

Rhode Island Lottery

An Enterprise Fund of the
State of Rhode Island and Providence Plantations

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2009

Prepared by the Finance Department





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Introductory Section



THE RHODE ISLAND LOTTERY

October 3, 2009

The Honorable Donald L. Carcieri, Governor
Gary S. Sasse, Director, Department of Administration and Department of Revenue

We are pleased to present to you the **COMPREHENSIVE ANNUAL FINANCIAL REPORT** of the Rhode Island Lottery (the Lottery) for the fiscal year ended June 30, 2009. This report has been prepared by the Finance Department of the Lottery. The Lottery is responsible for the accuracy of the financial data and the completeness and fairness of the presentation, including all disclosures.

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

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

The Lottery was created by Constitutional Amendment passed on November 6, 1973. The legislation to create the Lottery was passed in March of 1974, and the Lottery began in May of 1974. The Lottery is operated 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 increasingly clever in their efforts (P.T. Barnum was a lottery agent), the market was overwhelmed. Because of that, there were many instances where the proceeds from the lottery were not sufficient to pay the prizes, a problem that often resulted in lottery organizers leaving town with the money in hand before the drawing could be held.

Charges of fraud and deception surrounded lotteries of the 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 666 instant ticket games have been introduced.

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

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

Millions Game with the introduction of its own lotto game called Roll Down. This lotto game was succeeded by Easy Win in March 2000, Money Roll in November 2000 and the current game of Wild Money in January 2002.

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

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

History of Lottery Games

Lotto Games

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

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

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

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

Instant Tickets

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

Video Lottery

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

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

Several years later, when the South Dakota Lottery was searching for new sources of revenue, it took up the idea of video lottery. In March of 1989, legislation allowing the establishment of the first server-connected video lottery was approved. In the fall of 1990, South Dakota offered the first operational video lottery in all of the United States. 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 holiday themes. Also offered are extended play games.

Daily Numbers

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

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

Keno

Keno was introduced in September of 1992 and quickly proved to be a very popular game. Rhode Island Keno has a 10 of 20 of 80 matrix, with a \$100,000 top prize. Players can wager on 1 to 10 numbers (spots) utilizing their own number selection or a computer “quick pick.” In January of 2000, Keno drawings increased from every 5 minutes to every 4 minutes. These Keno drawings occur from 5:00 a.m. to 12:45 a.m., Monday through Saturday and 7:00 a.m. to 12:45 a.m. on Sunday. In April of 2001, Keno Plus was introduced. Players have the option to purchase this feature that could increase their winnings by ten times, thus giving Keno players the potential to win up to \$1,000,000. Free Ride, a promotion that began in March of 2008, offers players a chance to win a progressive jackpot with a starting amount of \$1,200 that keeps growing until someone wins. The highest jackpot of \$27,161 was won on March 27, 2009.

PowerBall[®]

PowerBall[®] is a Multi-State Lottery game offered in 30 states (including Rhode Island), plus the District of Columbia and U.S. Virgin Islands. Players select “5 out of 59” numbers and a PowerBall[®] “1 out of 39.” Players can select their own numbers or utilize a computer “quick pick.” Jackpots start at \$20 million and grow by a minimum of \$5 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.

Wild Money

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

Rhody Poker[™]

Rhody Poker[™] was a seven card poker game that was discontinued October 3, 2008. The player combined the two cards on the printed wager with five (5) community cards presented on the monitor during the deal to create the best available five card hand. All plays for Rhody Poker[™] were by quick pick only and the minimum wager was \$2.

Raffle

Raffle is a new product offering in which sales ran for a limited period of time, with a set number of tickets and guaranteed prizes. The first run of this game began October 6th and sold out December 27th with sales grossing \$2.4 million. Tickets cost \$20 and the drawing was held on December 31, 2008. For this run, the top prize was \$1.0 million with 610 subsidiary prizes totaling \$0.2 million. A second run is being developed with a drawing date of December 31, 2009.

Video Lottery

Video Lottery debuted in Rhode Island in September of 1992. There are a total of 6,286 video lottery terminals (VLTs) located in the State's two pari-mutuel facilities, Twin River and Newport Grand. As of June 30, 2009, Twin River has 4,752 VLTs and Newport Grand has 1,534 VLTs. Various virtual and multi-layer display games are offered on the VLTs.

Pull Tabs

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

Rhode Island Economic Outlook

Rhode Island's population declined 0.22% over a twelve month period to approximately 1.05 million as of July 1, 2008. As of May 2009, the year over year decline flows through with the labor force decreasing by 0.47%, total employment decreasing 5.60% and unemployment increasing 64.69%. The unemployment rate, which increased by 63.51%, to 12.1% was above the national rate of 9.4%.

Lottery Industry Economic Outlook

The United States Lottery Industry continues to experience growth. Based on unaudited figures from the North American Association of State & Provincial Lotteries (NASPL), sales increased from \$58.7 billion in fiscal year 2007 to \$60.6 billion in fiscal year 2008, up 3.24%.

Highlights of Fiscal Year 2009

- For fiscal year 2009, \$337,515,478 was transferred to the State's General Fund and \$6,777,327 was transferred to the State's Permanent School Fund. In May 2008, the General Assembly had passed legislation authorizing the Lottery to transfer the State's share of the net proceeds, up to a maximum of approximately \$14 million, resulting from 24-hour weekend and holiday extended hours of operation to the State's Permanent School Fund. Once transferred to the Permanent School Fund, this amount will be utilized as aid to local education authorities.
- Beginning in June 2008, at the request of the management of the Twin River video lottery facility, the Lottery authorized a promo points program on a test basis which became month to month in September 2008. This program authorized credits, issued to members of its player reward program, to be redeemed for free play and not subject to the State's share of the net terminal income. The program objective is to increase net revenue by awarding free play to its member players. A similar program was authorized for the Newport Grand facility in June 2009.
- Fiscal year 2009 produced record video lottery cash-in sales of \$2.3 billion with a resulting net terminal income (sales less prize awards) of \$460.9 million.

- In September 2008, the Newport Grand video lottery facility notified the Lottery of the completion of \$24.0 million in improvements to its facility in accordance with the master contract dated November 2005.
- In October 2008, the Lottery introduced its million dollar raffle on-line ticket. The game completely sold out of the 120,000 tickets costing \$20 each during the months of October through December 2008.
- During 2009, virtual games, including blackjack and roulette, and multi-layer display games were introduced at the video lottery facilities.
- In May 2009, the Lottery began celebrating its 35th anniversary by offering bi-weekly promotions of free on-line tickets and increased jackpots.

GFOA Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Rhode Island Lottery for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2008. This was the twelfth consecutive year that the Lottery has achieved this prestigious award (1997 through 2008). In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR. This report must comply with both generally accepted accounting principles and applicable legal requirements.

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

Accounting Systems and Procedures

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

Budgetary Controls

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

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

Internal Control Environment

Management of the Lottery is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft, or misuse and to ensure that the accounting system allows compilation of complete, 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, controls the disbursement of prizes and regulates video lottery activity at the State's two pari-mutuel facilities, the following steps are taken to ensure the operations remain honest and secure:

- Employing an Information Systems Security auditor.
- Employing specialized security staff.
- Maintaining secure lottery facilities and limiting access to them.
- Performing background checks on retailers, vendors, and employees.
- Printing lottery tickets with special security features.
- Independent IT security audits of Lottery networks.
- 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 retailer activity by Lottery personnel using the Lottery's internal control system programs and reconciling transactions to reports generated by the on-line system.
- Implementation of comprehensive information security objectives for the Lottery's on-line and video lottery systems as provided by its central system provider.

The Lottery currently has 50 employees, all of whom are located at the headquarters in Cranston, Rhode Island. Separated from the headquarters, the drawing studio is located at the Twin River pari-mutuel facility.

Future Projects

The Lottery continues to develop unique game enhancements, including bonus play instant tickets and Keno-To-Go. Players will be able to purchase an instant ticket and visit the Lottery's web site to win bonus prizes. Additionally, players will be able to purchase a Keno ticket and view the results of any draw on the Lottery's web site.

The Lottery plans to introduce exciting licensed instant tickets including the 35th Anniversary, Aerosmith, Harley Davidson, Monopoly, Wizard of Oz, Red Sox and Patriots.

Both the Twin River and Newport Grand facilities are coordinating their regular promotions with their player rewards programs. Twin River continues to provide top entertainment to complement its marketing program and generate additional revenues.

Independent Audit

The Rhode Island General Laws require an annual audit to be performed by the State Auditor General. The fiscal year 2009 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. Also, in accordance with *Government Auditing Standards*, the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, is included in a separate communication.

Acknowledgements

Preparation of this report was accomplished with the significant efforts of Gina Grant, Sandra Lee and Anne Paglia.

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

Respectfully submitted,



Gerald S. Aubin
Director



Daniel R. Sarro
Finance Administrator

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, 2008

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.

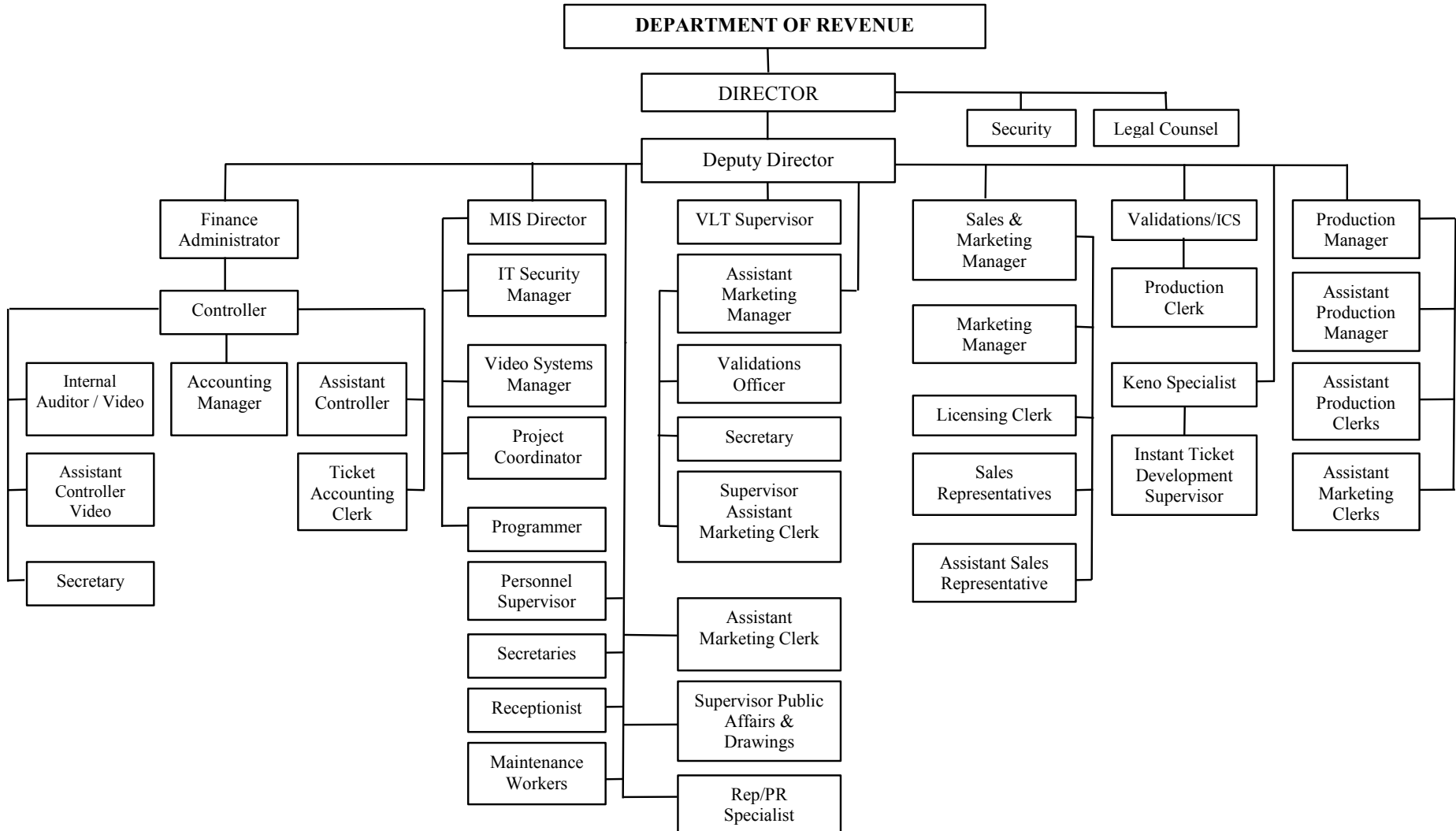


President

Executive Director

Rhode Island Lottery Organizational Chart June 30, 2009

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PRINCIPAL OFFICIALS

GERALD S. AUBIN
DIRECTOR

MARGARET D. ROSE
DEPUTY DIRECTOR

DANIEL R. SARRO
FINANCE ADMINISTRATOR

SANDRA M. LEE
CONTROLLER

DONALD J. CATALDI
SALES AND MARKETING MANAGER

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Financial Section



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AUDITOR GENERAL
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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:

We have audited the accompanying financial statements of the Rhode Island Lottery (Lottery), an enterprise fund of the State of Rhode Island and Providence Plantations, as of and for the year ended June 30, 2009, 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 audit provides a reasonable basis for our opinion.

