

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

R H O D E I S L A N D
L O T T E R Y

The Lot
The Lot
The Lot
The Lot

*Comprehensive
Annual Financial
Report for the
Fiscal Year Ended
June 30, 2000*

COMPREHENSIVE ANNUAL FINANCIAL REPORT

RHODE ISLAND LOTTERY

A COMPONENT UNIT OF THE STATE OF RHODE ISLAND AND
PROVIDENCE PLANTATIONS

FOR THE FISCAL YEAR ENDED JUNE 30, 2000

PREPARED BY THE FINANCE DEPARTMENT



Rhode Island Lottery
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2000

TABLE OF CONTENTS

Introductory Section

Letter of Transmittal	1
Certificate of Achievement for Excellence in Financial Reporting.....	13
Commission Structure.....	14
Organizational Chart.....	15
Principal Officials.....	16

Financial Section

Independent Auditor's Report.....	17
Financial Statements	
Balance Sheets	19
Statements of Revenue, Expenses, and Retained Earnings	20
Statements of Cash Flows	21
Notes to Financial Statements	23
Supplementary Information	
Sales, Commissions, and Prize Awards Expense.....	34

Statistical Section

Rhode Island Statistics	
Revenues for Fiscal Years 1991 through 2000	35
Sales by Product for Fiscal Years 1991 through 2000.....	36
Expenses and Transfers to the State's General Fund for Fiscal Years 1991 through 2000	37
Sales by Game for Fiscal Years 1991 through 2000	39
Rhode Island Demographics.....	42
National Statistics	
U.S. Lotteries Per Capita Sales.....	43
U.S. Lotteries Ranked by Total Sales, Per Capita Sales, and % Change ...	44

Compliance Section

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting	45
--	----

Introductory Section



Gerald S. Aubin
Executive Director

THE RHODE ISLAND LOTTERY

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 26, 2000

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 (Lottery) for the Fiscal Year ended June 30, 2000. 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, a list of principal officials, and the Lottery's organizational chart. The Financial Section contains the Independent Auditor's Report, 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, they were motivated by the model of development that stressed private rather than public investment. 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.

Perhaps one of the most poignant lottery stories is that of the abortive attempts to bail Thomas Jefferson out of 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.

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 pious 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 was 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 followed New Hampshire 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, a Constitutional Amendment was passed in Rhode Island by more than a three to one margin to create a lottery. 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 in May of 1974. 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. The Numbers Game began on February 13, 1976 and continues today. The first instant ticket game, *Play Ball*, was introduced on May 11, 1976. There have been 239 instant ticket games since 1976. On-line games started in February of 1978, and Lottery sales doubled with this new addition. 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 *4/40 Game* began in the spring of 1981, with variations to that game being made throughout the years culminating with the *Rhody Cash* game in January of 1995. 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. 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*, which was in turn replaced in March of 2000 with *Easy Win*. *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 formula is the most widespread, with approximately 32% of lotteries worldwide utilizing this format. This is followed by the 6/48, 6/45, 6/44, 6/42 and 5/40. More than 30 formulas are available, and some lotteries run several different formulas at the same time.

More than half of the lotteries offering lotto games have drawings twice a week. Approximately 36% 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. About 71% of 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.

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 connected 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 3,000 years ago. Legend has it that this game financed the Great Wall of China. The original Chinese game was played with characters from the ancient poem of luck by Confucius, the "Thousand Character Classic." 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. Sales for Fiscal Year 2000 were \$61,813,004, an increase of \$10,440,045 over Fiscal Year 1999.

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. Sales for Fiscal Year 2000 were \$28,159,762 compared to \$28,221,328 for Fiscal Year 1999.

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. Keno sales for Fiscal Year 2000 were \$60,801,993, an increase of \$3,164,161 over Fiscal Year 1999.

PowerBall

PowerBall is a Multi-State Lottery game offered in 20 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. PowerBall sales were \$37,456,233 in Fiscal Year 2000 compared to \$52,582,676 in Fiscal Year 1999. The beginning of Fiscal Year 1999 produced a record Powerball jackpot of \$295 million.

Roll Down

Roll Down, which replaced the Multi-State Lottery Daily Millions Game in February of 1998, is an on-line game with cash prizes offered to players matching 4, 3, or 2 numbers drawn out of 50. Players select 4 numbers out of 50 or utilize the computer "quick pick." The jackpot is paid to the person or divided equally among the persons who match all four numbers drawn. In the event that there are no four number matches, the jackpot is "Rolled Down" and divided equally to those matching three out of the four numbers drawn. Sales for Fiscal Year 2000 were \$3,293,258 compared to Fiscal Year 1999 sales totaling \$5,880,770. Roll Down was replaced in March of 2000 with a new on-line game called Easy Win.

Easy Win

Easy Win, which replaced Roll Down in March of 2000, is an on-line game with cash prizes offered to players matching 4, 3, or 2 numbers in any of the 4 sets drawn out of a field of 50 numbers. Players get 4 sets consisting of 4, 5, 6 and 7 numbers. Players can pick their own numbers in the first four number sequence only, or they can utilize the computer "quick pick", all other numbers are automatically generated by the computer "quick pick". The top prize of \$25,000 is paid to the player who matches 4 out of 4 in the first number sequence. Sales for Fiscal Year 2000 were \$1,802,708.

Video Lottery

Video Lottery debuted in Rhode Island in September of 1992. There are a total of 2,274 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. Fiscal Year 2000 VLT sales were \$670,764,767, a \$125,290,613 increase over Fiscal Year 1999.

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. Pull tab net sales for Fiscal Year 2000 were \$229,991 compared to net sales of \$214,300 for Fiscal Year 1999.

Rhode Island Economic Outlook

The Rhode Island economy continued to expand in 1999 with an increase of 1.6 percent or by 7,500 jobs. Job growth was concentrated in retail trade, services and construction.

Personal income in Rhode Island rose 5.8 percent, with per capita personal income 4 percent above the national average.

With the completion of the Providence Place Mall and the opening of other national retail chains such as Target and Best Buy, retail employment has increased 4.8 percent.

Total merchandise exports expanded 3.5 percent with the State's two largest exporting industries, electrical equipment and industrial machinery, climbing 7.0 percent and 27.3 percent, respectively.

Exports to Japan and Mexico declined 35.5 percent and 44.0 percent, respectively, while exports to Canada rose 4.1 percent.

House prices and single-family housing construction were relatively steady in Rhode Island. The repeat sales home price index rose 3.9 percent between fourth quarter 1998 and fourth quarter 1999. Total housing permits rose 35.5 percent and the value of total construction contracts jumped 42.8 percent over the same period.

Overall, the economic outlook for Rhode Island is positive.

Lottery Industry Economic Outlook

The United States Lottery Industry experienced yet another upswing during Fiscal Year 2000. Based on unaudited figures from the September 2000 issue of *La Fleur's* magazine, sales increased from \$36.196 billion in Fiscal Year 1999 to \$37.429 billion in Fiscal Year 2000. The Rhode Island Lottery ranked first in the nation in per capita sales with a 17% increase during Fiscal Year 2000, according to the same issue of the above-mentioned magazine.

Highlights of Fiscal Year 2000

The Rhode Island Lottery's sales for Fiscal Year 2000 totaled \$864,091,725, a 16.59% increase compared to Fiscal Year 1999 sales of \$741,169,719. A record amount of \$150,283,635 was transferred to the State General Fund in Fiscal Year 2000.

In January 2000, Next Vision enhanced our Keno draw presentations. Featured are three new draw animations: Pinball, Redball and Fireworks. These new animations have been exclusively designed and branded for the Rhode Island Lottery. Drawings are now held every four minutes and specially designed graphics deliver winning numbers and at the same time cross-promote all other Lottery products.

In April 2000, the Rhode Island Lottery, along with Public Gaming Research Institute, co-sponsored the International Lottery Expo 2000 in Newport, Rhode Island. In attendance were representatives from 23 Lotteries from around the world. This four-day program offered valuable information on how to keep sales strong and growing. It also took a look at the future and what Lotteries can do to keep up with the competition in our fast paced world of entertainment options.

New sixteen bin Instant Ticket Vending Machines have been installed in various retailer locations throughout the State. The new vending machines are more appealing and provide a tremendous opportunity for the Lottery to increase its revenue.

Approval was granted for additional video lottery terminals to be installed at Lincoln Greyhound Park and Newport Grand Jai Alai. Recently, Newport Grand Jai Alai added a Grand Piazza Room that accommodated 350 more terminals. Another 500 terminals currently operating in a temporary location at Lincoln Greyhound Park will be relocated when the renovations that are underway are completed in the spring of 2001.

