

RHODE ISLAND LOTTERY

RHODE ISLAND LOTTERY

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



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

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AND PROVIDENCE PLANTATIONS

FOR THE FISCAL YEAR ENDED JUNE 30, 1998
PREPARED BY THE FINANCE DEPARTMENT

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INTRODUCTORY SECTION

THE RHODE ISLAND LOTTERY

Gerald S. Aubin
Executive Director

Commission Members

Representative Robert E. Flaherty
Chairman
Representative Frank A. Montanaro
Vice Chairman
Senator Maryellen Goodwin
Secretary
Senator David E. Bates
Senator Michael J. Damiani
Representative Joseph H. Scott
Robert A. Mancini
William A. White
Donald W. Wyatt

December 18, 1998

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

We are pleased to present to you the *COMPREHENSIVE ANNUAL FINANCIAL REPORT* of the Rhode Island Lottery (Lottery) for the Fiscal Year ended June 30, 1998. This report has been prepared by the Finance Department of the Lottery. The Lottery is responsible for the accuracy of the financial data and the completeness and fairness of the presentation, including all disclosures.

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

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

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

HISTORY OF THE LOTTERY INDUSTRY

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

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

As the English settled in America, they were motivated by the model of development that stressed private rather than public investment. Royalty in England were simply unwilling to spend their own money or tax their subjects to subsidize the development of the colonies, and lotteries became an important method of raising capital for public and private initiatives. In fact, the "Great Standing Lottery" held in London in 1612, was staged to help bail the Virginian Company, the corporation in charge of the settlement of Virginia, out of debt.

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

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

Many of America's elite, private universities, Yale, Princeton, Harvard, University of Pennsylvania, and Columbia, have classroom buildings funded through the proceeds of lotteries. The fact of the matter was, that lacking the endowments built up over centuries and 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 two hundred years, from the 17th Century Puritan and Quaker denunciations of all games of chance, to those similarly voiced by fundamentalist Protestant religious groups in the 19th and 20th Centuries.

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

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

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

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

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

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

The full history of the decline of the lottery in America lasted from the Civil War until the resumption of the lottery in 1964 when New Hampshire established a state-run lottery for the purpose of raising money for education. New York followed New Hampshire into the lottery business in 1967. In 1971, the State of New Jersey started their lottery and introduced a computer-based weekly game, which offered inexpensive tickets (50 cents), convenience of sale, and a weekly prize of \$50,000. In its first year of operation, the New Jersey Lottery grossed \$142.5 million and set the trend for the lottery industry. New York and New Hampshire revamped their systems, and other states introduced lotteries utilizing New Jersey's operation as a model.

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

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

HISTORY OF THE RHODE ISLAND LOTTERY

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

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

The Lottery's first drawing was held at the State House on May 30, 1974. This weekly 50-cent game had a top prize of \$50,000. The Numbers Game began on February 13, 1976 and continues today. The first instant ticket game, Play Ball, was introduced on May 11, 1976. There have been 172 instant ticket games since 1976. On-line games started in February of 1978, and Lottery sales doubled with this new addition. Rhode Island was the first State to televise a live lottery drawing in January of 1975, at no expense to the Lottery, which is still the case today. That same year Rhode Island became the first State to have a weekly lottery television program.

The *4/40 Game* began in the spring of 1981, with variations to that game being made throughout the years culminating with the *Rhody Cash* game in January of 1995. The Multi-State Lottery Association (MUSL) was formed in 1988 for the purpose of affording small states the opportunity to offer games with a higher jackpot than their population alone would generate. The first such game was called *Lotto-America*, which was replaced with *PowerBall* on April 22, 1992. In February of 1998 Rhode Island introduced its own lotto game called *Roll Down* which replaced the Multi-State Daily *Millions Game*. *Keno* was introduced in the State on September 13, 1992, becoming the second U.S. Lottery (Oregon was first) to do so. Around this same time, *Video Lottery Terminals (VLTs)* went on-line at the State's two pari-mutuel facilities.