As discussed in Note 2(b), the financial statements present only the Lottery and do not purport to, and do not, present fairly the financial position of the State of Rhode Island and Providence Plantations, as of June 30, 2009, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Lottery as of June 30, 2009, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Note 13(b) to the financial statements discloses certain operational contingencies relating to the bankruptcy filing by one of the Lottery's video lottery retailers that we deemed a matter worthy of emphasis to the readers of the Lottery's financial statements.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2009 on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 17 through 24 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.

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



Ernest A. Almonte, CPA, CFF
Auditor General

September 23, 2009

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, 2009. This analysis is to be considered in conjunction with the financial statements to provide an objective analysis of the Lottery's financial activities based on facts, decisions, and conditions currently facing management.

Understanding the Lottery's Financial Statements

The Lottery, a division of the Department of Revenue of the State of Rhode Island and Providence Plantations (State), is accounted for as an enterprise fund that reports all assets and liabilities using the accrual basis of accounting, much like a private business entity. In accordance with accounting principles generally accepted in the United States of America, this report consists of a series of financial statements, along with notes to the financial statements and a supplementary schedule detailing sales, commissions, and prize awards 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, net of the State's share of its income allocated to the Permanent School Fund, 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 relationship to revenue. Generally, 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 Statement of Net Assets represent current amounts such as cash and accounts receivable from Lottery retailers. Most liabilities represent current prize awards owed, vendor commission payments, and amounts due to the State's General Fund. Current assets approximate the amounts required to satisfy current liabilities at June 30.

The deficiency in net assets of \$8.8 million reported at June 30, 2009 relates entirely to the Lottery's sale of its exclusive rights to operate its gaming systems. The Lottery sold this exclusive right to its current gaming systems provider for a 20-year period at a cost of \$12.5 million and immediately paid the proceeds to the State's General Fund. According to the terms of the agreement, if for any reason, this contract is voided prior to its completed term; the Lottery will be required to refund a pro-rata share of the sales price to the gaming system provider. In accordance with generally accepted accounting principles, the Lottery will recognize the revenue related to this transaction over the 20-year life of the contract.

Financial Highlights

- The Rhode Island Lottery's sales for fiscal year 2009 totaled \$2.6 billion as compared to fiscal year 2008 sales of \$2.4 billion, an increase of 6.79%.
- The Lottery successfully introduced a new on-line game called Raffle during fiscal 2009. Raffle involves the sale of lottery tickets, each representing an entry in a future drawing. The game ran for several months with all 120,000 tickets being sold for the Raffle drawing which took place on New

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

Year's Eve. The Lottery sold \$2.4 million in lottery tickets and awarded prizes of \$1.2 million including the \$1 million grand prize.

- Instant sales increased by \$0.8 million, a 0.97% increase over fiscal year 2008.
- For fiscal year 2009, expanded video lottery operations resulted in transfers totaling \$6,777,327 to the Permanent School Fund which was then to be allocated as aid to local education authorities.

Assets and Liabilities

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Assets:		
Current assets		
Cash and cash equivalents	\$ 11,613,490	\$ 12,744,369
Accounts receivable, net	4,692,368	4,505,749
Other	1,151,644	1,078,862
Total current assets	<u>\$ 17,457,502</u>	<u>\$ 18,328,980</u>
Long-term assets		
Capital assets, net	<u>\$ 808,117</u>	<u>\$ 908,218</u>
Total assets	<u>\$ 18,265,619</u>	<u>\$ 19,237,198</u>
Liabilities:		
Current liabilities		
Due to State's General Fund	\$ 1,561,685	\$ 521,090
Due to Permanent School Fund	-	1,152,762
Due to State's General Fund - Operating Expenses	138,399	-
Accounts payable	8,767,673	10,090,670
Prize obligations	6,036,852	5,631,954
Other liabilities	2,310,910	2,403,746
Total current liabilities	<u>\$ 18,815,519</u>	<u>\$ 19,800,222</u>
Long-term liabilities		
Net OPEB obligation	\$ 75,100	\$ 61,976
Unearned contract revenue	8,125,000	8,750,000
Total long-term liabilities	<u>8,200,100</u>	<u>8,811,976</u>
Total liabilities	<u>\$ 27,015,619</u>	<u>\$ 28,612,198</u>
Net Assets:		
Invested in capital assets	\$ 808,117	\$ 908,218
Unrestricted	(9,558,117)	(10,283,218)
Total net assets (deficiency)	<u>\$ (8,750,000)</u>	<u>\$ (9,375,000)</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, 2009, the Lottery's assets included \$11.6 million in cash and cash equivalents as compared with \$12.7 million at June

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

30, 2008. The Lottery's accounts receivable approximated \$4.7 and \$4.5 million, respectively, at June 30, 2009 and 2008.

The Lottery's liabilities included at the balance sheet date are amounts owed for vendor payables, prize obligations and a residual amount owed to the State's General Fund for June's net operations and operating expenses. The amount owed to the General Fund for June's net operations approximated \$1.6 million at June 30, 2009 as compared with \$0.5 million due at June 30, 2008. At June 30, 2009, vendor payables, made up largely of commissions due to video lottery participants, and prize obligations, attributable mostly to instant ticket games and PowerBall®, were \$8.8 million and \$6.0 million, respectively. In comparison, vendor payables and prize obligations at June 30, 2008 were \$10.1 and \$5.6 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.

The deficiency in net assets reported at June 30, 2009, as previously explained, relates to the Lottery's immediate transfer, in a prior fiscal year, to the State's General Fund of all proceeds received from the sale of its exclusive rights over the operation of its gaming systems.

Lottery Operations

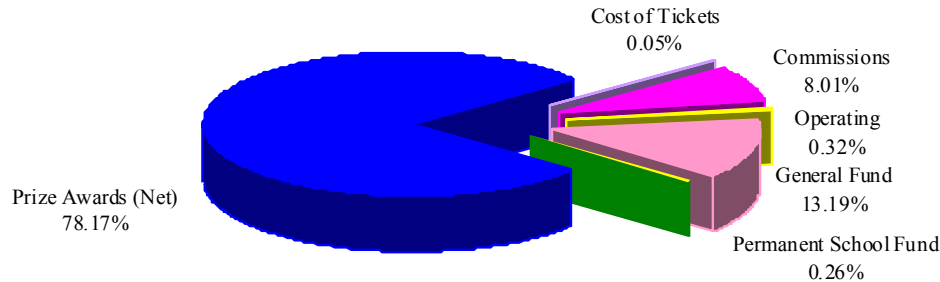
	Year Ended June 30, 2009	Year Ended June 30, 2008
Revenue:		
On-line games	\$ 156,130,190	\$ 159,680,172
Instant games	82,348,042	81,557,881
Video lottery	2,320,451,966	2,155,163,234
Other income	1,588,749	2,514,101
Total revenue	<u>\$ 2,560,518,947</u>	<u>\$ 2,398,915,388</u>
Expenses:		
Cost of sales	\$ (2,207,437,158)	\$ (2,034,448,975)
Operating expenses	(8,163,984)	(8,273,339)
Transfers to State's General Fund	(337,515,478)	(354,321,087)
Transfers to Permanent School Fund	(6,777,327)	(1,152,762)
Transfers to RI Council on the Arts	-	(94,225)
Total expenses	<u>\$ (2,559,893,947)</u>	<u>\$ (2,398,290,388)</u>
Change in net assets	\$ 625,000	\$ 625,000
Total net assets (deficiency), beginning of year	(9,375,000)	(10,000,000)
Total net assets (deficiency), end of year	<u><u>\$ (8,750,000)</u></u>	<u><u>\$ (9,375,000)</u></u>

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

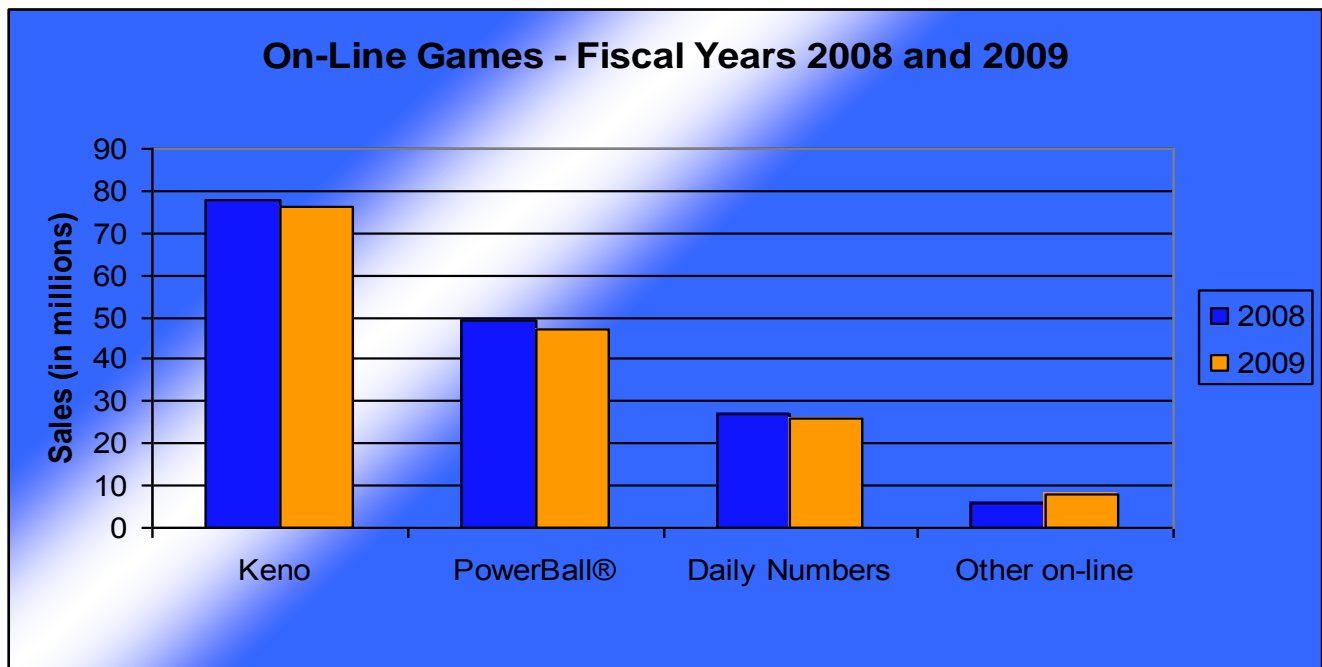
Sales

Distribution of the year's revenue was as follows:



Lottery sales are categorized as on-line, instant and video lottery games. The first category, on-line games, consisted of PowerBall®, Keno, Daily Numbers, Rhody Poker™, Raffle and Wild Money at June 30, 2009. In total, on-line sales decreased by \$3.5 million, which is mostly attributable to decreased PowerBall® sales. PowerBall® sales for the fiscal year ended June 30, 2009 decreased \$2.3 million or 4.65% over the prior fiscal year. In January 2009, the PowerBall® structure was modified to increase the starting jackpot from \$15 million to \$20 million and to increase the number of million dollar winners in the subsidiary prize category.

The following graph depicts the Lottery's on-line sales for the fiscal years ended June 30, 2008 and 2009.



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, 2009 increased \$0.8 million or 0.97% over the preceding fiscal year.

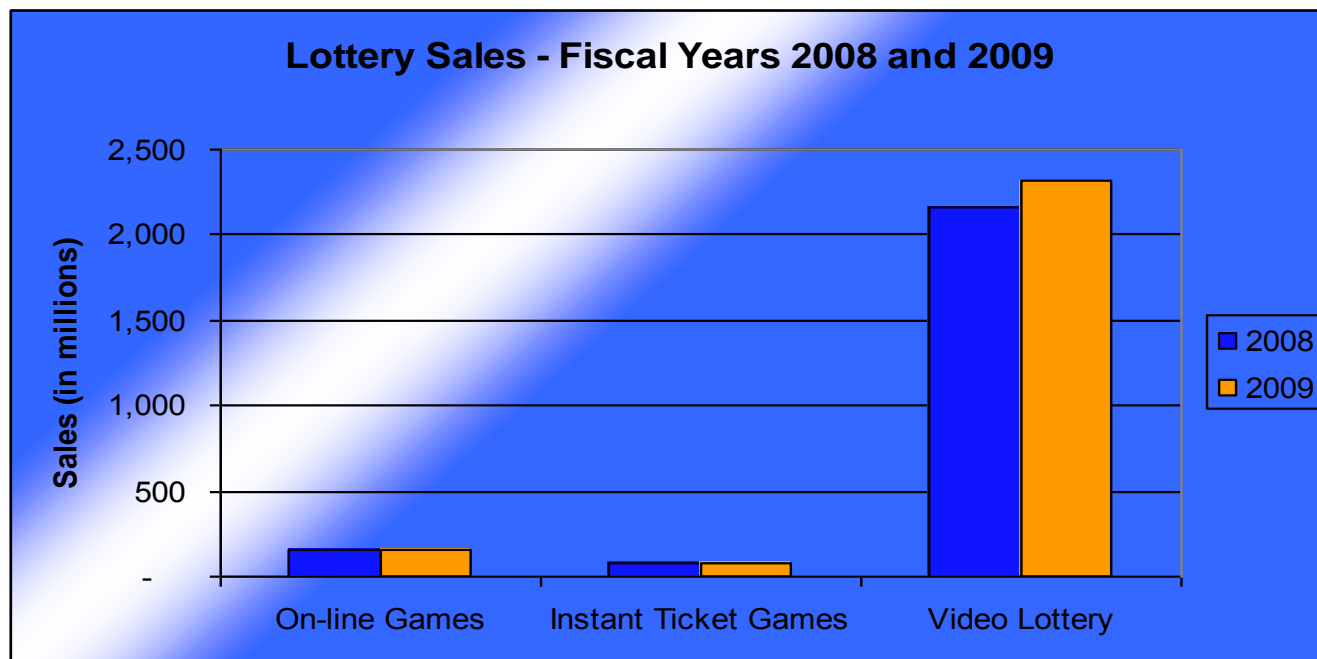
RHODE ISLAND LOTTERY

Management's Discussion and Analysis

The third type of game offered is video lottery. Video lottery sales increased \$165.3 million with a corresponding increase of \$182.2 million in prize awards. The continued increase in reported video lottery sales is mostly attributable to expanded operating hours for the majority of the fiscal year at the Lottery's largest video lottery facility, and the popularity of virtual multi-player video table games such as blackjack and roulette that simulates the excitement of table games. The increase of prize awards in excess of the video lottery revenue increase for fiscal 2009 was mostly attributable to the Lottery's authorization of bonus play as a marketing tool for the State's video lottery facilities. Bonus play, which was first introduced in June 2008, is free promotional play (credits) awarded to rated patrons (those averaging a certain level of video lottery play) that frequented the State's largest video lottery facility. Promotional or Bonus Play allows patrons, once awarded, to download free credits to be played on video lottery terminals (VLTs). These bonus video lottery credits are not recorded as sales by the Lottery, however, any corresponding prize awards won from the play of bonus credits are redeemable for cash and thus are recognized as prize awards.