The Rhode Island Lottery sponsored our 7th 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 three consecutive Fiscal Years (1997, 1998 and 1999). 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. We believe our current report will conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

Rhode Island Lottery Financial Information

The Lottery conducts its operations as an enterprise fund within the State of Rhode Island and is included in the State's Comprehensive Annual Financial Report. Enterprise activities include the sale of lottery tickets to the general public and related supporting functions of personnel, security/legal, planning/research, marketing, finance, and management services. No general government functions or judiciary operations are managed by the Lottery nor are any included in this report.

Total sales for Fiscal Year 2000 surpassed \$864 million. This represents an increase of \$122.9 million over the previous record of \$741.1 million in Fiscal Year 1999. The increase in sales is attributed primarily to higher video lottery sales.

Of the total sales reported in Fiscal Year 2000, video lottery sales comprised \$670.8 million or 77.6% of total sales. However, most importantly, the Lottery transferred to the General Fund a record \$150.3 million, which represents an increase of \$16.8 million or 12.6% over the prior Fiscal Year. Distribution of the year's revenue was as follows:



Accounting Systems and Procedures

The Rhode Island Lottery operates the Lottery Fund, an enterprise fund which, like a private business, utilizes the accrual basis of accounting in accordance with generally accepted accounting principles. 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. 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:

- Hiring 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 inks, dyes, and security codes.
- 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 retailer 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. The drawing studio is located at the broadcast facilities of the television station, which produces the nightly drawing.

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 the 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 1,200 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.

Future Projects

In November 2000, the Lottery will be introducing a new on-line game called Money Roll that will replace our current Easy Win Game. Money Roll is based on Roll Down, a previously popular on-line game, however, players will select 4 numbers from a field of 39 numbers instead of the field of 50 numbers that Roll Down utilized. This game is designed to result in more winners as well as improved chances of winning top prizes. There will be three weekly drawings with pari-mutual jackpot awards of up to approximately \$17,000.

In January 2001, the Lottery is planning to introduce a multiplier effect on its widely used Keno games. This new addition to the Keno game will enable players to purchase both a regular ticket and an additional multiplier, which will compound winnings in 60% of the drawings.

In early 2001, the Lottery will introduce another exciting promotion called Red Ball. This special one-month promotion will allow Daily Numbers players to increase their chances of winning by about 20%. Prizes will range from \$30 to nearly \$6,000.

Rhode Island continues to grow and be a national leader in its instant ticket games, creating a demand for additional warehouse space to accommodate extra tickets and related materials. As such, the Lottery is in the process of increasing its adjacent warehouse facilities by an estimated 2,500 square feet.

Independent Audit

The Rhode Island General Laws require semi-annual audits to be performed by the State Auditor General. The Fiscal Year 2000 audit of the financial statements has been completed in accordance with generally accepted auditing standards and *Government Auditing Standards*. The independent auditor's opinion on the Lottery's financial statements is included in the financial section of this report.

Acknowledgements

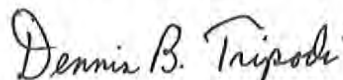
Preparation of this report could not have been accomplished without the efforts of Gina Grant, Lisa Jackson, Sandra Reynolds, and Peg Rose.

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 Chair 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, 1999

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.



Anne Spray Kinney
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. Three Members from the State Senate are appointed by the Senate Majority Leader, and three Members from the House of Representatives are appointed by the Speaker of the House. 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.

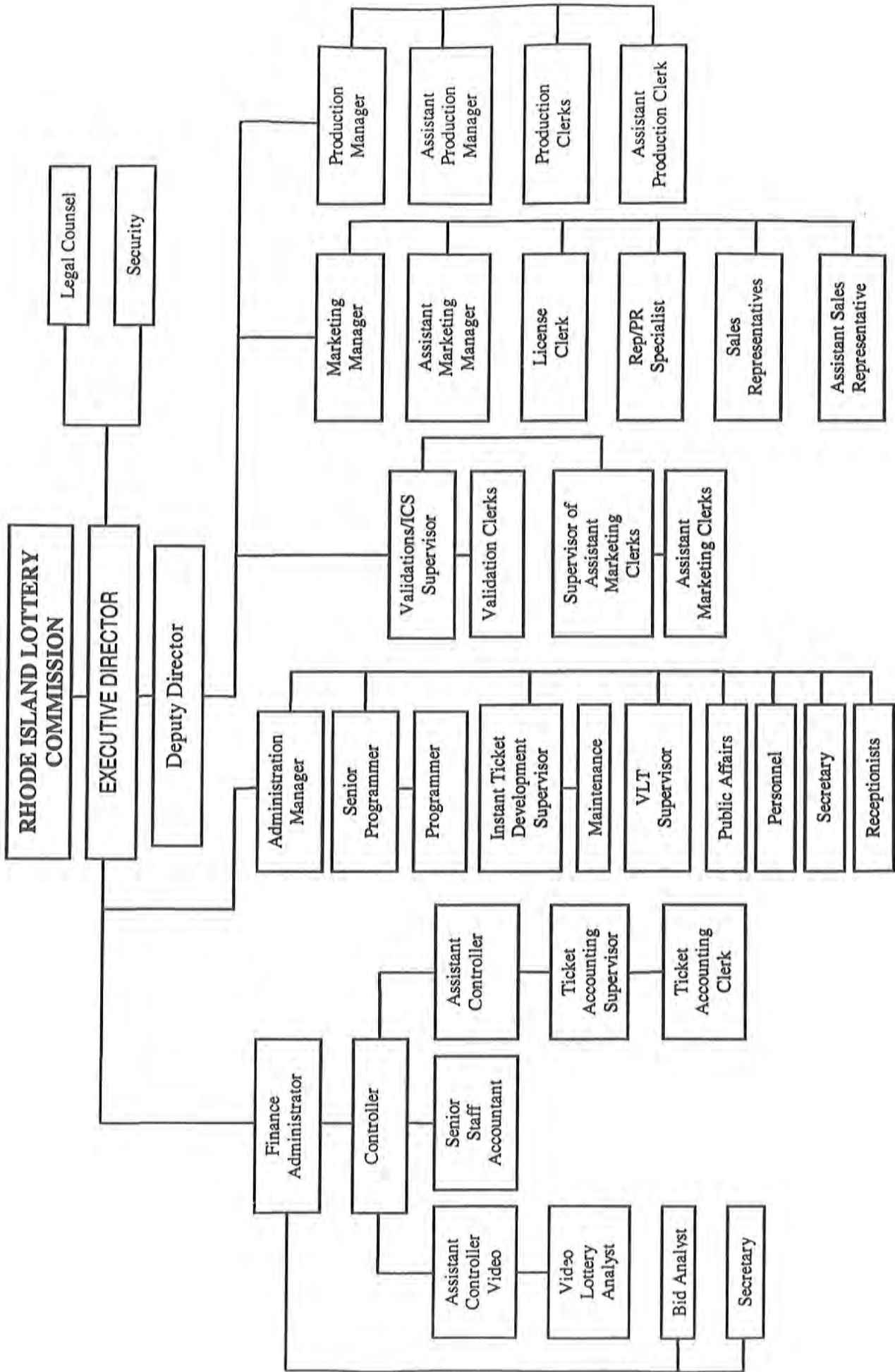
The duties of the Commission include meeting no less than nine times per year for the purpose of promulgating and reviewing rules and regulations relating to the Lottery, recommending and setting policy for the Lottery, approving or rejecting actions of the Executive Director, and transacting any other 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 Executive Director's salary is set by the Commission.

COMMISSION MEMBERS SERVING DURING FISCAL YEAR 2000

REPRESENTATIVE ROBERT FLAHERTY
REPRESENTATIVE WILLIAM SAN BENTO, JR.
REPRESENTATIVE JOSEPH SCOTT
SENATOR DAVID BATES
SENATOR MICHAEL DAMIANI
SENATOR MARYELLEN GOODWIN
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**

This page intentionally left blank.

Financial Section



ERNEST A. ALMONTE, CPA, CFE
Auditor General

GENERAL ASSEMBLY

Office of the Auditor General

1145 Main Street
Pawtucket, Rhode Island 02860-4807

OFFICE
(401) 222-2435
FAX
(401) 222-2111

INDEPENDENT AUDITOR'S REPORT

Joint Committee on Legislative Services, General Assembly,
State of Rhode Island and Providence Plantations:
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 years ended June 30, 2000 and 1999, 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 audits.