HISTORY OF LOTTERY GAMES

LOTTO GAMES

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

Today, the 6/49 formula is the most widespread, with approximately 32% of lotteries worldwide utilizing this format. This is followed by the 6/48, 6/45, 6/144, 6/42 and 5/140. More than 30 formulas are available, and some lotteries run several different formulas at the same time.

More than half of the lotteries offering lotto games have drawings twice a week. Approximately 36% have one weekly drawing. In the vast majority of cases, the top prize rolls over if a drawing does not produce a jackpot winner.

With the "quick pick" feature, players can have the computer generate their numbers at random. About 71 % of lotteries offer this option.

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

INSTANT TICKETS

The first instant lottery ticket was marketed in 1974 in the State 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 Mite video technology was developed. Color video terminals were launched on the market several months later.

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

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

KENO

Keno originated in China more than 3,000 years ago. Legend has it that this game financed the Great Wall of China. The original Chinese game was played with characters from the ancient poem of luck by Confucius, the "Thousand Character Classic." Keno subsequently spread far beyond the borders of China and was well established in both Europe and the United States by the turn of the 20th Century. Today, Keno is a very popular lottery offering because of its flexibility in the number of spots that can be played, which in effect means there are actually several games going on at the same time all with different odds of winning a prize. Daily Keno drawings have proven more successful than those held two or three times a week. Rhode Island is one of only a handful of lotteries offering a new Keno draw every 5 minutes.

RHODE ISLAND LOTTERY PRODUCT OFFERINGS

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

INSTANT TICKETS

Instant (or Scratch) tickets are played by scratching the latex covering off the play area on the ticket. In order to win, the player must match two or three *of* a kind, get like symbols or wild features. Instant ticket offerings in Rhode Island include card games, as well as whimsical, sports, money, and local landmark themes. A new instant game is introduced every 11 working days. Sales for Fiscal Year 1998 were \$40,323,292, an increase of \$12,967,056 over Fiscal Year 1997.

DAILY NUMBERS

The Daily Numbers game has been very popular in Rhode Island since its inception in 1976. Players can wager on 2, 3, or 4 digits. Wagers on 3 and 4 digits can be played in exact or any order. Players can select their own numbers or utilize the computer "quick pick." The Daily Numbers drawing is televised live Monday through Saturday at 7:00 p.m. and at 6:30 p.m. on Sunday. Sales for Fiscal Year 1998 were \$29,257,141 compared to \$29,405,124 for Fiscal Year 1997.

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." A Keno drawing occurs every 5 minutes from 6:00 a.m. to 12:45 a.m., Monday through Saturday and 7:00 a.m. to 12:45 a.m. on Sunday. Keno sales for Fiscal Year 1998 were \$51,617,137, an increase of \$9,815,684 over Fiscal Year 1997.

POWERBALL

PowerBall is a Multi-State Lottery game offered in 20 states (including Rhode Island), plus the District of Columbia. Players select "5 out of 49" numbers and a PowerBall "1 out of 42." Players can select their own numbers or utilize a computer "quick pick." Jackpots start at \$10 million and grow by a minimum of \$2 million for each drawing not producing a jackpot winner. Televised drawings are shown on Wednesday and Saturday at 10:59 p.m. In May of 1998, PowerBall reached a record jackpot of \$195 million. PowerBall sales were \$43,345,345 in Fiscal Year 1998 compared to \$37,881,052 in Fiscal Year 1997.

DAILY MILLIONS

Daily Millions, another Multi-State Lottery game offered in 13 states (including Rhode Island) and the District of Columbia, was replaced in February of 1998 by Rhode Island's own lotto game called Roll Down. Sales for Fiscal Year 1998 were \$2,162,126.