The ability and preference of video lottery patrons to freely transfer credits between video terminals using Ticket In/Ticket Out (TITO) technology, that is offered on all video terminals, also continues to impact reported sales and prize awards. This technology allows patrons to conveniently move their credits from VLT to VLT without having to redeem cash-out tickets for cash. This can result in reported terminal activity that flows through a number of VLTs without being exposed to the designed payout percentages applicable to video lottery games – causing an equivalent increase in sales and prize awards resulting from this type of patron play. While the video patron has always had the freedom to repeatedly redeem and reinvest their “unplayed” credits in other VLTs, the ease of such a transfer through the utilization of TITO has made this process much more common within video operations.

The following graph depicts the Lottery's on-line, instant, and video lottery sales for the fiscal year ended June 30, 2008 in comparison to fiscal year ended June 30, 2009.

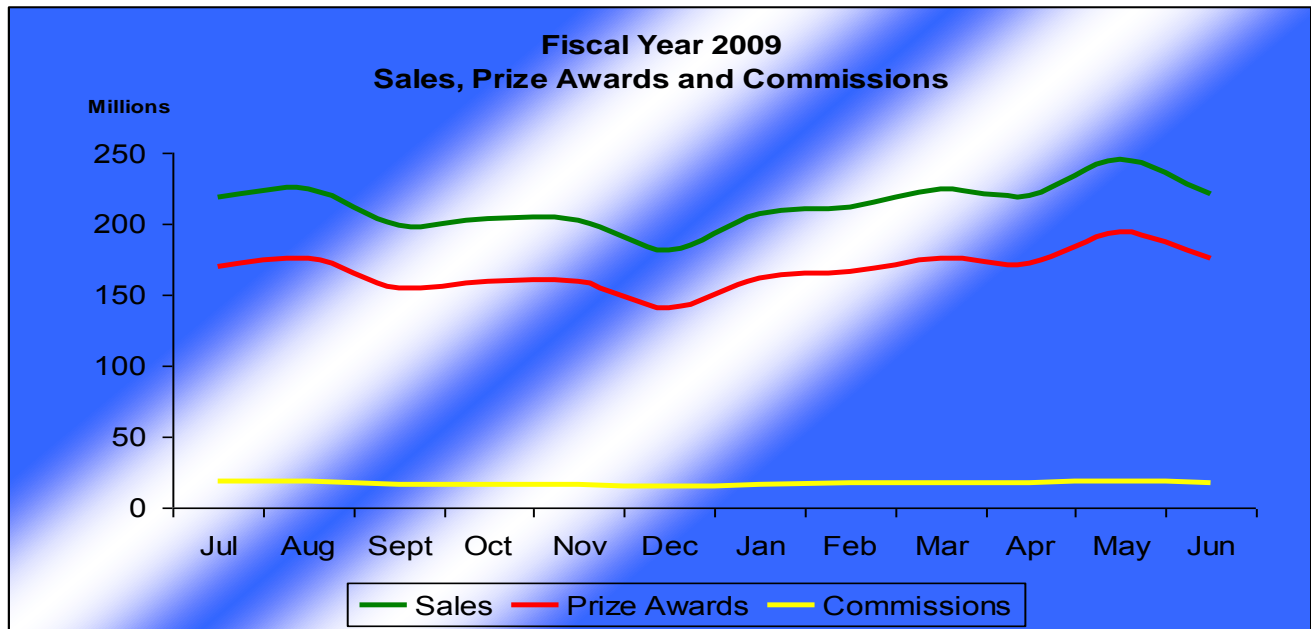


RHODE ISLAND LOTTERY

Management's Discussion and Analysis

Commissions and Prize Awards Expense

As the following graph depicts, 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 payout structure, the overall amount paid as prize awards expense is consistent in relation to sales.



Transfers to the State's General Fund

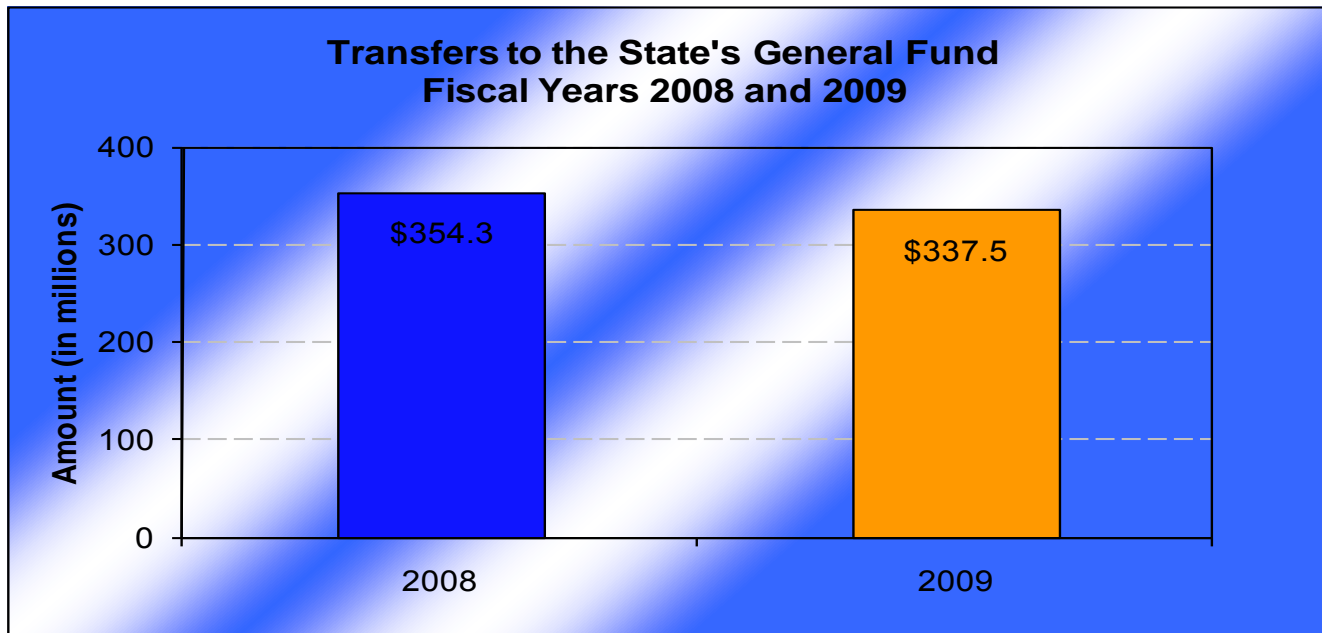
Transfers to the State's General Fund for the fiscal year ended June 30, 2009 decreased by \$16.8 million to a total of \$337.5 million for the period as compared to \$354.3 million for the fiscal year ended June 30, 2008. Transfers to the State's General Fund are estimated at \$338.0 million for the fiscal year ended June 30, 2010.

Overall economic conditions have deteriorated both regionally and nationally beginning with the recession starting in 2008. These economic conditions include layoffs and high unemployment, the banking and housing crises and general concern about the future. These factors had an adverse effect on overall consumer spending.

Net terminal income (defined as terminal cash-in minus terminal cash-out) resulting from expanded hours of video lottery operations, which began in May 2008 at the Twin River video lottery facility, totaled \$12.2 million for the 2009 fiscal year. RI General Law section 42-61.2-7, section 2, effective through June 30, 2009, mandates that the State's share of this income, less an additional .19% commission for the city or town where the video lottery facility resides, was to be allocated to the State's Permanent School Fund.

RHODE ISLAND LOTTERY

Management's Discussion and Analysis



Debt Administration

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.

Capital Assets

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

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

Potential Factors Impacting Future Operations

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

- ❑ On June 23, 2009, the President and Chief Operating Officer of UTGR, Inc., the owner and operator of the Twin River video lottery facility, filed a petition for chapter 11 relief with the United States Bankruptcy Court for the State of Rhode Island. A preliminary agreement with the first and second lienholders was reached shortly before the bankruptcy filing. The agreement is subject to specific legislative actions which have not been formalized. UTGR, Inc., under the supervision of the bankruptcy court, continues to operate. The Lottery continues to obtain and allocate the video lottery net terminal income in accordance with established procedures.

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

- ❑ The Lottery's video lottery operations currently compete with Indian gaming casinos in nearby Connecticut. Proposals are sometimes made in Rhode Island, as well as neighboring Massachusetts, to seek approval from the voters to allow Indian gaming or other casinos in Rhode Island and Massachusetts. The Lottery's operations may be impacted by competition from other gaming interests that may be developed within Rhode Island or neighboring states.
- ❑ Revenues overall are down at many gaming venues throughout New England. Competition among gaming venues has increased resulting in more promotional allowances and player reward incentives being offered.

Contacting the Lottery's Financial Management

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

RHODE ISLAND LOTTERY

Statement of Net Assets

June 30, 2009

Assets

Current assets:

Cash and cash equivalents (note 3)	\$ 11,613,490
Accounts receivable-less allowance for doubtful accounts of \$133,876	4,692,368
Deposits with Multi-State Lottery Association (MUSL) (note 1)	404,381
Due from Permanent School Fund (note 5)	9,659
Ticket inventory	737,604
Total current assets	\$ 17,457,502

Capital assets, net (note 4)

808,117

Total assets

\$ 18,265,619

Liabilities

Current liabilities:

Due to State's General Fund (note 5)	\$ 1,561,685
Due to State's General Fund - Operating Expenses	138,399
Obligation for unpaid prize awards	6,036,852
Accounts payable	8,767,673
Accrued expenses	1,372,536
Deferred revenue	313,374
Unearned contract revenue (note 8)	625,000
Total current liabilities	\$ 18,815,519

Long-term liabilities:

Net OPEB obligation (note 10)	\$ 75,100
Unearned contract revenue (note 8)	8,125,000
Total long-term liabilities	8,200,100
Total liabilities	\$ 27,015,619

Net Assets

Invested in capital assets (note 8)	808,117
Unrestricted (note 8)	(9,558,117)
Total net assets (deficiency)	\$ (8,750,000)

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Statement of Revenue, Expenses and Changes in Net Assets

Year Ended June 30, 2009

Sales (schedule 1):	
On-line games	\$ 156,130,190
Instant games	82,348,042
Video lottery	<u>2,320,451,966</u>
Total sales	<u>\$ 2,558,930,198</u>
Cost of sales:	
Commissions (note 6)	\$ 205,029,120
Prize awards	2,004,412,406
Unclaimed prize recovery	(3,198,266)
Cost of tickets	<u>1,193,898</u>
Total cost of sales	<u>2,207,437,158</u>
Gross profit	<u>\$ 351,493,040</u>
Operating expenses:	
Personal services	\$ 4,764,132
Advertising	2,203,027
Contract services	58,480
Depreciation	240,281
Other	<u>898,064</u>
Total operating expenses	<u>8,163,984</u>
Operating income	\$ 343,329,056
Non-operating income (expense):	
Investment income	663,749
Other income	<u>\$ 925,000</u>
Income before Transfers	344,917,805
Transfers to State's General Fund (note 5)	(337,515,478)
Transfers to Permanent School Fund (note 5)	<u>(6,777,327)</u>
Change in net assets	\$ 625,000
Total net assets (deficiency), beginning of year	<u>(9,375,000)</u>
Total net assets (deficiency), end of year (note 8)	<u><u>\$ (8,750,000)</u></u>

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Statement of Cash Flows

Year Ended June 30, 2009

Cash flows from operating activities:

Cash received from lottery sales	\$ 2,558,769,834
Cash received from MUSL for grand prize winners	10,095,229
Cash received from sale of other tickets	171,072
Cash received from rental income and other receipts	390,203
Cash paid for prizes other than MUSL grand prize winners	(2,000,809,236)
Cash paid to MUSL grand prize winners	(10,095,229)
Cash paid for commissions - retailers	(8,763,660)
Cash paid for commissions - video lottery	(176,354,565)
Cash paid for commissions - on-line games contractor	(21,232,654)
Cash paid to suppliers for goods and services	(4,551,759)
Cash paid to employees for services	<u>(4,634,479)</u>
Net cash provided by operating activities	<u>342,984,756</u>

Cash flows from noncapital financing activities:

Transfers to State's General Fund	(336,474,883)
Transfers to State's Permanent School Fund	<u>(7,939,748)</u>
Net cash used for noncapital financing activities	<u>(344,414,631)</u>

Cash flows from capital and related financing activities:

Purchase of capital assets	<u>(146,153)</u>
Net cash used for capital and related financing activities	<u>(146,153)</u>

Cash flows from investing activities:

Interest income	<u>445,149</u>
Net cash provided by investing activities	<u>445,149</u>
Net increase in cash and cash equivalents	(1,130,879)
Cash and cash equivalents at July 1, 2008	<u>12,744,369</u>
Cash and cash equivalents at June 30, 2009	<u><u>\$ 11,613,490</u></u>

See accompanying notes to financial statements.