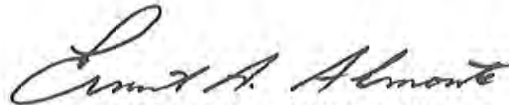
We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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 financial position of the Lottery as of June 30, 2000 and 1999, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2000 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 audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. 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 8, 2000

RHODE ISLAND LOTTERY

Balance Sheets

June 30, 2000 and 1999

<u>Assets</u>	<u>2000</u>	<u>1999</u>
Current assets:		
Cash and cash equivalents (note 3)	\$ 19,405,047	\$ 1,429,486
Investments for jackpot awards (note 3)	1,208,000	1,453,000
Accounts receivable-less allowance for doubtful accounts of \$288,998 in 2000 and \$220,333 in 1999	4,850,636	10,697,388
Ticket inventory	803,801	570,436
Deposits with Multi-State Lottery Association (MUSL) (note 1)	394,553	696,749
Deferred charges	141,151	147,954
Total current assets	26,803,188	14,995,013
Investments for jackpot awards (note 3)	1,665,448	2,705,875
Property, plant and equipment, net (note 4)	618,752	600,219
Total assets	\$ 29,087,388	\$ 18,301,107
<u>Liabilities and Retained Earnings</u>		
Current liabilities:		
Due to State's General Fund (note 5)	\$ 12,883,635	\$ 975,047
Current obligation for unpaid prize awards	6,739,201	7,712,587
Accounts payable	7,057,537	5,511,566
Accrued expenses	307,314	248,397
Deferred revenue	255,410	896,897
Total current liabilities	27,243,097	15,344,494
Long-term obligation for unpaid prize awards (note 3)	1,665,448	2,705,875
Total liabilities	28,908,545	18,050,369
Retained earnings:		
Reserved for building (note 9)	178,843	250,738
Total liabilities and retained earnings	\$ 29,087,388	\$ 18,301,107

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Statements of Revenue, Expenses and Retained Earnings

Years Ended June 30, 2000 and 1999

	2000	1999
Sales (schedule 1):		
On-line games	\$ 131,513,954	\$ 144,322,606
Instant games	61,813,004	51,372,959
Video lottery	670,764,767	545,474,154
Total sales	864,091,725	741,169,719
Cost of sales:		
Commissions	121,323,091	101,373,221
Prize awards	590,679,183	503,522,789
Unclaimed prize recovery	(2,778,517)	(2,299,067)
Cost of tickets	990,209	985,173
Total cost of sales	710,213,966	603,582,116
Gross profit	153,877,759	137,587,603
Operating expenses:		
Personal services	3,016,103	2,792,014
Advertising and promotion	1,511,749	1,242,550
Contract services	101,236	71,152
Equipment leasing (note 14)	293,822	325,802
Depreciation	218,768	191,481
Other	593,506	474,162
Total operating expenses	5,735,184	5,097,161
Operating income	148,142,575	132,490,442
Nonoperating income:		
Pull-tab ticket sales (note 7)	229,991	214,300
Investment earnings	766,591	528,425
Other	1,072,583	169,985
Total nonoperating income	2,069,165	912,710
Income before transfer to the State's General Fund	150,211,740	133,403,152
Transfer to the State's General Fund (note 5)	150,283,635	133,475,047
Net loss (note 9)	(71,895)	(71,895)
Retained earnings, beginning of year	250,738	322,633
Retained earnings, end of year	\$ 178,843	\$ 250,738

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Statements of Cash Flows

Years Ended June 30, 2000 and 1999

	2000	1999
Cash flows from operating activities:		
Cash received from sales	\$ 869,926,894	\$ 737,396,996
Cash received from MUSL for grand prize winners	6,296,897	20,584,610
Cash received from sale of other tickets	315,625	297,594
Cash received from other sources	676,849	168,435
Cash paid for prizes other than MUSL grand prize winners	(590,091,008)	(501,016,896)
Cash paid to MUSL grand prize winners	(6,296,897)	(20,584,610)
Cash paid for commissions - retailers	(13,635,606)	(14,105,401)
Cash paid for commissions - video lottery	(99,171,862)	(80,609,682)
Cash paid for commissions - on-line games contractor	(6,872,420)	(6,944,908)
Cash paid to suppliers for goods and services	(3,788,918)	(2,962,769)
Cash paid to employees for services	(2,999,553)	(2,764,756)
	<u>154,360,001</u>	<u>129,458,613</u>
Cash flows from noncapital financing activities:		
Transfer to State's General Fund	(138,375,047)	(133,671,622)
	<u>(138,375,047)</u>	<u>(133,671,622)</u>
Cash flows from capital and related financing activities:		
Purchase of fixed assets	(237,940)	(173,009)
	<u>(237,940)</u>	<u>(173,009)</u>
Cash flows from investing activities:		
Proceeds from maturity of investments for jackpot awards	1,461,956	1,809,122
Interest income	766,591	528,425
	<u>2,228,547</u>	<u>2,337,547</u>
Net cash provided by investing activities	2,228,547	2,337,547
Net increase (decrease) in cash and cash equivalents	17,975,561	(2,048,471)
Cash and cash equivalents, beginning of year	1,429,486	3,477,957
Cash and cash equivalents, end of year	<u>\$ 19,405,047</u>	<u>\$ 1,429,486</u>

RHODE ISLAND LOTTERY

Statements of Cash Flows

Years Ended June 30, 2000 and 1999

	2000	1999
Reconciliation of operating income to net cash provided by		
Operating activities:		
Operating income	\$ 148,142,575	\$ 132,490,442
Adjustments to reconcile operating income to net cash		
provided by operating activities:		
Depreciation	218,768	191,481
Installment payments for jackpot awards	(1,461,956)	(1,809,122)
Other receipts classified as operating activities	231,811	215,849
Rental income and other receipts	1,071,402	168,435
Provision for doubtful accounts	68,665	(1,620)
(Increase) decrease in assets:		
Investment for jackpot awards	1,285,427	1,549,030
Accounts receivable	5,778,087	(3,673,335)
Inventory	(233,365)	142,477
Deposits with MUSL	302,196	(271,242)
Deferred charges	6,803	(146,512)
Increase (decrease) in liabilities:		
Obligation for unpaid prize awards	(2,013,813)	466,918
Accounts payable	1,545,971	(61,751)
Accrued expenses	58,917	27,258
Deferred revenue	(641,487)	170,305
Total adjustments	6,217,426	(3,031,829)
Net cash provided by operating activities	\$ 154,360,001	\$ 129,458,613
Noncash activities:		
Increase in fair value of investments for jackpot		
awards which also increased obligation for		
unpaid prize awards	\$ 229,337	\$ 385,231
Increase in deposits with MUSL and		
deferred revenue	-	271,242
	\$ 229,337	\$ 656,473

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Notes to Financial Statements

(1) Organization

The Rhode Island Lottery (Lottery) was created in 1974 under the General Laws of the State of Rhode Island 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 which include: a daily numbers game, Keno, Easy Win, 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 transferred to the State's General Fund as stipulated in the Rhode Island 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 Easy Win (1) Roll Down (2) MUSL – PowerBall	no less than 45% nor more than 55% of sales	Not less than 30% of ticket sales
Keno	no less than 45% nor more than 65% of sales	Not less than 20% of ticket sales
Video Lottery	Prize payout not established by law	46% of net terminal income (video lottery credits purchased less credits redeemed or redeemable) less pro rata share of Lottery's operating expenses

(1) The Easy Win game began March 21, 2000.

(2) The Roll Down game ended March 18, 2000.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Chapter 42-61.2 of the Rhode Island 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 46% 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, payable in 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, 2000 and 1999, 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 balance sheets 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 \$74,017 and \$71,736 for operating expenses for the fiscal years ended June 30, 2000 and 1999, respectively.

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 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*

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

(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 which approximates market.

(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 Charges*

Advertising, promotion, and design costs relating to new lottery games are deferred until the game is available to the public at which time they are expensed.

(i) *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

RHODE ISLAND LOTTERY

Notes to Financial Statements

held. Sales pertaining to drawings to be held after the balance sheet date are reported as deferred revenue.

For the fiscal year ending June 30, 1999, in addition to the above, the balance of the Lottery's unreserved account (See Note 1) maintained by MUSL is also reported as deferred revenue. Beginning July 1, 1999, the Lottery recognized the amounts on the deposit in its unreserved account with MUSL as revenue when earned.

(j) *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.

(3) Deposits and Investment Risk

(a) *Deposits*

The Lottery's book balance at June 30, 2000 was \$12,208,934 and the bank balance was \$12,255,924. The primary difference between the book and bank balances was outstanding checks. The entire bank balance at June 30, 2000 is held by the State General Treasurer. All General Treasurer accounts at a single institution are aggregated for purposes of determining Federal Depository Insurance coverage.

The Lottery's book balance at June 30, 1999 was \$1,429,486 and the bank balance was \$505,575. One account with a bank balance of \$5,951 is held in the Lottery's name and is fully insured by Federal Depository Insurance. Remaining deposits totaling \$499,624 are held by the State General Treasurer.

(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, 2000 and 1999. 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 R.I. 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

- 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.