ROLL DOWN

Roll Down, which replaced the Multi-State Lottery Daily Millions Game in February 1998, is an on-line game with cash prizes offered to players matching 4, 3, or 2 numbers drawn out of 50. Players select 4 numbers out of 50 or utilize the computer "quick pick." The jackpot is paid to the person or divided equally among the persons who match all four numbers drawn. In the event that there are no four number matches, the jackpot is "Rolled Down" and divided equally to those matching three out of the four numbers drawn. Sales for Fiscal Year 1998 were \$3,300,928.

VIDEO LOTTERY

Video Lottery debuted in Rhode Island in September of 1992. There are a total of 1,628 terminals located in the State's two pari-mutuel facilities, Lincoln Greyhound Park and Newport Grand Jai Alai. Various card and reel games are offered on the VLTs. The VLTs afford Rhode Island a chance to compete with Native American casinos in a neighboring state. The Fiscal Year 1998 VLT sales were \$464,068,675, a \$57,960,145 increase over Fiscal Year 1997.

PULL TABS

Rhode Island General Laws mandate that pull tab tickets be sold only by non-profit organizations. The Rhode Island Lottery oversees the sale of pull tab tickets to these groups. Pull tab net sales for Fiscal Year 1998 were \$196,280 compared to net sales of \$163,067 for Fiscal Year 1997.

RHODE ISLAND ECONOMIC OUTLOOK

The Rhode Island economy continues to enjoy the upswing experienced in 1997. The growth in payroll employment was revised from 1.0% to 1.7%, which is the fastest growth for Rhode Island since the early 1990s.

Retail sales, after growing at a double-digit annual rate throughout most of 1997, continue to be very strong. Sales for existing homes, which set a record in 1997, have actually accelerated in 1998, reaching 48% growth in February of 1998.

Local government employment grew by almost 6%, fueled mostly by increasing school enrollments, and solid growth is predicted to continue for several years.

There have also been dramatic declines - 23% annual rate - in the number of Rhode Islanders exhausting their unemployment insurance benefits. This decline indicates a long-awaited drop in the number of persons who become long-term unemployed, and fewer new claims for unemployment insurance (about a 10 - 15% decline), which points to declining layoffs.

Tourism has been a success story, and is currently Rhode Island's second largest employer. Rhode Island has also been the location for the filming of some major movies, which certainly provided a boost to the economy.

Exports from Rhode Island grew at 18.5% - well above the national average.

The benefits of past development efforts have also paid dividends. Rhode Island moved aggressively into the financial service arena by passing a series of tax incentives. These tax incentives lured Fidelity Investments to Rhode Island, and by the end of 1998, will have added 1,250 jobs. Fleet Bank anticipates some growth and estimates it will have 2,000 jobs by year end.

The Providence Place Mall construction continues with an anticipated completion date in August of 1999. This project has helped the construction employment in Rhode Island break through the 14,000 to 15,000 plateau, where it had remained for some time.

Rhode Island continues to enjoy its budget surplus, and there are many policy recommendations on how it should be spent. A current proposal is the phase-out of the excise tax on automobiles by cities and towns.

LOTTERY INDUSTRY ECONOMIC OUTLOOK

The United States Lottery Industry experienced yet another upswing during Fiscal Year 1998. Sales increased .04%, from \$35.756 billion in Fiscal Year 1997 to \$35.771 billion in Fiscal Year 1998. The Rhode Island Lottery witnessed a 15.6% increase in sales during Fiscal Year 1998.

HIGHLIGHTS OF FISCAL YEAR 1998

The Rhode Island Lottery's total sales for Fiscal Year 1998 were \$634,074,644, a 15.6% increase in comparison to Fiscal Year 1997 sales of \$548,715,864. A record amount of \$115,071,622 was transferred to the State General Fund in Fiscal Year 1998, and a total of \$781,671,252 has been turned over since the Lottery's inception.

In March of 1998 the Lottery sponsored a local hockey game to raise money for charitable organizations. Local celebrities scrambled across the ice competing for instant tickets. Cash prizes won from the tickets were donated to local organizations for the homeless, battered women, etc.