Continued.

RHODE ISLAND LOTTERY

Statement of Cash Flows (continued)

Year Ended June 30, 2009

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

Operating income	\$ 343,329,056
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Adjustments to reconcile operating income to net cash
provided by (used for) operating activities:

Depreciation	240,281
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Miscellaneous receipts classified as operating activities	124,511
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Rental income and other receipts	400,061
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(Increase) decrease in assets:

Accounts receivable	(186,619)
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Inventory	(53,265)
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Deposits with MUSL	(9,858)
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Increase (decrease) in liabilities:

Obligation for unpaid prize awards	404,898
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Accounts payable	(1,322,996)
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Due to State's General Fund - Operating Expense	138,399
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Accrued expenses	(97,767)
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Deferred revenue	18,055
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Total adjustments	(344,300)
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Net cash provided by operating activities	\$ 342,984,756
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See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Notes to Financial Statements

(1) Organization

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

The Lottery offers:

- On-line games that include: Daily Numbers, Keno, Wild Money, PowerBall[®], which is operated by the Multi-State Lottery Association (MUSL) and Raffle;
- Instant tickets sold through licensed lottery retailers, and
- Video lottery games which are located 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>Mandated Payments to the State</u>
Daily Numbers Raffle Instant Ticket Games MUSL – PowerBall [®] Wild Money	Not less than 45% or more than 65% of sales	Payments to the General Fund - not less than 25% of ticket sales
Keno	Not less than 45% or more than 72% of sales	Payments to the General Fund - not less than 15% of ticket sales
Video Lottery	Prize payout not established by law	Payments to the General Fund - net terminal income (video lottery credits purchased less credits redeemed or redeemable, including prize contributions to multi-state video lottery progressive jackpots) minus commission payments Payments to the Permanent School Fund – video lottery net terminal income derived from expanded hours of operation as defined by the General Laws

RHODE ISLAND LOTTERY

Notes to Financial Statements

(1) Organization – (Continued)

Chapter 42-61.2 of the General Laws authorizes the Division of Lotteries 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). Consistent with the General Laws, net terminal income is distributed to licensed video lottery facility operators, the technology providers (video lottery terminal providers), the central communications system provider, the city or town in which the video facility is licensed, the Narragansett Indian Tribe and the State's Permanent School Fund. All residual net terminal income after mandated commission payments, and other transfers, is remitted to the State's General Fund.

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 \$100.0 million. 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, 2009, the prize reserve funds for the PowerBall[®] game reported a balance of \$77.2 million of which the Lottery's share was \$1.5 million. 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. During fiscal year 2009, MUSL reduced the Lottery's unreserved account by \$48,278 for a pro rata share of annual operating expenses. The Lottery has recorded all income and operating expenses related to its unreserved account and has reported the balance of \$404,381 at June 30, 2009 on the Statement of Net Assets in "Deposits with MUSL".

MUSL issues a publicly available annual financial report that may be obtained by writing to the Multi-State Lottery Association, 4400 NW Urbandale Drive, Urbandale, Iowa 50322.

RHODE ISLAND LOTTERY

Notes to Financial Statements

(2) Summary of Significant Accounting Policies

(a) *Basis of Accounting*

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

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.

The Lottery has considered the impact and requirements of newly issued GASB Statements in the preparation of these financial statements.

(b) *Reporting Entity*

The Lottery, a division of the Department of Revenue of the State of Rhode Island and Providence Plantations (State), is accounted for as an enterprise fund for financial reporting purposes. Accordingly, its annual financial statements are included in the State's Comprehensive Annual Financial Report (CAFR). The accompanying financial statements are not intended to present the financial position and results of operations of the State.

(c) *Revenues and Expenses*

The Lottery defines all revenues and expenses deriving from on-line, instant ticket 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

RHODE ISLAND LOTTERY

Notes to Financial Statements

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

credits purchased and the amount of credits redeemable or allocated to progressive jackpots. 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, that remain unclaimed one year after the drawing date are reported as a reduction to the cost of sales.

(d) *Capital Assets*

Capital assets are stated at historical cost. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets. The Lottery's capitalization threshold is \$5,000.

(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) *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.

(g) *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.

(h) *Unearned Contract Revenue*

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

(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.

RHODE ISLAND LOTTERY

Notes to Financial Statements

(3) Deposits and Investment Risk

(a) *Deposits*

The Lottery's cash deposit balances at June 30, 2009 totaled \$6,442,810, with corresponding bank balances totaling \$6,457,296. The bank balances consisted of \$73,456 in a demand deposit account, a cash overdraft of \$14,986 in a demand deposit account within the same financial institution, and \$6,383,840 in collateralized deposit investment accounts.

All deposits were in the custody of the State General Treasurer. The institution holding the Lottery's cash deposits totaling \$73,456 in a demand deposit account has elected to participate in the Federal Deposit Insurance Corporation's Temporary Liquidity Guarantee Program which fully guarantees all non-interest bearing transaction accounts for the entire amount in the account. For the Lottery's interest bearing accounts, all General Treasurer accounts at a single institution are aggregated for purposes of determining federal depository insurance coverage. Of the total bank deposit balance, \$6,383,840 was collateralized.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the Lottery were required to be collateralized at June 30, 2009 pursuant to Chapter 35-10.1 of the General Laws.

(b) *Investments*

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

At June 30, 2009, the Lottery's investment balance consisted of money market mutual funds as follows:

RHODE ISLAND LOTTERY

Notes to Financial Statements

(3) Deposits and Investment Risk – (Continued)

Investment Description	Fair Value at June 30, 2009	Credit Rating	Average Maturity
BlackRock Liquidity Funds – FedFund Institutional Shares	\$ 4,501,176	AAAm (S&P) Aaa (Moody's)	30 days
Federated Government Obligations Fund – Institutional Shares	\$ 366,637	AAAm (S&P) Aaa (Moody's)	47 days
Wells Fargo Advantage Funds – Government Money Market Fund	\$ 302,867	AAAm (S&P) Aaa (Moody's)	38 days
Total Investments	\$ 5,170,680		

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

Interest Rate Risk: Based on SIC policy, the State's short-term investment portfolio, whenever possible, will be structured to minimize interest rate risk, by matching the maturities of investments with the requirements for funds disbursement. The State invests the Lottery's available cash in short-term investments limiting its exposure to fair value losses arising from rising interest rates. The Lottery's investments are typically overnight, money market mutual funds or investments with maturities less than 30 days thereby minimizing the Lottery's exposure to interest rate risk.

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

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

(c) Cash and Cash Equivalents

Cash and cash equivalents on the Statement of Net Assets consist of the following:

Cash deposit balance per books	\$ 6,442,810
Investments classified as cash equivalents	<u>5,170,680</u>
Cash and cash equivalents	<u>\$ 11,613,490</u>

RHODE ISLAND LOTTERY

Notes to Financial Statements

(4) Capital Assets

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

A summary of capital assets follows:

<u>Cost</u>	<u>Estimated Useful Life</u>	<u>2008 Balance</u>	<u>2009 Additions</u>	<u>2009 Disposals</u>	<u>2009 Balance</u>
Building	20	\$ 1,468,983	\$ -	\$ -	\$ 1,468,983
Building improvements	10	1,875,846	-	-	1,875,846
Ticket production equipment	10	14,938	-	-	14,938
Office equipment	10	69,906	85,129	(31,838)	123,197
Furniture and fixtures	10	92,500	-	(168)	92,332
Lottery drawing equipment	3	87,023	-	-	87,023
Automobiles	3	261,665	61,024	(51,645)	271,044
Computer equipment	3	308,792	-	(63,521)	245,271
Trucks	3	22,445	-	-	22,445
Total		<u>\$ 4,202,098</u>	<u>\$ 146,153</u>	<u>\$ (147,172)</u>	<u>\$ 4,201,079</u>
<u>Less: Accumulated Depreciation</u>					
Building		\$ 1,448,349	\$ 1,552	\$ -	\$ 1,449,901
Building improvements		1,102,007	175,430	-	1,277,437
Ticket production equipment		14,848	91	-	14,939
Office equipment		56,568	6,318	(25,865)	37,021
Furniture and fixtures		58,075	7,394	(168)	65,301
Lottery drawing equipment		87,023	-	-	87,023
Automobiles		196,677	49,321	(51,645)	194,353
Computer equipment		307,888	175	(63,521)	244,542
Trucks		22,445	-	-	22,445
Total		<u>\$ 3,293,880</u>	<u>\$ 240,281</u>	<u>\$ (141,199)</u>	<u>\$ 3,392,962</u>
Capital assets, net		<u>\$ 908,218</u>	<u>\$ (94,128)</u>	<u>\$ (5,973)</u>	<u>\$ 808,117</u>

(5) Transfers to the State

The Lottery is required to transfer net proceeds from the Lottery's games in accordance with RI General Laws sections 42-61-15 and 42-61.2-7 as follows:

- (a) Transfers to the State's General Fund for fiscal 2009 are reported as follows in the Lottery's financial statements:

Due to State's General Fund, beginning of year	\$ 521,090
Transfers to State's General Fund	337,515,478
Cash paid during fiscal year	<u>(336,474,883)</u>
Due to State's General Fund, end of year	<u>\$ 1,561,685</u>

RHODE ISLAND LOTTERY

Notes to Financial Statements

(5) Transfers to the State – (Continued)

- (b) Transfers to the State's Permanent School Fund for the net proceeds derived from expanded video operating hours for fiscal 2009 are reported as follows in the Lottery's financial statements:

Due to Permanent School Fund, beginning of year	\$ 1,152,762
Transfers to Permanent School Fund	6,777,327
Cash paid during fiscal year	<u>(7,939,748)</u>
Due from Permanent School Fund, end of year	<u>\$ (9,659)</u>

The law authorizing transfers to the Permanent School Fund expired on June 30, 2009.

(6) Commissions

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

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, 2009, the estimated liability, reported within accrued expenses on the Statement of Net Assets, was \$284,839. The liability is calculated using the current hourly rates of pay.

(8) Net Assets - (Deficiency)

On May 12, 2003, the Lottery entered into a 20-year contract, effective July 1, 2003, with its current gaming system provider. The contract granted the provider the right to be the Lottery's exclusive vendor of hardware and software, together with the related services necessary for the operation of the Lottery's computerized games, through June 30, 2023. In return, the provider made a one-time payment of \$12.5 million to the Lottery as consideration for this exclusive contract right. The Lottery recorded unearned contract revenue in the amount of \$12.5 million and transferred the cash to the State's General Fund on June 30, 2003. This prior year transfer of unearned contract revenue resulted in a deficiency in net assets at June 30, 2009 of \$8.8

RHODE ISLAND LOTTERY

Notes to Financial Statements

(8) Net Assets - (Deficiency) – (Continued)

million. As the contract revenue is recognized over the twenty-year life of the contract, the deficiency in net assets will be reduced by \$625,000 per year.

Net assets reported by the Lottery also include its investment in capital assets, net of accumulated depreciation. The Lottery had no debt related to capital assets at June 30, 2009.

(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.

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. 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 was 21.13% of annual covered payroll for the fiscal year ended June 30, 2009. The Lottery contributed \$586,324, \$605,223 and \$508,684 for the fiscal years ended June 30, 2009, 2008 and 2007, respectively, equal to 100% of the required contributions for each year.

(10) Postemployment Healthcare Plan

Plan Description:

As a division of the State of Rhode Island, the Lottery participates in a State administered defined benefit post-employment health care plan known as the Rhode Island Retiree Health Care Benefit Plan (RIRHCBP). The RIRHCBP is an agent multiple employer plan.

The RIRHCBP is reported in an internal service fund of the State using the accrual basis of accounting. The fund reports all employer and retiree (plan member) contributions to the plan. Contributions are recognized when made. Benefits (health care claims) and refunds are recognized when due and payable in accordance with the terms of the plan. A liability for incurred but not reported claims is determined based on past claims payment trends and is included in the State's financial statements. Working premium rates are determined by the

RHODE ISLAND LOTTERY

Notes to Financial Statements

(10) Postemployment Benefits – (Continued)

State each fiscal year after consultation with an employee benefits consultant and are designed to fund current claims incurred during the fiscal year as well as the costs of administering the plan. For the year ended June 30, 2009, the plan operated on a pay as you go basis and no provision has been made to fund future benefits to be provided to RIRHCBP members. The RIRHCBP does not issue a stand-alone financial report.