	Fair Value 2000	Fair Value 1999
Zero coupon U.S. Treasury bonds	\$ 2,873,448	\$ 4,158,875
U.S. Government Agency Notes	7,196,113	-
Total investments	10,069,561	4,158,875
Less amounts classified as cash equivalents	7,196,113	-
Total investments for jackpot awards	2,873,448	4,158,875
Less short-term investments for jackpot awards	1,208,000	1,453,000
Long-term investments for jackpot awards	\$ 1,665,448	\$ 2,705,875

(c) Cash and Cash Equivalents

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

	2000	1999
Cash balance per books	\$ 12,208,934	\$ 1,429,486
Investments reclassified as cash equivalents	7,196,113	-
Cash and cash equivalents	\$ 19,405,047	\$ 1,429,486

RHODE ISLAND LOTTERY

Notes to Financial Statements

(4) Property, Plant and Equipment

A summary of property, plant and equipment follows:

	Estimated Useful Life	2000	1999
Buildings	20	\$ 1,437,912	\$ 1,437,912
Building improvements	10	280,796	232,287
Ticket production and computer equipment	10	19,612	19,612
Office equipment	10	120,265	124,017
Furniture and fixtures	10	42,311	46,803
Lottery drawing equipment	3	68,861	68,861
Automobiles	3	284,854	136,300
Computer equipment	3	276,383	271,516
Trucks	3	22,445	22,445
		2,553,439	2,359,753
Less: Accumulated depreciation		1,934,687	1,759,534
Property, plant and equipment (net)		\$ 618,752	\$ 600,219

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 balance sheets.

(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 9) that is to be transferred to the State's General Fund. The amounts transferred and amounts due to State's General Fund are summarized below:

	2000	1999
Transfer to State's General Fund	\$ 150,283,635	\$ 133,475,047
Cash transferred during fiscal year	(138,375,047)	(133,671,622)
Amount due to State's General Fund, beginning of year	975,047	1,171,622
Due to State's General Fund, end of year	\$ 12,883,635	\$ 975,047

RHODE ISLAND LOTTERY

Notes to Financial Statements

(6) Commissions

The Lottery pays commissions to sales 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 transfer to the State's General Fund.

(7) Pull-Tab Ticket Sales

Tickets designed exclusively for use by nonprofit agencies (pull-tab tickets) are sold by the Lottery. The Lottery incurs no prize expense liability for these ticket sales. These sales are reported net of cost as follows:

	2000	1999
Pull-tab ticket sales	\$ 315,625	\$ 297,594
Cost of tickets	(85,634)	(83,294)
Net pull-tab ticket sales	\$ 229,991	\$ 214,300

(8) 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, 2000 and 1999, the estimated liability was \$157,990 and \$165,583, respectively. The liability is calculated using the current hourly rates of pay.

(9) Retained Earnings

The Lottery retained \$1,458,275 of its earnings during the years 1980 to 1983 to finance construction of a new office headquarters and accounted for this as a reservation of retained earnings. It adopted the policy of reducing reserved retained earnings by the annual building depreciation expense of \$71,895.

RHODE ISLAND LOTTERY

Notes to Financial Statements

(10) 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.

Funding Policy:

The funding policy, as set forth in Rhode Island General Laws, Section 36-10-2, provides for actuarially determined periodic contributions to the plan. 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 8.57% and 9.85%, respectively, of annual covered payroll for the years ended June 30, 2000 and 1999. The Lottery contributed \$181,386, \$192,085, and \$198,081 for the years ended June 30, 2000, 1999, and 1998, respectively, equal to the required contributions for each year.

(11) 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 .66% and .69%, respectively, of covered payroll for the years ended June 30, 2000 and 1999 to fund the cost of these benefits.

(12) 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.

(13) 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

RHODE ISLAND LOTTERY

Notes to Financial Statements

computerized games. Commissions range from 4% to 4.8% of sales from the on-line games. This contract is effective through October 31, 2002 and allows the Lottery the option of extending the agreement for five one-year terms.

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 27, 2002. Commissions, equal to 3% of net terminal income from video lottery sales, are paid from the technology provider's share of net terminal income.

(14) Equipment Leasing

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. The following is a schedule, by year, of future minimum lease payments under operating leases as of June 30, 2000, that have initial or remaining lease terms in excess of one year.

<u>Fiscal Year Ending June 30</u>	<u>Lease Payments</u>
2001	\$ 259,235
2002	108,014
Total future minimum lease payments	<u>\$ 367,249</u>

(15) 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. Management believes the likelihood of an unfavorable outcome and any potential damages is impossible to estimate at this time.

(16) Subsequent Events

The following changes in the Rhode Island General Laws are effective beginning in Fiscal Year 2001:

(a) Prize payments – all lottery games except video lottery

The maximum amount of payment of prizes to holders of winning lottery tickets, including instant tickets and on-line games with the exception of Keno, has been increased from fifty-five percent (55%) to sixty-five percent (65%) of the total revenue accruing from ticket sales.

RHODE ISLAND LOTTERY

Notes to Financial Statements

The maximum amount of payment of prizes to holders of winning Keno tickets has been increased from sixty-five percent (65%) to seventy-two percent (72%) of the total revenue accruing from ticket sales.

(b) Video Lottery

The minimum transfer to the State's General Fund has been increased from forty-six percent (46%) to fifty-one percent (51%) of net terminal income.

The amount of commissions paid to technology providers has been decreased from sixteen percent (16%) to eleven percent (11%) of net terminal income.

The amount of commissions paid to the communications system provider has been decreased from three percent (3%) to two and one-half percent (2.5%) of net terminal income.

Supplementary Information

RHODE ISLAND LOTTERY
Sales, Commissions and Prize Awards Expense
Years Ended June 30, 2000 and 1999

Year Ended June 30, 2000

	Sales	Commissions	Prize Awards Expense	Unclaimed Prize Recovery	Cost of Tickets	Cost of Sales	Gross Profit
Lottery games:							
On-line games							
Keno	\$ 60,801,993	\$ 7,526,018	\$ 39,603,546	\$ (361,393)	\$ -	\$ 46,768,171	\$ 14,033,822
PowerBall	37,456,233	4,636,300	18,728,152	(1,688,215)	-	21,676,237	15,779,996
Daily Numbers	28,159,762	3,485,591	13,938,785	(216,530)	-	17,207,846	10,951,916
Easy Win	1,802,708	241,839	787,764	-	-	1,029,603	773,105
Roll Down	3,293,258	407,637	1,644,019	(107,970)	-	1,943,686	1,349,572
	<u>131,513,954</u>	<u>16,297,385</u>	<u>74,702,266</u>	<u>(2,374,108)</u>	<u>-</u>	<u>88,625,543</u>	<u>42,888,411</u>
Instant tickets	61,813,004	4,095,350	39,929,109	(378,550)	990,209	44,636,118	17,176,886
Video Lottery	670,764,767	100,930,356	476,047,808	(25,859)	-	576,952,305	93,812,462
Totals	<u>\$ 864,091,725</u>	<u>\$ 121,323,091</u>	<u>\$ 590,679,183</u>	<u>\$ (2,778,517)</u>	<u>\$ 990,209</u>	<u>\$ 710,213,966</u>	<u>\$ 153,877,759</u>

Video Commissions - Detail

Facilities	\$ 59,203,929
Technology Providers	24,683,194
Central Communications Provider	5,840,962
Dog Kennel Owners	9,255,284
City/Town	1,946,987
Total	<u>\$ 100,930,356</u>

Year Ended June 30, 1999

	Sales	Commissions	Prize Awards Expense	Unclaimed Prize Recovery	Cost of Tickets	Cost of Sales	Gross Profit
Lottery games:							
On-line games							
Keno	\$ 57,637,832	\$ 7,109,820	\$ 37,802,840	\$ (352,003)	\$ -	\$ 44,560,657	\$ 13,077,175
PowerBall	52,582,676	6,486,250	26,291,338	(1,247,608)	-	31,529,980	21,052,696
Daily Numbers	28,221,328	3,481,196	13,779,082	(230,918)	-	17,029,360	11,191,968
Roll Down	5,880,770	725,413	2,943,752	(128,793)	-	3,540,372	2,340,398
	<u>144,322,606</u>	<u>17,802,679</u>	<u>80,817,012</u>	<u>(1,959,322)</u>	<u>-</u>	<u>96,660,369</u>	<u>47,662,237</u>
Instant tickets	51,372,959	3,416,598	32,573,096	(308,128)	985,173	36,666,739	14,706,220
Video Lottery	545,474,154	80,153,944	390,132,681	(31,617)	-	470,255,008	75,219,146
Totals	<u>\$ 741,169,719</u>	<u>\$ 101,373,221</u>	<u>\$ 503,522,789</u>	<u>\$ (2,299,067)</u>	<u>\$ 985,173</u>	<u>\$ 603,582,116</u>	<u>\$ 137,587,603</u>

Video Commissions - Detail

Facilities	\$ 47,003,082
Technology Providers	19,565,973
Central Communications Provider	4,660,236
Dog Kennel Owners	7,371,240
City/Town	1,553,413
Total	<u>\$ 80,153,944</u>

See independent auditor's report.

Statistical Section

This page intentionally left blank.

