 2003. Complete implementation and testing of this plan is necessary to ensure that access is appropriately restricted to authorized individuals and any unauthorized access is detected by the Lottery on a timely basis with appropriate follow-up.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the Joint Committee on Legislative Services, the Rhode Island Lottery Commission and Lottery management, and is not intended to be and should not be used by anyone other than these specified parties.



Ernest A. Almonte, CPA, CFE
Auditor General

September 6, 2002