Funding Policy:

RIGL Sections 36-10-2, 36-12.1, 36-12.2.2 and 36-12-4 govern the provisions of the RIRHCBP. The contribution requirements of plan members, the State and other participating employers are established and may be amended by the General Assembly.

For anyone who retires on or before September 30, 2008, the State provides two types of subsidies for health care benefits. The Tier I subsidy applies to non-Medicare eligible retirees and provides that the State will pay the portion of the cost of post-retirement health care for the retiree and any dependents above the active group rate. The retiree pays the active monthly rate and the State pays the difference between the active group rate and the early retiree rate. This subsidy is not based on years of service and ends at age 65. In addition to the Tier I benefits, the State pays a portion of the cost of post-retirement health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and service of the retiree, which is referred to as the Tier II benefit.

For those who retired on or before September 30, 2008, the fiscal 2009 contributions are as follows:

Retiree Age	Years of Service	Amount of Cost Paid by Retiree
Below 60: (1)	28-34	10%
	35+	0%
Retiree Age from 60 to 65: (2)	10 – 15	50%
	16 – 22	30%
	23 – 27	20%
	28+	0%
Retiree Age Greater than 65: (3)	10 – 15	50%
	16 – 19	30%
	20 – 27	10%
	28+	0%
<p>(1) The monthly premium rate was \$789.76 for fiscal year 2009 for the individual plan. The retiree's cost is then calculated based on a maximum of \$481.28 (the active plan rate).</p> <p>(2) The monthly premium rates are the same as indicated above for the Retiree Age Below 60 category.</p> <p>(3) The monthly premium rate for the Medicare Supplemental plan is \$201.16 for the individual plan, and the monthly premium for the Medicare HMO plan was \$107 for the first six months of fiscal year 2009 and \$115 thereafter. Retirees can choose between the two plans. The retiree's cost is then calculated based on their years-of-service subsidy above.</p>		

RHODE ISLAND LOTTERY

Notes to Financial Statements

(10) Postemployment Benefits – (Continued)

For anyone who retired on or after October 1, 2008, age 59 through 64, with a minimum of 20 years of service, the State will pay 80% of the actual cost of health care coverage. The State contributed \$631.81 per month for these retirees during fiscal 2009. For eligible retirees ages 65 or older, the State pays 80% of the cost of the Medicare supplement products as described in note (3) above.

Annual Other Postemployment Benefit (OPEB) Cost and Net OPEB Obligation:

As required by GASB Statement 45, the Lottery recognized an expense equal to; a.) the annual required contribution of the employer (ARC), which was actuarially determined to be 6.01% of covered payroll for all State employees for fiscal year 2009, plus b.) interest on the net OPEB obligation at the beginning of the fiscal year, and less c.) the ARC adjustment (discounted present value of the OPEB liability at the beginning of the fiscal year). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The ARC for fiscal 2009 was determined based on an actuarial valuation performed as of June 30, 2005. This actuarial valuation determined a single ARC percentage, 6.01%, for all participants of the plan and did not determine specific employer ARCs for the participating component unit employers. For fiscal year 2009, the ARC, based on the Lottery's covered payroll of \$2,809,616 totaled \$168,858. The Lottery actually contributed \$155,856, which was 5.62% of annual covered payroll for fiscal 2009. The Lottery's annual OPEB cost and the net OPEB obligation for fiscal 2009, were as follows:

Annual required contribution (ARC)	\$ 168,858
Plus: Interest on net OPEB obligation at beginning of year	2,210
Less: Adjustment to ARC	<u>(2,088)</u>
Annual OPEB cost	\$ 168,980
Contributions made	<u>(\$ 155,856)</u>
Increase in OPEB obligation	13,124
Net OPEB obligation at beginning of year	<u>\$ 61,976</u>
Net OPEB obligation at end of year	<u>\$ 75,100</u>

The Lottery's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and 2008 (first year of GASB 45 implementation) was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2008	\$176,982	65.0%	\$61,976
June 30, 2009	\$168,980	92.2%	\$75,100

RHODE ISLAND LOTTERY

Notes to Financial Statements

(10) Postemployment Benefits – (Continued)

Funded Status and Funding Progress:

The State has obtained an actuarial valuation for the RIRHCBP, which determined the collective Actuarial Accrued Liabilities (AAL) and Unfunded Actuarial Accrued Liabilities for all State employees participating in the plan and separate liability amounts for each discretely presented component unit with employees participating in the plan. The liabilities relating to the Lottery's employees, as part of the primary government, are included in the collective amounts reported for all State employees. The AAL and UAAL for the RIRHCBP at June 30, 2009 will be reported in the State's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2009.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for RIRHCBP shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. This schedule will be included in the State's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2009.

Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The most recent actuarial valuation was performed as of June 30, 2007. The Unfunded Actuarial Accrued Liability (UAAL) was amortized by a level (principal and interest combined) percent of payroll contribution for each component unit employer. The UAAL was determined using the actuarial value of assets and actuarial accrued liability calculated as of the valuation date. The UAAL is being amortized over the remainder of a closed 30-year (or shorter) period from June 30, 2006.

Plan changes effective for employees retiring after October 1, 2008 have been reflected in the actuarial valuations performed as of June 30, 2007 and June 30, 2005.

The individual entry-age actuarial cost method is used to determine the annual required contribution amounts and the annual net OPEB obligation. The actuarial assumptions include a 3.566% discount rate based upon the average rate of return during the 10 years ended June 30, 2008 for short term investments of the State's General Fund; an annual healthcare cost trend rate of 12% progressively declining to 4.50% after 10 years for the 2005 valuation; and a salary

RHODE ISLAND LOTTERY

Notes to Financial Statements

(10) Postemployment Benefits – (Continued)

growth rate ranging from 8.25% in the first year to 4.75% in year 15 and beyond for the 2005 valuation. In the June 30, 2007 valuation, the health care cost trend assumption was changed to a rate of 10% progressively declining to 4.50% after 8 years and the salary growth assumption was changed to a rate of 9.00% in the first year of service to 4.50% in year 15 and beyond. Other changes in assumptions between the 2005 and 2007 valuations include changes in the assumed rates of termination, rates of retirement, percent married, and retiree health care election rates. These changes in assumptions were based on the experience study for the Employees' Retirement System of Rhode Island as well as anticipated experience changes in conjunction with the adopted plan changes.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about employment, mortality and healthcare cost trends. Actuarial valuations are subject to continual revision as actual results are compared to past expectations and new estimates are formulated about the future.

(11) Deferred Compensation

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

(12) Commitments

(a) Gaming Systems Provider – GTECH (a combined company with Lottomatica S.p.A.)

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

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

Additionally, GTECH was obligated to invest \$100 million in connection with the construction of a new corporate headquarters and expansion of its manufacturing operations in the State. The gaming system contractor is also required to employ no less than 1,000 full time active employees during the term of the agreement.

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

RHODE ISLAND LOTTERY

Notes to Financial Statements

(12) Commitments – (Continued)

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

The Lottery also leases to the vendor a portion of its headquarters to house the computer hardware and office space necessary for the operation of the Lottery's games. The term of the lease is five (5) years, commencing October 19th, 2007 and the square footage leased is 5,101 square feet. The annual lease amount for the first year approximated \$87,000 and the four (4) remaining years will increase by four percent (4%) per annum, effective October 19. The tenant has two (2) renewal options; an additional five (5) year term and an additional four (4) year term. The base rate for the renewal options will be an increase of four percent (4%) per annum unless a mutually acceptable rate is negotiated.

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

On July 18, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with UTGR, Inc., the owners of Twin River, to operate one of the State's licensed video lottery facilities. The agreement entitles UTGR, Inc. to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility. At the time of the agreement, the Lottery authorized an additional 1,750 video lottery terminals to be installed at Twin River and UTGR, Inc. agreed to invest no less than \$125 million in the construction and development of its gaming facility during the first three (3) years of the agreement.

UTGR, Inc. has the right and option to extend the term of the agreement for two (2) successive five (5) year periods by giving notice to the Lottery at least ninety (90) days prior to the expiration of the agreement. The option can be exercised if UTGR, Inc. is not in default of any major term or condition of the agreement and the full-time employee requirement at Twin River has been met. See Note 13 Contingencies.

(c) Video Lottery Facility Operator – Newport Grand Jai Alai, LLC (Newport Grand)

On November 23, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with Newport Grand to continue to operate as one of the State's licensed

RHODE ISLAND LOTTERY

Notes to Financial Statements

(12) Commitments – (Continued)

video lottery facilities. The agreement entitles Newport Grand to 26% of video lottery net terminal income at the facility. At the time of the agreement, the Lottery authorized an additional 800 video lottery terminals to be installed at Newport Grand, which has agreed to invest no less than \$20 million in the construction and development of its gaming facility during the first three (3) years of the agreement.

Newport Grand has the right and option to extend the term of the agreement for one (1) additional five (5) year period by giving notice to the Lottery at least ninety (90) days prior to the expiration of the agreement. The option can be exercised if Newport Grand is not in default of any major term or condition of the agreement and the full-time employee requirement at Newport Grand has been met.

(13) Contingencies

- (a) The Lottery's master contracts with its video lottery facility operators contain revenue protection provisions in the event that existing video lottery facility operators incur revenue losses caused by new gaming ventures within the State.
- (b) In March 2008, UTGR, Inc., the owner and operator of Twin River, one of two licensed video lottery facilities of the State, defaulted on loan payments to its lenders who provided a \$565 million loan package to UTGR, Inc. and its parent companies to buy and expand the Twin River facility. As a result of defaulting on loan payments, UTGR entered into a forbearance agreement with its lenders. In September 2008, both Standard & Poor's and Moody's Investors Service downgraded their rating of the company that owns Twin River, and Moody's issued a statement warning of a "high probability of bankruptcy." The forbearance agreement expired January 31, 2009 and has not been formally extended.

On or about June 23, 2009, UTGR, Inc., d/b/a Twin River, BLB Management Services, Inc., and BLB Worldwide Holdings, Inc. ("Debtors") commenced a chapter 11 proceeding by filing voluntary petitions for relief under chapter 11 in the United States Bankruptcy Court for the District of Rhode Island (Case No. 09-12418). The filing was made when – after months of discussions and negotiations – the Debtors, their lenders and the State reached an agreement with respect to a consensual reorganization plan. The State is represented in the bankruptcy proceedings by outside legal counsel. Since the filing, the Debtors have continued in the management and operation of the business as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code and Twin River has continued to remain open as usual. It is not anticipated that the bankruptcy will have a significant impact on the lottery revenues the State expects to continue to receive from the facility. The Rhode Island Lottery continues to control and regulate the video lottery operations at the facility, including cash receipts, cash transfers and cash deposits.

RHODE ISLAND LOTTERY

Notes to Financial Statements

(13) Contingencies – (Continued)

The Department of Revenue Division of Lotteries and the Department of Business Regulation continue to closely monitor the situation. Any proposal to have a new operator of the facility and/or any proposal to transfer ownership of the facility would need regulatory approval.

- (c) Subsequent to June 30, 2009, it was discovered that an immaterial amount of unauthorized promotional play had been awarded by an employee of the Twin River facility. This resulted in unauthorized bonus play and cash winnings (prize awards) being redeemed. The immaterial prize awards associated with this potentially fraudulent action are reflected in reported prize awards in the Lottery's financial statements for the year ended June 30, 2009. Based on internal and external investigations, it was estimated the potential recovery to the State of Rhode Island in relation to this issue ranges between \$136,000 and \$250,000. This range of potential recovery includes the State's portion of the net terminal income from unauthorized promotional dollars allowed and estimated cash won. Upon recovery, the Lottery will give consideration to the impact of this incident on the commissions due the central system provider, the technology providers, the Town of Lincoln and the Narragansett Indian Tribe. The Lottery is taking appropriate measures to ensure that controls over the administration of promotional play programs at its video lottery facilities is improved.

(14) Risk Management

The Lottery is exposed to various types of risk related to its operations. These risks can result in losses incurred from property damage or destruction, inability to operate gaming activities and worker compensation claims. The Lottery manages these risks through the purchase of commercial insurance. During fiscal year 2009, the Lottery has maintained its amount of purchased insurance coverage. Claims and settlements incurred for fiscal years 2009, 2008 and 2007 have not exceeded the Lottery's insurance coverage.