Rhode Island Statistics



Rhode Island Lottery

Revenues

Fiscal Years 1991 through 2000

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
SALES										
<i>Instant Tickets</i>										
Instant Tickets	\$ 11,972,342	\$ 11,146,332	\$ 10,922,026	\$ 11,300,376	\$ 20,840,747	\$ 23,339,726	\$ 27,356,236	\$ 40,323,292	\$ 51,372,959	\$ 61,813,004
<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
<i>On-Line</i>										
Lotto America	10,053,843	7,951,839	-	-	-	-	-	-	-	-
Grand Lot	124,292	95,480	21,367	-	-	-	-	-	-	-
Lot-O-Bucks	9,774,793	8,663,939	8,709,942	6,639,796	3,974,231	-	-	-	-	-
Daily Numbers	33,826,258	34,111,383	33,271,675	32,325,382	31,196,077	30,600,023	29,405,124	29,257,141	28,221,328	28,159,762
PowerBall	-	2,640,006	21,612,441	40,562,732	57,474,718	47,622,832	37,881,052	43,345,345	52,582,676	37,456,233
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
Rhody Cash	-	-	-	-	4,115,596	6,849,222	1,112,026	-	-	-
Daily Millions	-	-	-	-	-	-	5,051,443	2,162,126	-	-
Easy Win	-	-	-	-	-	-	-	-	-	-
Roll Down	-	-	-	-	-	-	-	-	-	-
Total On-line	53,779,186	53,462,647	94,409,605	107,927,887	121,687,920	117,075,679	115,251,098	129,682,677	144,322,606	131,513,954
TOTAL SALES	65,751,528	64,608,979	138,057,000	195,922,890	334,546,971	455,297,841	548,715,864	634,074,644	741,169,719	864,091,725
<i>Other Revenues</i>										
Investment Earnings	416,032	207,178	194,424	257,711	521,709	456,930	421,123	488,379	528,425	766,591
Net Pull Tab Sales	222,744	221,365	205,278	185,454	185,639	162,788	163,067	196,280	214,300	229,991
Miscellaneous	31,687	29,319	27,207	26,475	182,147	105,147	169,343	264,405	169,985	1,072,583
TOTAL OTHER REVENUES	670,463	457,862	426,909	469,640	889,495	724,865	753,533	949,064	912,710	2,069,165
TOTAL SALES & REVENUES	\$ 66,421,991	\$ 65,066,841	\$ 138,483,909	\$ 196,392,530	\$ 335,436,466	\$ 456,022,706	\$ 549,469,397	\$ 635,023,708	\$ 742,082,429	\$ 866,160,890

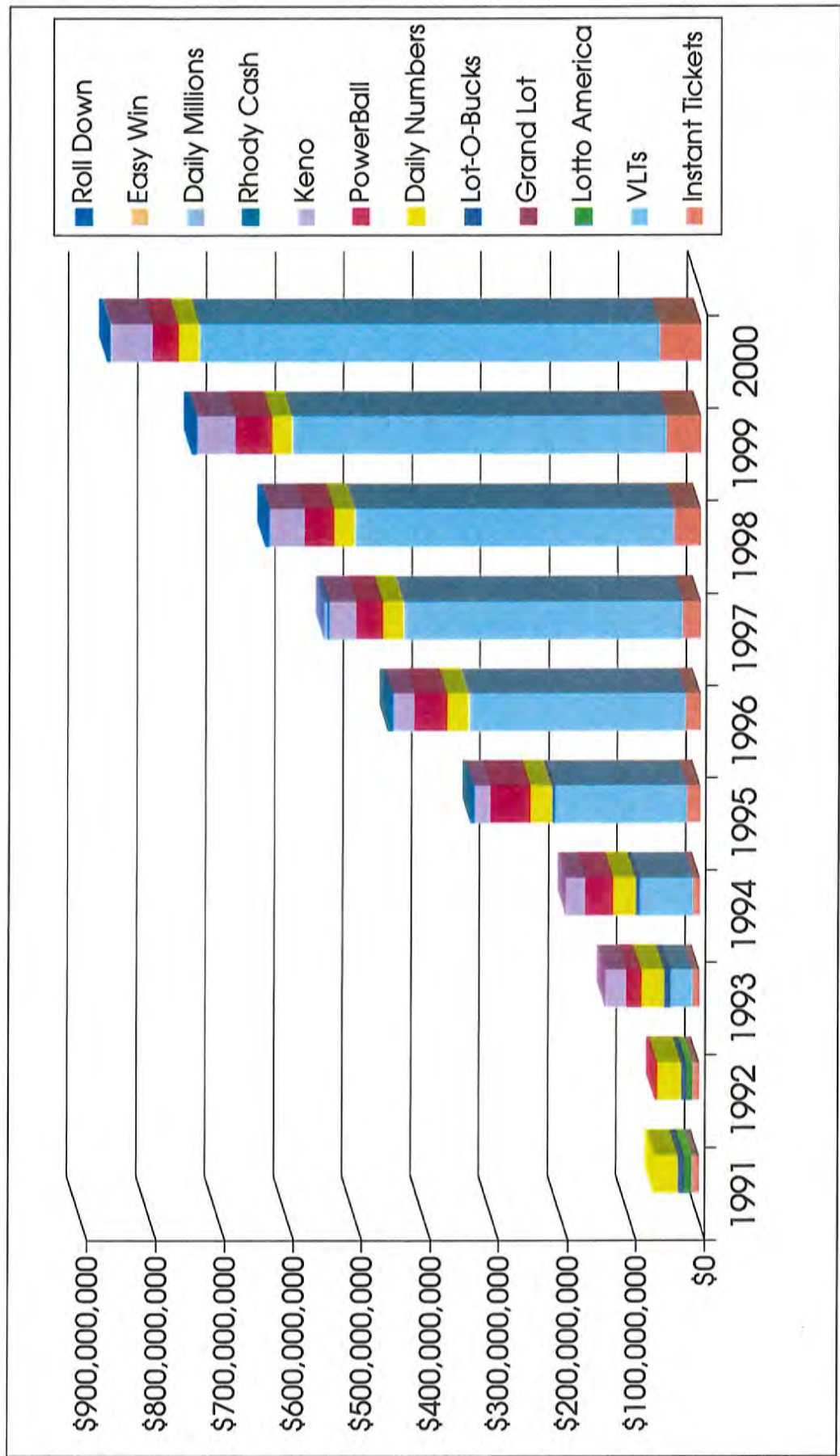
Source: Rhode Island Lottery



Rhode Island Lottery

Sales by Product

Fiscal Years 1991 through 2000



Source: Rhode Island Lottery



Rhode Island Lottery

Expenses and Transfers to the State's General Fund

Fiscal Years 1991 through 2000

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
EXPENSES										
Prizes	\$ 30,996,299	\$ 32,145,535	\$ 70,978,039	\$ 109,803,118	\$ 207,427,166	\$ 303,401,899	\$ 373,056,150	\$ 429,277,957	\$ 503,522,789	\$ 590,679,183
Retailer/Vendor Commissions	7,385,451	7,347,580	12,075,388	13,987,194	16,090,163	15,629,373	15,715,397	18,442,716	21,219,277	20,392,735
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
Cost of Tickets	398,206	401,691	417,581	379,050	567,290	619,223	843,610	1,102,638	985,175	990,209
Unclaimed Prize Recovery	(664,423)	(719,776)	(996,235)	(1,237,054)	(1,688,010)	(2,110,340)	(2,080,535)	(1,849,978)	(2,299,067)	(2,778,517)
Advertising and Promotion	417,864	538,488	771,543	647,021	1,156,710	1,263,390	1,102,533	1,384,429	1,242,550	1,511,749
Operating Expenses	1,924,311	1,848,188	1,988,840	2,142,081	2,878,608	3,046,570	3,427,737	3,806,256	3,854,611	4,223,435
TOTAL EXPENSES	\$ 40,457,708	\$ 41,561,706	\$ 93,977,129	\$ 140,157,494	\$ 258,713,322	\$ 365,719,115	\$ 449,509,054	\$ 520,023,981	\$ 608,679,277	\$ 715,949,150
TRANSFER TO THE STATE'S GENERAL FUND	\$ 23,579,798	\$ 23,579,798	\$ 44,578,444	\$ 56,206,931	\$ 76,795,039	\$ 90,375,486	\$ 100,032,238	\$ 115,071,622	\$ 133,475,047	\$ 150,283,635