During Fiscal Year 1998 the Lottery sponsored five local youth sports teams which enabled them to travel out of state and compete in regional and national tournaments. In addition, the Lottery also sponsored local golf tournaments where all profits went to support scholarships.

On May 26, 1998 the Rhode Island Lottery introduced a "Play Responsibly" campaign as well as a problem gambling hotline. Travelers Aid Society of Rhode Island, a local organization, will administer the program.

The Rhode Island Lottery exceeded the estimated contribution to the State's General Fund this year, despite the increase in competition for gaming and wagering dollars with two Native American Tribal gambling facilities located in the bordering State of Connecticut.

Technology continues to play an increasingly vital role in Lottery operations. This past year saw the successful implementation of the new GTECH Pro:Sys System, which is expected to contribute to the anticipated sales increase of lottery products. Rhode Island has the distinct advantage of being the home state of GTECH Corporation, a worldwide leader in computer technology.

GFOA CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate for Excellence in Financial Reporting to the Rhode Island Lottery for its Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ended June 30, 1997. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting.

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

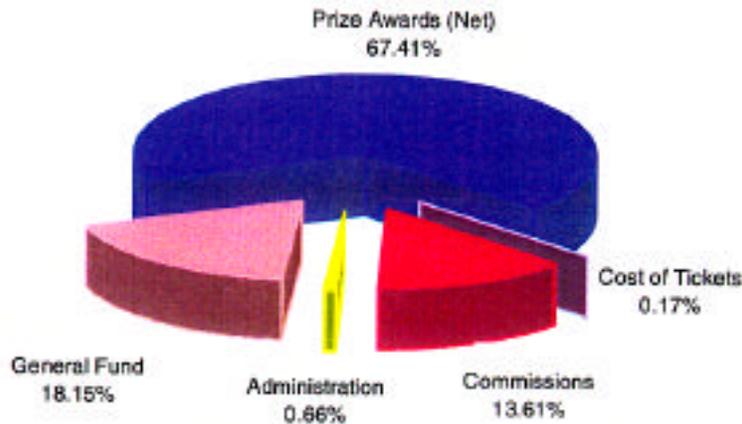
A Certificate of Achievement is valid for a period of one year only. The Rhode Island Lottery received a certificate on its first attempt, in May of 1998. We believe our current report will conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

RHODE ISLAND LOTTERY FINANCIAL INFORMATION

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

Ticket sales for Fiscal Year 1998 totaled \$634.1 million. This represents an increase of \$85.4 million over the previous record of \$548.7 million in Fiscal Year 1997. The increase in sales is attributed primarily to higher video sales, although instant tickets and Keno also contributed substantially.

Of the total sales reported in Fiscal Year 1998, video lottery sales comprised \$464.1 million or 73.2% of total sales. However, most importantly, the Lottery transferred to the General Fund a record \$115.1 million, which represents an increase of \$15.0 million or 15.0% over the prior Fiscal Year. Distribution of the year's revenue was as follows:



ACCOUNTING SYSTEM AND POLICIES

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

BUDGETARY CONTROLS

The operating budget of the Rhode Island Lottery is submitted to the Lottery Commission for approval on an annual basis. The Lottery also participates in semi-annual revenue estimating conferences.

INTERNAL CONTROL ENVIRONMENT

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

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

- Hiring specialized security staff.
- Maintaining secure lottery facilities and limiting access to them.
- Performing background checks on retailers, vendors, and employees.
- Printing lottery tickets with special inks, dyes, and security codes.

- Hiring an independent CPA firm to witness MUSL drawings.
- Providing a variety of access and other controls in the computer system.
- Implementing a Video Lottery System Monitoring Plan to ensure the integrity of video lottery games and to ensure that control procedures are operating as designed.
- Performing unannounced video lottery inspections at each retailer to ensure compliance to operating procedures.
- Monitoring video lottery terminals on a daily and weekly basis and reconciling to a cash management system.
- Processing daily transaction data of all vendor activity by Lottery personnel using the Lottery's internal control system programs and reconciling transactions to reports generated by the on-line system.