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

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Supplementary Information

RHODE ISLAND LOTTERY

Sales, Commissions and Prize Awards Expense

Year Ended June 30, 2009

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	\$ 76,036,908	\$ 9,877,154	\$ 49,768,255	\$ (309,445)	\$ -	\$ 59,335,964	\$ 16,700,944
PowerBall®	46,583,080	6,051,117	23,299,583	(847,053)	-	28,503,647	18,079,433
Daily Numbers	25,814,615	3,353,305	12,592,628	(225,677)	-	15,720,256	10,094,359
Rhody Poker™	109,943	14,282	74,274	(4,080)	-	84,476	25,467
Wild Money	5,185,904	673,646	2,843,761	(122,232)	-	3,395,175	1,790,729
Raffle	2,399,740	318,725	1,200,000	-	-	1,518,725	881,015
	<u>156,130,190</u>	<u>20,288,229</u>	<u>89,778,501</u>	<u>(1,508,487)</u>	<u>-</u>	<u>108,558,243</u>	<u>47,571,947</u>
Instant tickets	82,348,042	8,756,661	55,077,672	(1,522,740)	1,193,898	63,505,491	18,842,551
Video Lottery							
Regular Operating Hours	2,212,932,586	170,564,039	1,764,234,371	(167,039)	-	1,934,631,371	278,301,215
Expanded Operating Hours	107,519,380	5,420,191	95,321,862	-	-	100,742,053	6,777,327
	<u>2,320,451,966</u>	<u>175,984,230</u>	<u>1,859,556,233</u>	<u>(167,039)</u>	<u>-</u>	<u>2,035,373,424</u>	<u>285,078,542</u>
Totals	<u>\$ 2,558,930,198</u>	<u>\$ 205,029,120</u>	<u>\$ 2,004,412,406</u>	<u>\$ (3,198,266)</u>	<u>\$ 1,193,898</u>	<u>\$ 2,207,437,158</u>	<u>\$ 351,493,040</u>
<u>Video Lottery Commissions - Detail</u>							
Facilities		125,820,242					
Technology Providers		31,628,000					
Central Communications Provider		11,521,004					
City/Town		6,340,854					
Narragansett Indian Tribe		674,130					
Total		<u>\$ 175,984,230</u>					

Statistical Section

Statistical Section

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

Contents	<u>Page</u>
Lottery Statistics – Rhode Island These schedules contain trend information to help the reader understand how the Lottery's financial performance and well-being have changed over time.	46
Rhode Island Demographics These schedules offer demographic and economic indicators to help give the reader a better understanding of the Lottery's and the State of Rhode Island's environment.	51
Lottery Statistics – National These schedules contain financial information to help the reader understand the Lottery's performance compared to the other lottery jurisdictions within the United States of America.	54

Lottery Statistics – Rhode Island

RHODE ISLAND LOTTERY

Principal Revenue Sources

Fiscal Years 2000 through 2009

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Sales										
<i>Instant tickets</i>										
Instant tickets	\$ 61,813,004	\$ 69,394,994	\$ 78,034,555	\$ 75,789,417	\$ 76,521,924	\$ 75,598,569	\$ 84,018,698	\$ 79,980,026	\$ 81,557,881	\$ 82,348,042
Percentage of total sales and revenues	7.1%	7.1%	6.7%	5.9%	5.2%	4.6%	4.8%	4.4%	3.4%	3.2%
<i>Video</i>										
VLTs	670,764,767	771,019,263	935,208,511	1,051,411,493	1,231,226,093	1,394,753,542	1,470,193,375	1,561,369,656	2,155,163,234	2,320,451,966
Percentage of total sales and revenues	77.4%	78.7%	79.7%	81.4%	83.1%	85.1%	84.8%	86.3%	89.8%	90.6%
<i>On-line</i>										
Daily Numbers	28,159,762	28,459,883	28,994,464	29,649,149	29,681,795	28,584,281	27,838,055	27,835,994	27,446,355	25,814,615
PowerBall®	37,456,233	36,437,944	46,295,253	44,289,173	50,869,394	41,969,907	57,196,851	47,082,311	48,856,098	46,583,080
Keno	60,801,993	69,190,444	78,837,210	85,589,259	88,327,994	90,550,499	85,708,538	83,189,252	77,646,539	76,036,908
Wild Money	-	-	2,207,213	3,677,479	3,762,342	3,742,142	5,415,054	5,708,730	5,140,754	5,185,904
Money Roll	-	1,971,470	1,282,450	-	-	-	-	-	-	-
Easy Win	1,802,708	1,545,704	-	-	-	-	-	-	-	-
Hot Trax®	-	-	-	-	235,570	1,439,442	944,912	48,097	-	-
Rhody Poker™	-	-	-	-	-	-	-	1,003,564	590,426	109,943
Roll Down	3,293,258	-	-	-	-	-	-	-	-	-
Raffle	-	-	-	-	-	-	-	-	-	2,399,740
Total on-line	131,513,954	137,605,445	157,616,590	163,205,060	172,877,095	166,286,271	177,103,410	164,867,948	159,680,172	156,130,190
Percentage of total sales and revenues	15.2%	14.0%	13.4%	12.6%	11.7%	10.1%	10.2%	9.1%	6.7%	6.1%
Total sales	864,091,725	978,019,702	1,170,859,656	1,290,405,970	1,480,625,112	1,636,638,382	1,731,315,483	1,806,217,630	2,396,401,287	2,558,930,198
<i>Non-operating revenues</i>										
Investment earnings	766,591	969,516	456,858	285,934	251,175	605,983	1,216,873	1,412,256	1,404,108	445,149
Net pull tab sales	229,991	211,876	238,905	194,302	220,180	201,848	161,363	155,177	130,736	116,311
Contract revenue	-	-	-	-	625,000	625,000	625,000	625,000	625,000	625,000
Miscellaneous	1,072,583	472,068	1,277,365	466,758	217,966	402,146	339,382	443,289	354,257	402,289
Total non-operating revenues	2,069,165	1,653,460	1,973,128	946,994	1,314,321	1,834,977	2,342,618	2,635,722	2,514,101	1,588,749
Percentage of total sales and revenues	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Total sales and revenues	\$866,160,890	\$979,673,162	\$1,172,832,784	\$1,291,352,964	\$1,481,939,433	\$1,638,473,359	\$1,733,658,101	\$1,808,853,352	\$2,398,915,388	\$2,560,518,947

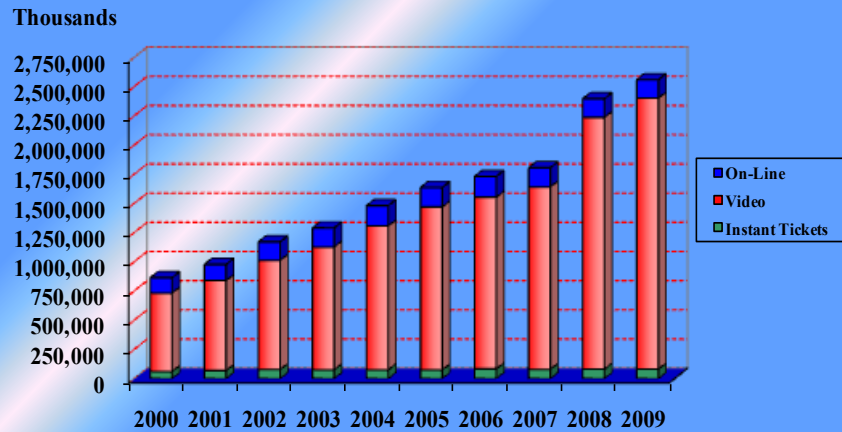
Source: Rhode Island Lottery

RHODE ISLAND LOTTERY

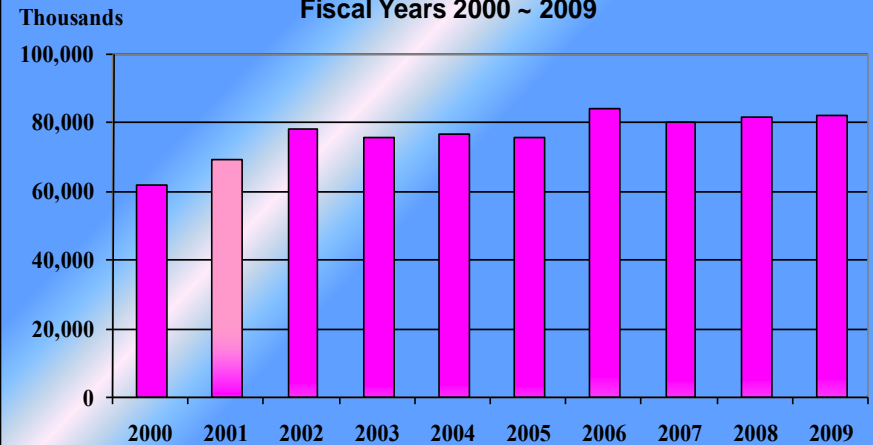
Principal Revenue Sources

Fiscal Years 2000 through 2009

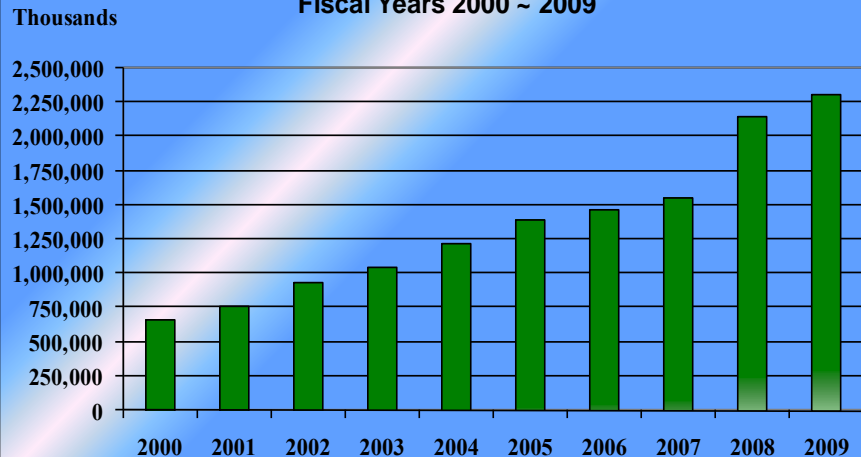
PRINCIPAL REVENUE SOURCES
Fiscal Years 2000 ~ 2009



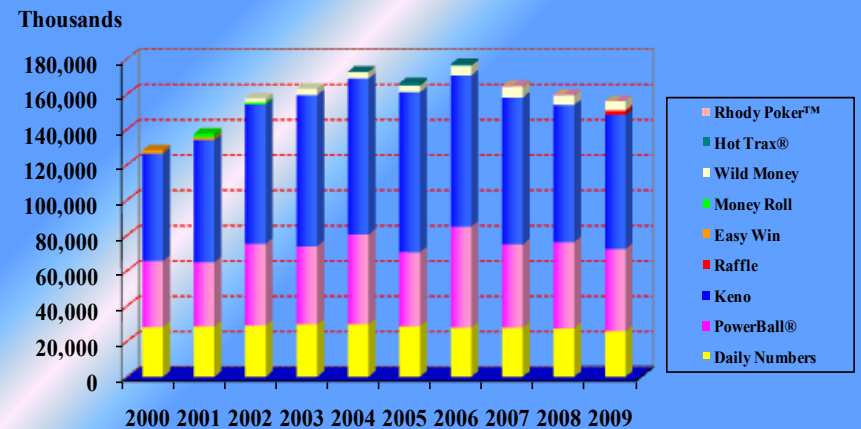
INSTANT TICKET REVENUES
Fiscal Years 2000 ~ 2009



VIDEO LOTTERY REVENUES
Fiscal Years 2000 ~ 2009



ON-LINE REVENUES
Fiscal Years 2000 ~ 2009



Source: Rhode Island Lottery

RHODE ISLAND LOTTERY

Change in Net Assets

Fiscal Years 2000 through 2009

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Operating revenues										
Instant tickets	\$ 61,813,004	\$ 69,394,994	\$ 78,034,555	\$ 75,789,417	\$ 76,521,924	\$ 75,598,569	\$ 84,018,698	\$ 79,980,026	\$ 81,557,881	\$ 82,348,042
Video	670,764,767	771,019,263	935,208,511	1,051,411,493	1,231,226,093	1,394,753,542	1,470,193,375	1,561,369,656	2,155,163,234	2,320,451,966
On-line	131,513,954	137,605,445	157,616,590	163,205,060	172,877,095	166,286,271	177,103,410	164,867,948	159,680,172	156,130,190
Total operating revenues	864,091,725	978,019,702	1,170,859,656	1,290,405,970	1,480,625,112	1,636,638,382	1,731,315,483	1,806,217,630	2,396,401,287	2,558,930,198
Non-operating revenues										
Interest income	766,591	969,516	456,858	285,934	251,175	605,983	1,216,873	1,412,256	1,404,108	445,149
Contract revenue	-	-	-	-	625,000	625,000	625,000	625,000	625,000	625,000
Other	1,302,574	683,944	1,516,270	661,060	438,146	603,994	500,745	598,466	484,993	518,600
Total non-operating revenues	2,069,165	1,653,460	1,973,128	946,994	1,314,321	1,834,977	2,342,618	2,635,722	2,514,101	1,588,749
Total Revenues	866,160,890	979,673,162	1,172,832,784	1,291,352,964	1,481,939,433	1,638,473,359	1,733,658,101	1,808,853,352	2,398,915,388	2,560,518,947
Operating Expenses										
Prizes	\$ 590,679,183	\$ 666,947,849	\$ 796,582,302	\$ 880,866,451	\$1,023,688,902	\$1,142,353,743	\$1,211,627,476	\$1,292,188,767	\$1,824,998,914	\$2,004,412,406
Retailer/vendor commissions	20,392,735	21,584,246	25,760,434	25,572,841	30,544,726	29,684,102	31,987,214	29,833,892	29,388,939	29,044,890
Video commissions	100,930,356	107,436,913	132,116,020	145,408,704	141,385,014	153,449,964	160,092,955	159,561,783	181,939,172	175,984,230
Cost of tickets	990,209	1,112,469	1,300,380	1,149,999	997,689	1,034,313	1,475,528	1,454,429	1,437,347	1,193,898
Unclaimed prize recovery	(2,778,517)	(3,973,358)	(3,043,175)	(4,428,408)	(3,006,492)	(3,355,320)	(3,303,355)	(3,979,177)	(3,315,397)	(3,198,266)
Advertising and promotion	1,511,749	1,220,577	1,411,592	1,466,628	1,606,350	1,675,078	2,018,181	2,361,834	2,139,525	2,203,027
Personal services	3,016,103	3,146,406	3,331,963	3,559,981	3,740,101	3,963,421	4,232,168	4,450,807	4,753,505	4,764,132
Contract services	101,236	309,762	105,068	58,200	86,182	208,100	95,493	136,973	159,549	58,480
Equipment leasing	293,822	259,212	260,783	222,680	51,295	-	-	-	-	-
Depreciation	218,768	217,457	224,648	314,618	330,088	312,825	292,694	261,956	245,940	240,281
Other	593,506	739,627	713,088	656,268	748,934	972,485	615,256	967,257	974,820	898,064
Total operating expenses	715,949,150	799,001,160	958,763,103	1,054,847,962	1,200,172,789	1,330,298,711	1,409,133,610	1,487,238,521	2,042,722,314	2,215,601,142
Non-operating expenses										
Transfers to State's General Fund	150,283,635	180,743,897	214,141,576	249,040,055	281,141,644	307,549,648	323,899,491	320,989,831	354,321,087	337,515,478
Transfers to Permanent School Fund	-	-	-	-	-	-	-	-	1,152,762	6,777,327
Transfers to RI Council on the Arts	-	-	-	-	-	-	-	-	94,225	-
Total non-operating expenses	150,283,635	180,743,897	214,141,576	249,040,055	281,141,644	307,549,648	323,899,491	320,989,831	355,568,074	344,292,805
Total Expenses	866,232,785	979,745,057	1,172,904,679	1,303,888,017	1,481,314,433	1,637,848,359	1,733,033,101	1,808,228,352	2,398,290,388	2,559,893,947
Increase (decrease) in Net Assets	\$ (71,895)	\$ (71,895)	\$ (71,895)	\$ (12,535,053)	\$ 625,000	\$ 625,000	\$ 625,000	\$ 625,000	\$ 625,000	\$ 625,000

Refer to Note 5 to Financial Statements for an explanation on Transfers to the Permanent School Fund and RI Council on the Arts, which commenced in fiscal year 2008.
The decrease in net assets for fiscal year 2003 is explained in Note 8 to Financial Statements.