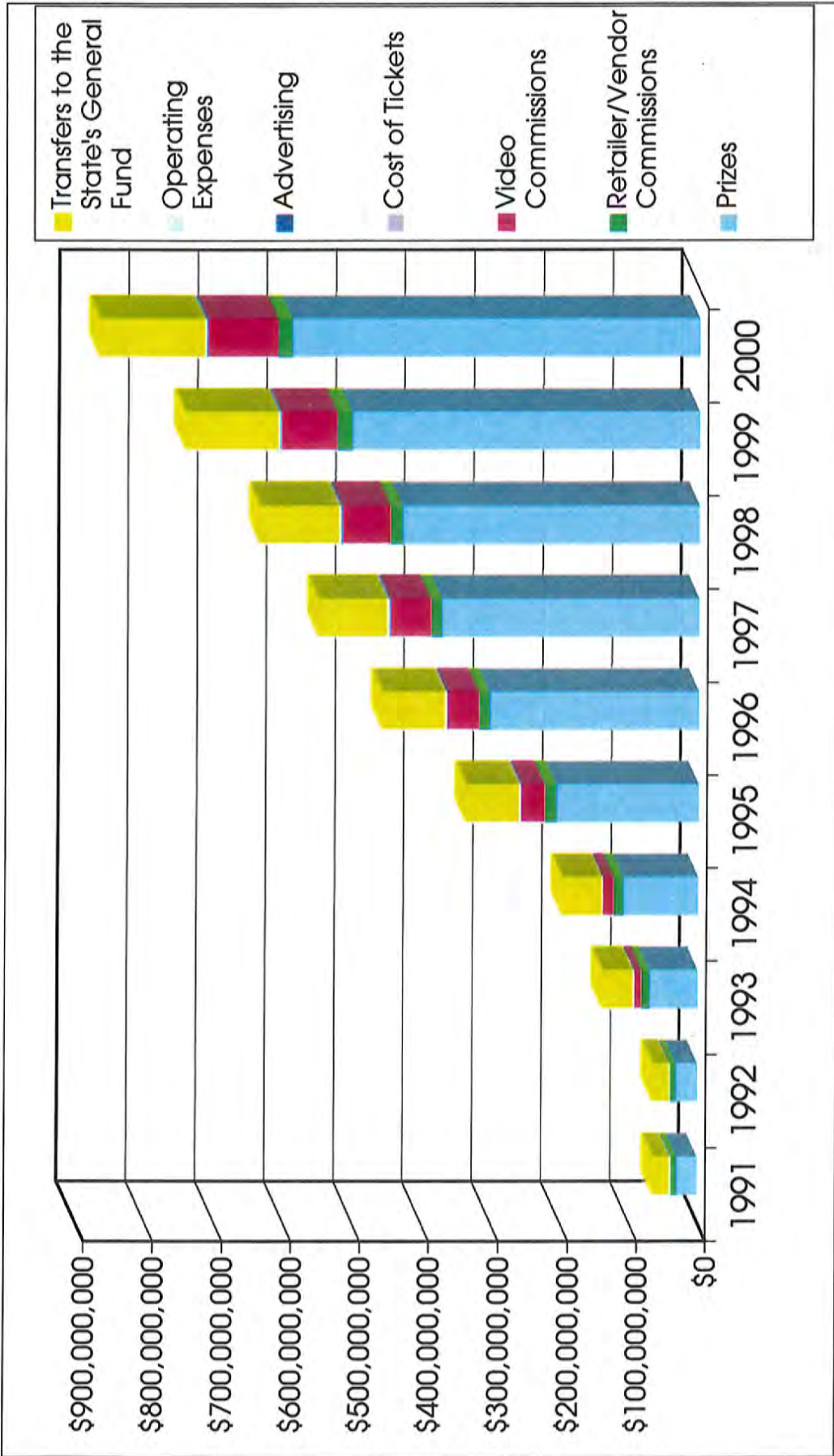
Source: Rhode Island Lottery



Rhode Island Lottery

Expenses and Transfers to the State's General Fund

Fiscal Years 1991 through 2000



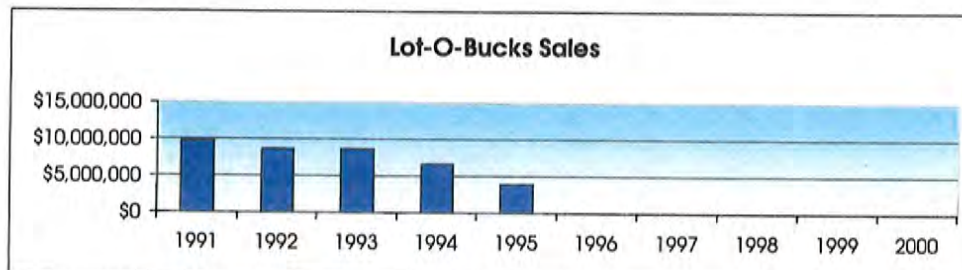
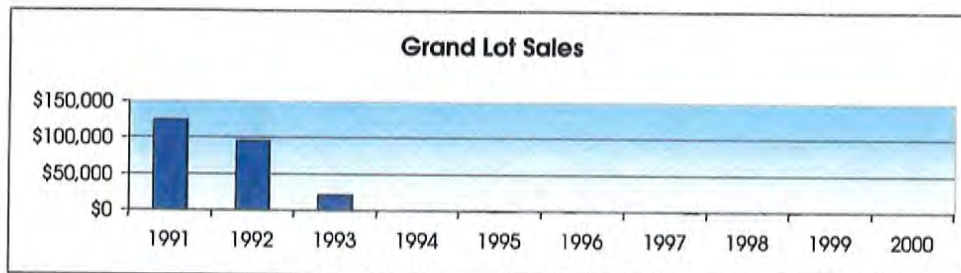
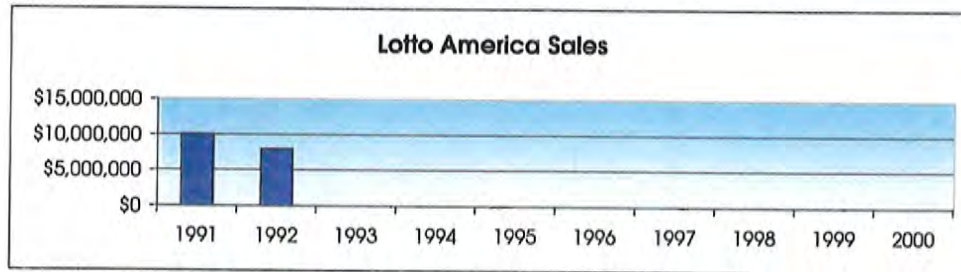
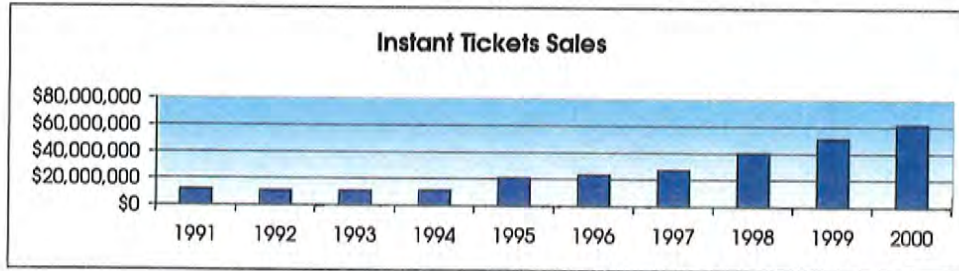
Source: Rhode Island Lottery



Rhode Island Lottery

Sales by Game

Fiscal Years 1991 through 2000



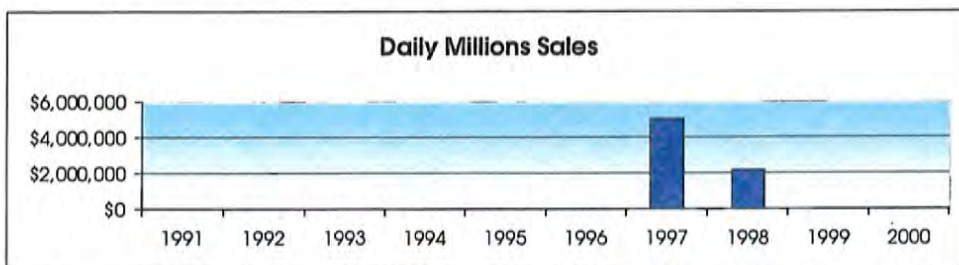
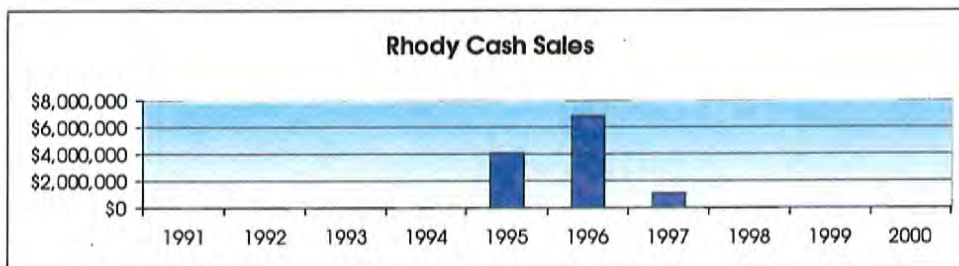
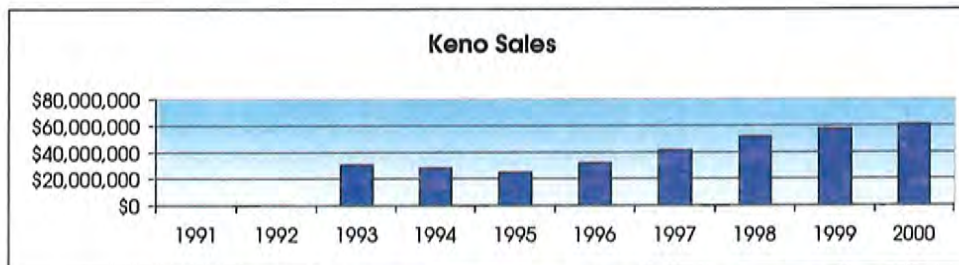
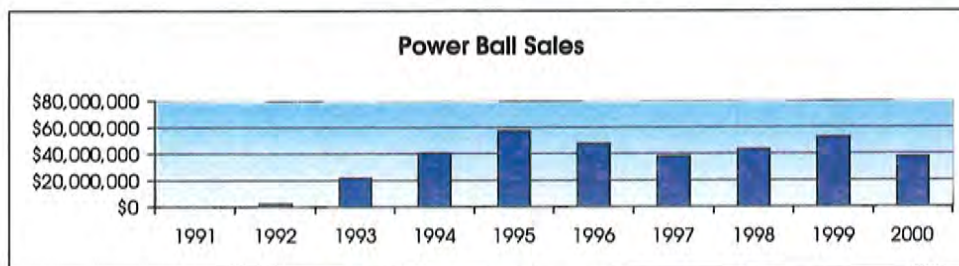
Source: Rhode Island Lottery