Source: Rhode Island Lottery

RHODE ISLAND LOTTERY

Net Assets

June 30, 2000 through 2009

	Fiscal Year									
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Net Assets at Year-End										
Invested in capital assets	\$ 618,752	\$ 513,244	\$ 1,281,124	\$ 1,838,506	\$ 1,707,113	\$ 1,549,770	\$ 1,314,290	\$ 1,138,619	\$ 908,218	\$ 808,117
Unrestricted	(439,909)	(406,296)	(1,246,071)	(14,338,506)	(13,582,113)	(12,799,770)	(11,939,290)	(11,138,619)	(10,283,218)	(9,558,117)
Total Net Assets (Deficiency)	<u>\$ 178,843</u>	<u>\$ 106,948</u>	<u>\$ 35,053</u>	<u>\$ (12,500,000)</u>	<u>\$ (11,875,000)</u>	<u>\$ (11,250,000)</u>	<u>\$ (10,625,000)</u>	<u>\$ (10,000,000)</u>	<u>\$ (9,375,000)</u>	<u>\$ (8,750,000)</u>

Note: Fiscal Year 2003 has been restated to conform with current year presentation.

RHODE ISLAND LOTTERY

Changes in Cash and Cash Equivalents

Fiscal Years 2000 through 2009

	Fiscal Year									
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Cash Flows from Operating Activities										
Cash received from lottery sales	\$ 869,926,894	\$ 976,709,169	\$ 1,169,266,319	\$ 1,291,972,781	\$ 1,480,468,819	\$ 1,634,938,802	\$ 1,731,568,880	\$ 1,805,273,680	\$ 2,400,596,418	\$ 2,558,769,834
Cash received from MUSL for grand prize winners	6,296,897	6,245,000	6,387,968	4,335,000	6,272,538	6,279,032	6,251,891	6,245,000	8,069,149	10,095,229
Cash received from sale of other tickets	315,625	211,876	238,905	194,303	220,179	294,516	238,707	228,582	191,079	171,072
Cash received from rental income and other receipts	676,849	682,946	1,363,913	709,312	228,469	410,740	258,364	219,906	414,776	390,203
Cash paid for prizes other than MUSL grand prize winners	(590,091,008)	(665,587,967)	(793,596,769)	(876,389,227)	(1,020,498,593)	(1,138,601,963)	(1,207,880,771)	(1,289,266,946)	(1,821,960,427)	(2,000,809,236)
Cash paid to MUSL grand prize winners	(6,296,897)	(6,245,000)	(6,387,968)	(4,335,000)	(6,272,538)	(6,279,032)	(6,251,891)	(6,245,000)	(8,069,149)	(10,095,229)
Cash paid for commissions - Retailers	(13,635,606)	(14,472,546)	(16,585,518)	(18,483,744)	(18,124,635)	(17,624,409)	(18,959,373)	(8,469,884)	(8,672,377)	(8,763,660)
Cash paid for commissions - video lottery	(99,171,862)	(108,676,974)	(130,758,688)	(141,353,902)	(143,889,867)	(153,345,011)	(159,580,145)	(157,009,564)	(184,316,798)	(176,354,565)
Cash paid for commissions - on-line games contractor	(6,872,420)	(7,035,140)	(7,989,218)	(7,473,926)	(12,858,316)	(12,017,289)	(12,028,077)	(21,551,637)	(20,696,559)	(21,232,654)
Cash paid to suppliers for goods and services	(3,788,918)	(3,568,487)	(3,368,424)	(3,977,096)	(3,846,370)	(3,544,227)	(3,964,374)	(5,057,261)	(4,630,285)	(4,551,759)
Cash paid to employees for services	(2,999,553)	(3,103,567)	(3,401,260)	(3,527,831)	(3,582,394)	(3,901,173)	(4,412,858)	(4,431,229)	(4,790,432)	(4,634,479)
Net cash provided by operating activities	154,360,001	175,159,310	215,169,260	241,670,670	278,117,292	306,609,986	325,240,353	319,935,647	356,135,395	342,984,756
Cash Flows from Noncapital Financing Activities										
Transfers to State's General Fund	(138,375,047)	(192,183,635)	(213,443,897)	(250,241,576)	(280,940,052)	(307,141,649)	(324,349,647)	(319,099,489)	(356,789,829)	(336,474,883)
Transfers to State's Permanent School Fund	-	-	-	-	-	-	-	-	-	(7,939,748)
Transfers to RI Council on the Arts	-	-	-	-	-	-	-	-	(94,225)	-
Negative cash balance implicitly financed	-	432,782	(220,808)	(211,974)	-	23,964	(23,964)	-	-	-
Proceeds from sale of exclusive contract rights	-	-	-	12,500,000	-	-	-	-	-	-
Net cash used for noncapital financing activities	(138,375,047)	(191,750,853)	(213,664,705)	(237,953,550)	(280,940,052)	(307,117,685)	(324,373,611)	(319,099,489)	(356,884,054)	(344,414,631)
Cash Flows from Capital and Related Financing Activities										
Purchase of capital assets	(237,940)	(193,649)	(1,062,872)	(877,031)	(183,260)	(155,534)	(57,214)	(86,285)	(15,539)	(146,153)
Proceeds from sale of capital assets	-	-	-	-	-	-	-	-	16,500	-
Net cash provided by (used for) capital and related financing activities	(237,940)	(193,649)	(1,062,872)	(877,031)	(183,260)	(155,534)	(57,214)	(86,285)	961	(146,153)
Cash Flows from investing Activities										
Proceeds from maturity of investments for jackpot awards	1,461,956	1,209,579	902,165	691,045	294,800	-	-	-	-	-
Interest income	766,591	969,516	456,858	285,934	251,175	605,983	1,216,872	1,412,256	1,404,109	445,149
Net cash provided by investing activities	2,228,547	2,179,095	1,359,023	976,979	545,975	605,983	1,216,872	1,412,256	1,404,109	445,149
Net increase (decrease) in cash	17,975,561	(14,606,097)	1,800,706	3,817,068	(2,460,045)	(57,250)	2,026,400	2,162,129	656,411	(1,130,879)
Cash and cash equivalents, beginning of year	1,429,486	19,405,047	4,798,950	6,599,656	10,416,724	7,956,679	7,899,429	9,925,829	12,087,958	12,744,369
Cash and cash equivalents, end of year	\$ 19,405,047	\$ 4,798,950	\$ 6,599,656	\$ 10,416,724	\$ 7,956,679	\$ 7,899,429	\$ 9,925,829	\$ 12,087,958	\$ 12,744,369	\$ 11,613,490

Source: Rhode Island Lottery

Rhode Island Demographics

RHODE ISLAND LOTTERY

Rhode Island Demographics

Rhode Island Population by County - As of July 1

Population	2000	2001	2002	2003	2004	2005	2006	2007	2008
Providence County	622,866	627,759	632,886	636,429	636,605	633,103	629,543	627,268	626,150
Kent County	167,483	168,654	169,763	170,998	171,056	170,438	169,256	168,321	168,058
Washington County	123,994	125,225	126,740	127,750	128,082	127,580	126,884	126,513	126,264
Newport County	85,658	85,433	85,489	85,229	84,485	82,765	83,154	81,093	80,478
Bristol County	50,724	50,994	51,059	50,896	50,867	50,553	50,154	49,941	49,838
Total Rhode Island Population	1,050,725	1,058,065	1,065,937	1,071,302	1,071,095	1,064,439	1,058,991	1,053,136	1,050,788
Percent Increase/(Decrease)		<u>0.70%</u>	<u>0.74%</u>	<u>0.50%</u>	<u>-0.02%</u>	<u>-0.62%</u>	<u>-0.51%</u>	<u>-0.55%</u>	<u>-0.22%</u>

Total Personal Income, Per Capita Personal Income and Unemployment Rate Data - Calendar Years 1998 - 2007

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total Personal Income (in billions)	27,500,515	28,568,304	30,696,701	32,478,381	33,635,436	35,071,523	36,818,389	37,876,045	39,911,244	42,008,417
Per Capita Personal Income	26,670	27,459	29,213	30,684	31,527	32,697	34,318	35,507	37,594	39,712
Unemployment Rate	4.6%	4.2%	4.2%	4.5%	5.1%	5.4%	5.2%	5.1%	5.0%	5.2%

2008

Rank	Employer	Employed	Rank	Employer	Employed
1	Lifespan	11,772	1	Lifespan	10,302
2	Care New England	6,193	2	Care New England	4,791
3	CVS Corporation	5,954	3	CVS Corporation	3,623
4	Citizens Financial Group (Royal Bank of Scotland)	5,500	5	Citizens Financial Group (Royal Bank of Scotland)	2,868
5	Brown University	4,877	4	Brown University	3,355
6	Stop & Shop Supermarket Co.	4,385			
7	Bank of America	4,000	6	Fleet Financial Corp	2,872
8	Fidelity Investments	2,300			
9	General Dynamics Corp	2,143			
10	The Jan Company	2,050			

Metropolitan Life Insurance Company	2,200
BankBoston Corporation	2,160
Saint Joseph Health Services	1,969
Shaws Super Market	1,780

Note: Population trend data by county was not available for 1999 from source.

Source: Rhode Island Economic Development Corporation.

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

Source: U.S. Census Bureau and the Rhode Island Economic Development Corporation and Department of Labor and Training

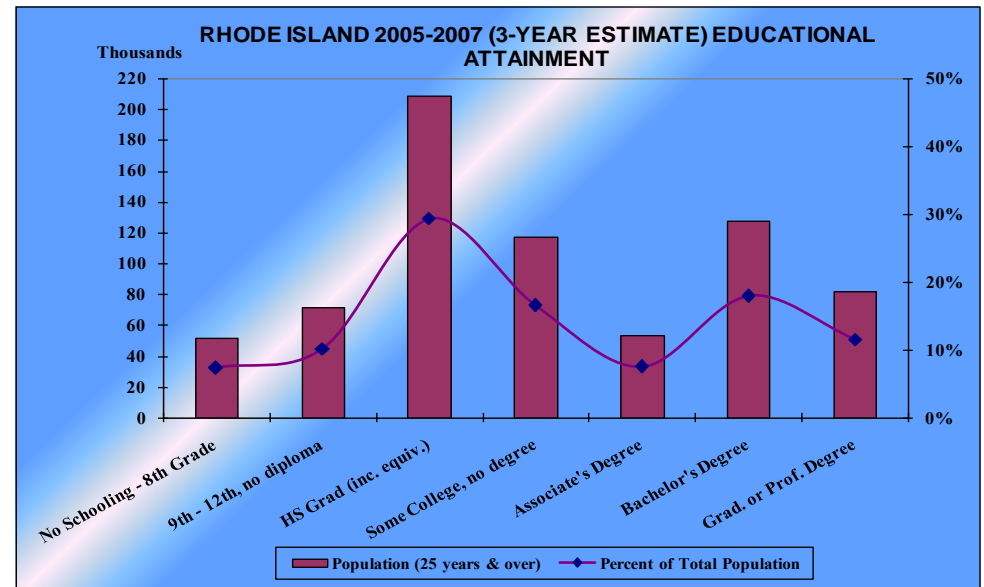
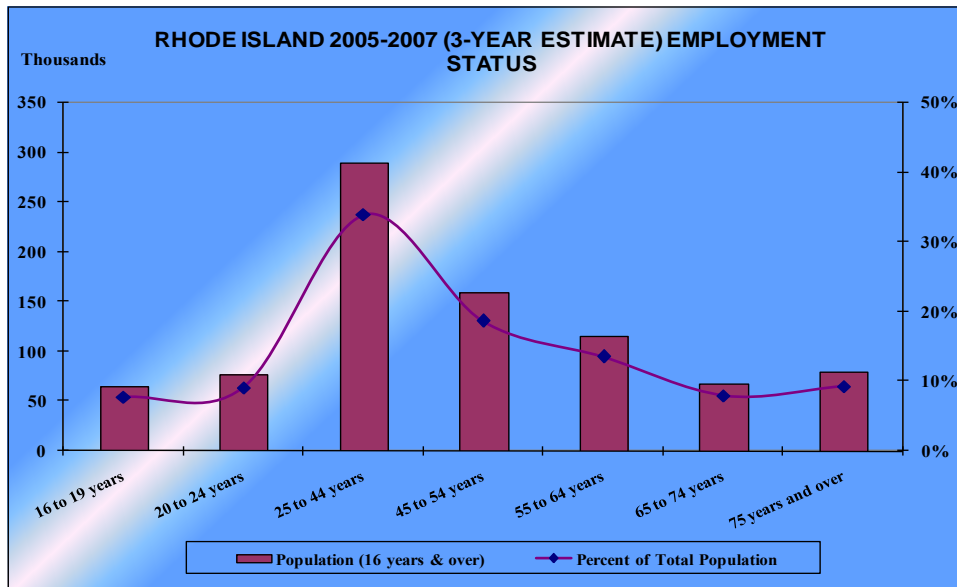
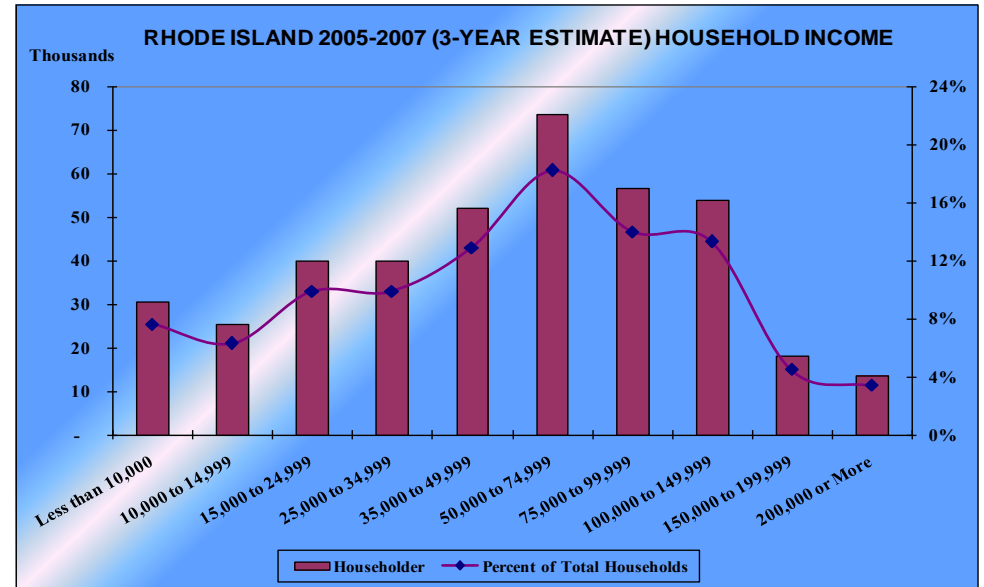
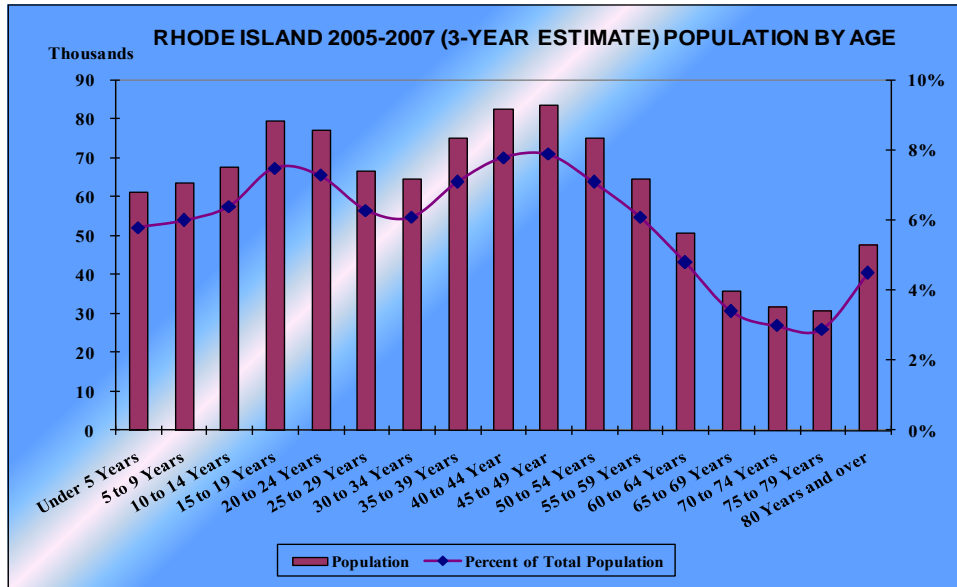
RHODE ISLAND LOTTERY

Government Employees by Function

Categories	2000	2001	2002	2003	Total Employees		2006	2007	2008	2009
					2004	2005				
Officials/Managers/Administrators	7	6	6	6	6	6	5	6	6	6
Professionals	7	7	11	11	11	15	14	13	13	12
Technicians	2	2	2	3	3	3	4	5	5	5
Protective Services	2	2	2	2	2	3	2	2	2	2
Para Professionals	24	22	19	19	20	16	16	17	17	16
Administrative Support	11	12	11	11	11	12	12	12	11	7
Maintenance	3	3	3	3	2	2	3	2	2	2
Total	56	54	54	55	55	57	56	57	56	50

RHODE ISLAND LOTTERY

Rhode Island Demographics (continued)



Source: U.S. Census Bureau

Lottery Statistics – National

**U.S. LOTTERIES RANKED
BY FISCAL YEAR 2008 SALES**

RANK	LOTTERY	FY '07 SALES (\$M)	FY '08 SALES (\$M)
1	New York	7,175.10	7,548.40
2	Massachusetts	4,460.91	4,709.00
3	Florida	4,122.17	4,170.00
4	Texas	3,774.20	3,671.15
5	Georgia	3,421.70	3,520.00
6	Pennsylvania	3,076.34	3,089.19
7	California	3,318.40	3,049.60
8	New Jersey	2,350.90	2,538.50
9	RHODE ISLAND (2)	1,808.85	2,398.91
10	Michigan	2,342.60	2,330.20
11	Ohio	2,259.40	2,325.10
12	Illinois	2,021.30	2,078.20
13	Maryland	1,577.31	1,673.04
14	West Virginia (1)	1,562.00	1,523.00
15	Virginia	1,362.34	1,386.41
16	Oregon (1)	1,221.94	1,245.50
17	North Carolina	885.58	1,078.08
18	Tennessee	1,058.13	1,065.00
19	Connecticut	957.00	998.10
20	Missouri	934.30	995.50
21	South Carolina	988.20	992.50
22	Indiana	789.10	822.80
23	Kentucky	744.20	778.20
24	Delaware (1)	754.00	736.40
25	South Dakota (2)	692.50	704.26
26	Washington	492.60	521.10
27	Colorado	455.90	505.80
28	Wisconsin (3)	492.90	494.70
29	Arizona	462.20	472.90
30	Minnesota	422.61	461.52
31	Louisiana	354.20	373.70
32	Puerto Rico	335.41	364.00
33	New Hampshire	263.94	261.13
34	District of Columbia	255.94	252.33
35	Iowa	235.00	249.00
36	Kansas	240.00	236.70
37	Maine	230.02	228.52
38	Oklahoma	202.53	203.82
39	New Mexico	148.00	147.10
40	Idaho	130.50	136.80
41	Nebraska	114.49	121.91
42	Vermont	104.50	102.00
43	Montana	41.60	43.80
44	North Dakota	22.64	22.12
TOTAL		58,663.45	60,625.99

Results are unofficial and unaudited

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

(2) Includes gross VLT sales (cash in)

(3) Net Proceeds

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

RANK	LOTTERY	% CHANGE
1	RHODE ISLAND (2)	32.6%
2	North Carolina	21.7%
3	Colorado	10.9%
4	Minnesota	9.2%
5	Puerto Rico	8.5%
6	New Jersey	8.0%
7	Missouri	6.6%
8	Nebraska	6.5%
9	Maryland	6.1%
10	Iowa	6.0%
11	Washington	5.8%
12	Massachusetts	5.6%
13	Louisiana	5.5%
14	Montana	5.3%
15	New York	5.2%
16	Idaho	4.8%
17	Kentucky	4.6%
18	Connecticut	4.3%
19	Indiana	4.3%
20	Ohio	2.9%
21	Georgia	2.9%
22	Illinois	2.8%
23	Arizona	2.3%
24	Oregon (1)	1.9%
25	Virginia	1.8%
26	South Dakota (2)	1.7%
27	Florida	1.2%
28	Tennessee	0.6%
29	Oklahoma	0.6%
30	South Carolina	0.4%
31	Pennsylvania	0.4%
32	Wisconsin (3)	0.4%
33	Michigan	-0.5%
34	New Mexico	-0.6%
35	Maine	-0.7%
36	New Hampshire	-1.1%
37	Kansas	-1.4%
38	District of Columbia	-1.4%
39	North Dakota	-2.3%
40	Delaware (1)	-2.3%
41	Vermont	-2.4%
42	West Virginia (1)	-2.5%
43	Texas	-2.7%
44	California	-8.1%
		3.35%

Source: North American Association of State & Provincial Lotteries

**U.S. LOTTERIES RANKED
BY FISCAL YEAR 2008 PROFIT**

RANK	LOTTERY	FY '07 PROFIT (\$M)	FY '08 PROFIT (\$M)
1	New York	2,359.60	2,556.10
2	Florida	1,260.00	1,280.00
3	California	1,170.00	1,069.40
4	Texas	1,083.60	1,038.00
5	Pennsylvania	949.07	928.05
6	Massachusetts	892.00	913.00
7	New Jersey	828.30	882.10
8	Georgia	853.55	867.70
9	Michigan	748.90	740.70
10	Oregon (1)	656.40	678.70
11	Ohio	669.30	672.20
12	Illinois	622.40	657.00
13	West Virginia (1)	593.00	579.00
14	Maryland	494.12	529.40
15	Virginia	437.18	455.26
16	RHODE ISLAND (2)	320.99	355.57
17	North Carolina	315.37	350.01
18	Tennessee	284.30	286.10
19	Connecticut	279.90	285.10
20	Missouri	257.90	266.60
21	South Carolina	277.10	263.90
22	Delaware (1)	256.70	252.50
23	Indiana	216.00	217.10
24	Kentucky	196.30	192.10
25	Arizona	140.00	144.60
26	Wisconsin (3)	138.80	140.00
27	Louisiana	128.30	131.80
28	Washington	114.20	130.30
29	Puerto Rico	120.00	126.50
30	South Dakota (2)	120.79	122.56
31	Colorado	119.00	122.30
32	Minnesota	112.35	116.27
33	New Hampshire	79.04	75.65
34	Oklahoma	69.40	71.61
35	Kansas	70.00	71.00
36	District of Columbia	65.40	70.43
37	Iowa	58.00	57.00
38	Maine	50.62	49.49
39	New Mexico	34.80	40.80
40	Idaho	32.30	36.20
41	Nebraska	29.19	31.03
42	Vermont	23.40	22.60
43	Montana	11.40	11.00
44	North Dakota	6.80	6.07
TOTAL		17,545.77	17,892.80

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

RANK	LOTTERY	% CHANGE
1	New Mexico	17.2%
2	Washington	14.1%
3	Idaho	12.1%
4	North Carolina	11.0%
5	RHODE ISLAND (2)	10.8%
6	New York	8.3%
7	District of Columbia	7.7%
8	Maryland	7.1%
9	New Jersey	6.5%
10	Nebraska	6.3%
11	Illinois	5.6%
12	Puerto Rico	5.4%
13	Virginia	4.1%
14	Minnesota	3.5%
15	Oregon (1)	3.4%
16	Missouri	3.4%
17	Arizona	3.3%
18	Oklahoma	3.2%
19	Colorado	2.8%
20	Louisiana	2.7%
21	Massachusetts	2.4%
22	Connecticut	1.9%
23	Georgia	1.7%
24	Florida	1.6%
25	South Dakota (2)	1.5%
26	Kansas	1.4%
27	Wisconsin (3)	0.9%
28	Tennessee	0.6%
29	Indiana	0.5%
30	Ohio	0.4%
31	Michigan	-1.1%
32	Delaware (1)	-1.6%
33	Iowa	-1.7%
34	Kentucky	-2.1%
35	Pennsylvania	-2.2%
36	Maine	-2.2%
37	West Virginia (1)	-2.4%
38	Vermont	-3.4%
39	Montana	-3.5%
40	Texas	-4.2%
41	New Hampshire	-4.3%
42	South Carolina	-4.8%
43	California	-8.6%
44	North Dakota	-10.7%
		1.98%

Results are unofficial and unaudited

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

(2) Includes gross VLT sales (cash in)

(3) Net Proceeds

Source: North American Association of State & Provincial Lotteries