Rhode Island Lottery

Sales by Game

Fiscal Years 1991 through 2000



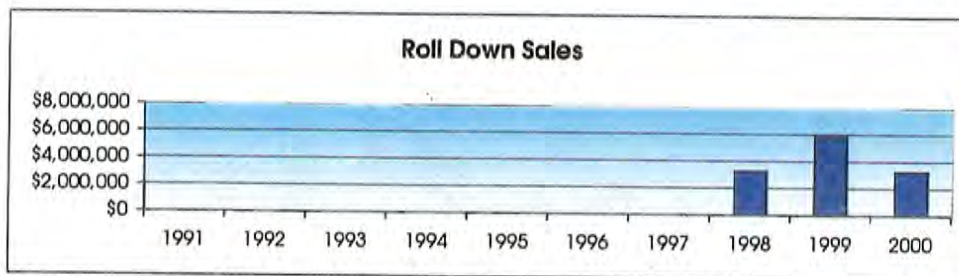
Source: Rhode Island Lottery



Rhode Island Lottery

Sales by Game

Fiscal Years 1991 through 2000



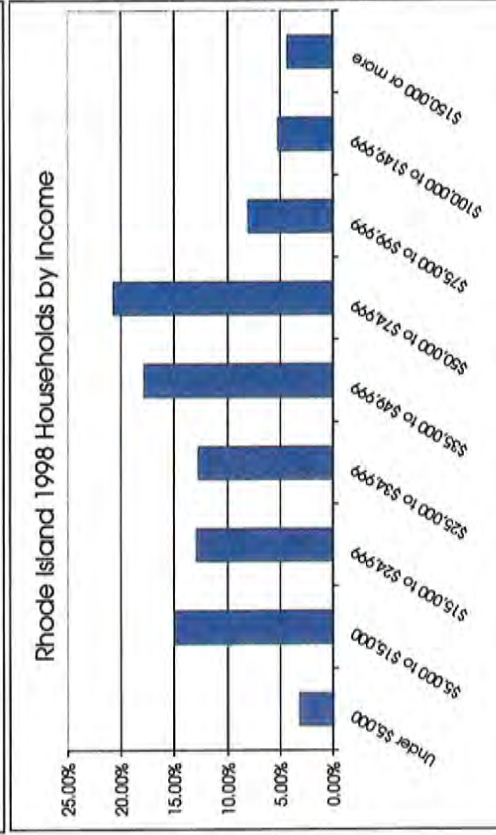
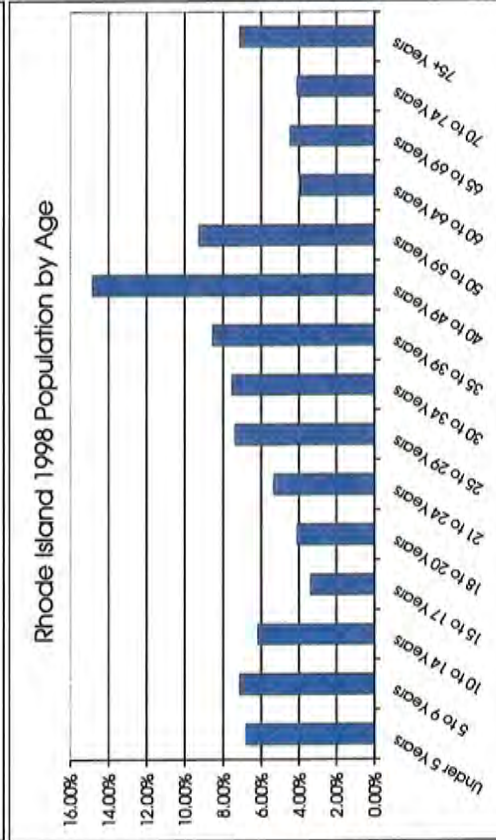
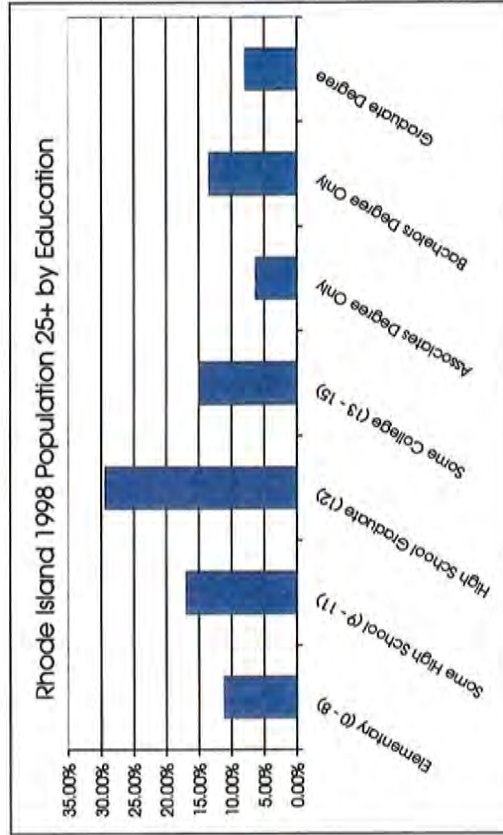
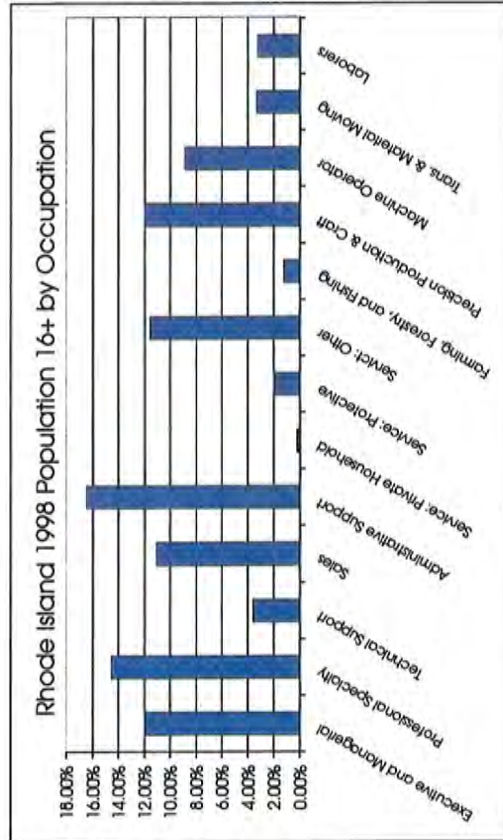
Note: Not all games were active during this 10-year period.

- Video Lottery began in Fiscal Year 1993
- Lotto America ended in Fiscal Year 1992
- Grand Lot ended in Fiscal Year 1993
- Lot-O-Bucks ended in Fiscal Year 1995
- PowerBall began in Fiscal Year 1992
- 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
- Roll Down began in Fiscal Year 1998 and ended in Fiscal Year 2000
- Easy Win began in Fiscal Year 2000



The Rhode Island Lottery

Rhode Island State Demographics



Note: 1999 and 2000 Figures Unavailable

Source: Rhode Island Lottery

This page intentionally left blank.

National Statistics

**U.S. LOTTERIES PER CAPITA SALES
FISCAL YEAR 2000 (UNAUDITED)**

LOTTERY	TOTAL SALES (\$M)	POPULATION (M)	PER CAPITA SALES
Arizona	255.6	4.8	\$53
California	2,598.4	33.1	\$78
Colorado	371.0	4.1	\$91
Connecticut	837.5	3.3	\$255
Delaware	556.5	0.8	\$738
D.C. (1)	222.1	0.5	\$428
Florida	2,324.4	15.1	\$154
Georgia	2,313.6	7.8	\$297
Idaho	86.7	1.3	\$69
Illinois	1,503.9	12.1	\$124
Indiana	582.7	5.9	\$98
Iowa	178.4	2.9	\$62
Kansas	201.3	2.7	\$76
Kentucky	583.7	4.0	\$147
Louisiana	276.4	4.4	\$63
Maine	147.9	1.3	\$118
Maryland	1,176.5	5.2	\$227
Massachusetts	3,697.2	6.2	\$599
Michigan (1)	1,698.6	9.9	\$172
Minnesota	397.3	4.8	\$83
Missouri	508.0	5.5	\$93
Montana	29.9	0.9	\$34
Nebraska	68.2	1.7	\$41
New Hampshire	190.8	1.2	\$159
New Jersey	1,839.9	8.1	\$226
New Mexico	110.9	1.7	\$64
New York	3,626.5	18.2	\$199
Ohio	2,150.2	11.3	\$191
Oregon	760.2	3.3	\$229
Pennsylvania	1,686.8	12.0	\$141
RHODE ISLAND (2)	864.3	1.0	\$872
South Dakota (2)	581.1	0.7	\$793
Texas (1)	2,648.0	20.0	\$132
Vermont	75.1	0.6	\$126
Virginia	973.0	6.9	\$142
Washington	452.8	5.6	\$81
West Virginia	448.0	1.8	\$248
Wisconsin	406.7	5.3	\$77
TOTAL	37,429.6	235.6	\$159

(1) Estimated fiscal year 2000 sales

(2) Represents VLT cash-in (gross)

Note: Fiscal Year 2000 individual prize amounts were not available at the time of printing, however, the average prize percentage was 55% according to David Gale, President of NASPL.

**U.S. LOTTERIES RANKED
BY TOTAL SALES
FISCAL YEAR 2000 (UNAUDITED)**

RANK	LOTTERY	POP. (M)	TOTAL SALES (\$M)
1	Massachusetts	6.2	3,697.2
2	New York	18.2	3,626.5
3	Texas (1)	20.0	2,648.0
4	California	33.1	2,598.4
5	Florida	15.1	2,324.4
6	Georgia	7.8	2,313.6
7	Ohio	11.3	2,150.2
8	New Jersey	8.1	1,839.9
9	Michigan (1)	9.9	1,698.6
10	Pennsylvania	12.0	1,686.8
11	Illinois	12.1	1,503.9
12	Maryland	5.2	1,176.5
13	Virginia	6.9	973.0
14	RHODE ISLAND	1.0	864.3
15	Connecticut	3.3	837.5
16	Oregon	3.3	760.2
17	Kentucky	4.0	583.7
18	Indiana	5.9	582.7
19	South Dakota	0.7	581.1
20	Delaware	0.8	556.5
21	Missouri	5.5	508.0
22	Washington	5.6	452.8
23	West Virginia	1.8	448.0
24	Wisconsin	5.3	406.7
25	Minnesota	4.8	397.3
26	Colorado	4.1	371.0
27	Louisiana	4.4	276.4
28	Arizona	4.8	255.6
29	D.C. (1)	0.5	222.1
30	Kansas	2.7	201.3
31	N.H.	1.2	190.8
32	Iowa	2.9	178.4
33	Maine	1.3	147.9
34	New Mexico	1.7	110.9
35	Idaho	1.3	86.7
36	Vermont	0.6	75.1
37	Nebraska	1.7	68.2
38	Montana	0.9	29.9

**U.S. LOTTERIES RANKED
BY PC SALES
FISCAL YEAR 2000 (UNAUDITED)**

RANK	LOTTERY	POP. (M)	TOTAL PC SALES
1	RHODE ISLAND	1.0	\$872
2	South Dakota	0.7	\$793
3	Delaware	0.8	\$738
4	Massachusetts	6.2	\$599
5	D.C. (1)	0.5	\$428
6	Georgia	7.8	\$297
7	Connecticut	3.3	\$255
8	West Virginia	1.8	\$248
9	Oregon	3.3	\$229
10	Maryland	5.2	\$227
11	New Jersey	8.1	\$226
12	New York	18.2	\$199
13	Ohio	11.3	\$191
14	Michigan (1)	9.9	\$172
15	N.H.	1.2	\$159
16	Florida	15.1	\$154
17	Kentucky	4.0	\$147
18	Virginia	6.9	\$142
19	Pennsylvania	12.0	\$141
20	Texas (1)	20.0	\$132
21	Vermont	0.6	\$126
22	Illinois	12.1	\$124
23	Maine	1.3	\$118
24	Indiana	5.9	\$98
25	Missouri	5.5	\$93
26	Colorado	4.1	\$91
27	Minnesota	4.8	\$83
28	Washington	5.6	\$81
29	California	33.1	\$78
30	Wisconsin	5.3	\$77
31	Kansas	2.7	\$76
32	Idaho	1.3	\$69
33	New Mexico	1.7	\$64
34	Louisiana	4.4	\$63
35	Iowa	2.9	\$62
36	Arizona	4.8	\$53
37	Nebraska	1.7	\$41
38	Montana	0.9	\$34

**U.S. LOTTERIES RANKED
BY % CHANGE
FISCAL YEAR 2000 (UNAUDITED)**

RANK	LOTTERY	TOTAL SALES (\$M)	% CHANGE
1	New Mexico	110.9	24%
2	RHODE ISLAND	864.3	17%
3	West Virginia	448.0	14%
4	Georgia	2,313.6	14%
5	New Jersey	1,839.9	11%
6	Massachusetts	3,697.2	10%
7	Maryland	1,176.5	9%
8	D.C. (1)	222.1	7%
9	Florida	2,324.4	7%
10	Vermont	75.1	7%
11	Delaware	556.5	5%
12	South Dakota	581.1	5%
13	Oregon	760.2	4%
14	Virginia	973.0	4%
15	California	2,598.4	4%
16	Texas (1)	2,648.0	3%
17	Maine	147.9	2%
18	Illinois	1,503.9	2%
19	Minnesota	397.3	2%
20	Pennsylvania	1,686.8	1%
21	Colorado	371.0	1%
22	Ohio	2,150.2	0%
23	Kentucky	583.7	0%
24	Montana	29.9	0%
25	Kansas	201.3	-1%
26	Missouri	508.0	-1%
27	Michigan (1)	1,698.6	-2%
28	Iowa	178.4	-3%
29	New York	3,626.5	-3%
30	Connecticut	837.5	-4%
31	N.H.	190.8	-4%
32	Idaho	86.7	-4%
33	Washington	452.8	-4%
34	Arizona	255.6	-5%
35	Wisconsin	406.7	-5%
36	Nebraska	68.2	-6%
37	Louisiana	276.4	-7%
38	Indiana	582.7	-14%

(1) Estimated fiscal year 2000 sales

This page intentionally left blank.

Compliance Section



ERNEST A. ALMONTE, CPA, CFE
Auditor General

GENERAL ASSEMBLY

Office of the Auditor General

1145 Main Street
Pawtucket, Rhode Island 02860-4807

OFFICE
(401) 222-2435
FAX
(401) 222-2111

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 year ended June 30, 2000 and have issued our report thereon dated September 8, 2000. We conducted our audit in accordance with generally accepted auditing standards 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 an instance of noncompliance, as described in the following paragraph, that is required to be reported under *Government Auditing Standards*.

The Rhode Island General Laws mandate that prize payments to holders of winning lottery tickets, including instant tickets and on-line games with the exception of Keno, should not exceed fifty-five percent (55%) of the total revenue accruing from ticket sales. Also, prize payments to holders of winning Keno tickets should not exceed sixty-five percent (65%) of the total revenue accruing from Keno ticket sales. Prizes paid in fiscal year 2000 exceeded these percentages resulting in excess prize payments totaling \$2,199,145. Effective for fiscal year 2001, the General Laws were amended to increase the maximum prize award percentages to sixty-five percent (65%) for on-line games and instant tickets and seventy-two percent (72%) for Keno.

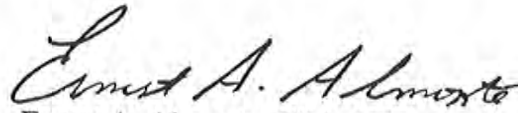
Internal Control Over Financial Reporting

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, as described in the following paragraph 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.

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. While certain security features are operational within the Lottery's gaming computer systems, the Lottery has not implemented a formal comprehensive security plan in conjunction with its on-line and video lottery games contractor. The objective of such a plan is 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 8, 2000