The Lottery currently has 51 employees, all of whom are located at the headquarters in Cranston, Rhode Island. The drawing studio is located at the broadcast facilities of the television station, which produces the nightly drawing.

DEBT ADMINISTRATION

The Lottery's long-term liabilities are payments owed to lotto jackpot winners. The payments due winners are fully funded by investments in United States Treasury zero coupon bonds. Jackpot prizes awarded under PowerBall are satisfied through investments purchased by the Multi-State Lottery Association. MUSL purchases United States government obligations, which are held in irrevocable trusts established by MUSL for the benefit of participating state lotteries. Accordingly, the Lottery does not record an obligation for PowerBall jackpot awards which are payable in installments from funds provided by MUSL.

CASH MANAGEMENT

The Lottery collects cash due for instant and on-line sales from its 1,200 retailers, through electronic transfer, on a weekly basis. Cash collected from VLTs is deposited in designated banks and is electronically swept three times per week. The Office of the General Treasurer invests the Lottery's excess cash in United States Treasury securities and repurchase agreements.

RISK MANAGEMENT

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

FUTURE PROJECTS

Beginning in September of 1998, in order to continue the growth of our instant ticket product well into the future, the Rhode Island Lottery will implement a new instant ticket distribution program called "Tel Sel." This program will help our retailers merchandize, promote, and manage the inventory and sale of instant tickets.

The Lottery's first \$5 instant ticket was developed for the holiday season and went on sale in October of 1998.

Plans are underway to begin a year long celebration of our 25th Anniversary beginning in January of 1999. A \$5 25th Anniversary ticket is being developed. Many activities and promotions will take place, including recognition of our original Rhode Island Lottery retailers who are still on board.

In order to continue player interest and increase earnings, the Rhode Island Lottery plans to increase the number of instant ticket offerings, as well as make changes to existing games to continue the growth in overall sales.

Building renovations are expected to be complete during Fiscal Year 1999.

INDEPENDENT AUDIT

The Rhode Island General Laws require semi-annual audits to be performed by the State Auditor General. The Fiscal Year 1998 audit of the financial statements has been completed in accordance with generally accepted auditing standards and *Government Auditing Standards*. The independent auditor's opinion on the Lottery's financial statements is included in the financial section of this report.

ACKNOWLEDGMENTS

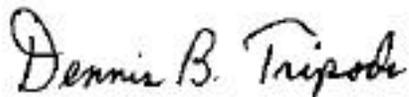
Preparation of this report could not have been accomplished without the efforts of Susan Allaire, Joe DeOrsey, Terri Kiernan, Sandra Reynolds, and Peg Rose.

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

Respectfully submitted,



Gerald S. Aubin
Executive Director



Dennis B. Tripodi
Finance Administrator

Certificate of Achievement for Excellence in Financial Reporting

Presented to

The Rhode Island Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1997

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.



Douglas R. Ellaworth
President

Jeffrey L. Esser
Executive Director

RHODE ISLAND LOTTERY COMMISSION STRUCTURE

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

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

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

The duties of the Commission include meeting at least once a month for the purpose of promulgating and reviewing rules and regulations relating to the Lottery, recommending and setting policy for the Lottery, approving or rejecting actions of the Executive Director, and transacting any other business that may be properly brought before the Commission.

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

COMMISSION MEMBERS SERVING DURING FISCAL YEAR 1998

SENATOR ROBERT PALAZZO*
SENATOR MARYELLEN GOODWIN
SENATOR DAVID BATES
REPRESENTATIVE ROBERT FLAHERTY
REPRESENTATIVE CHRISTINE CALLAHAN**
REPRESENTATIVE FRANK MONTANARO
MR. ROBERT MANCINI
MR. WILLIAM WHITE
MR. DONALD WYATT

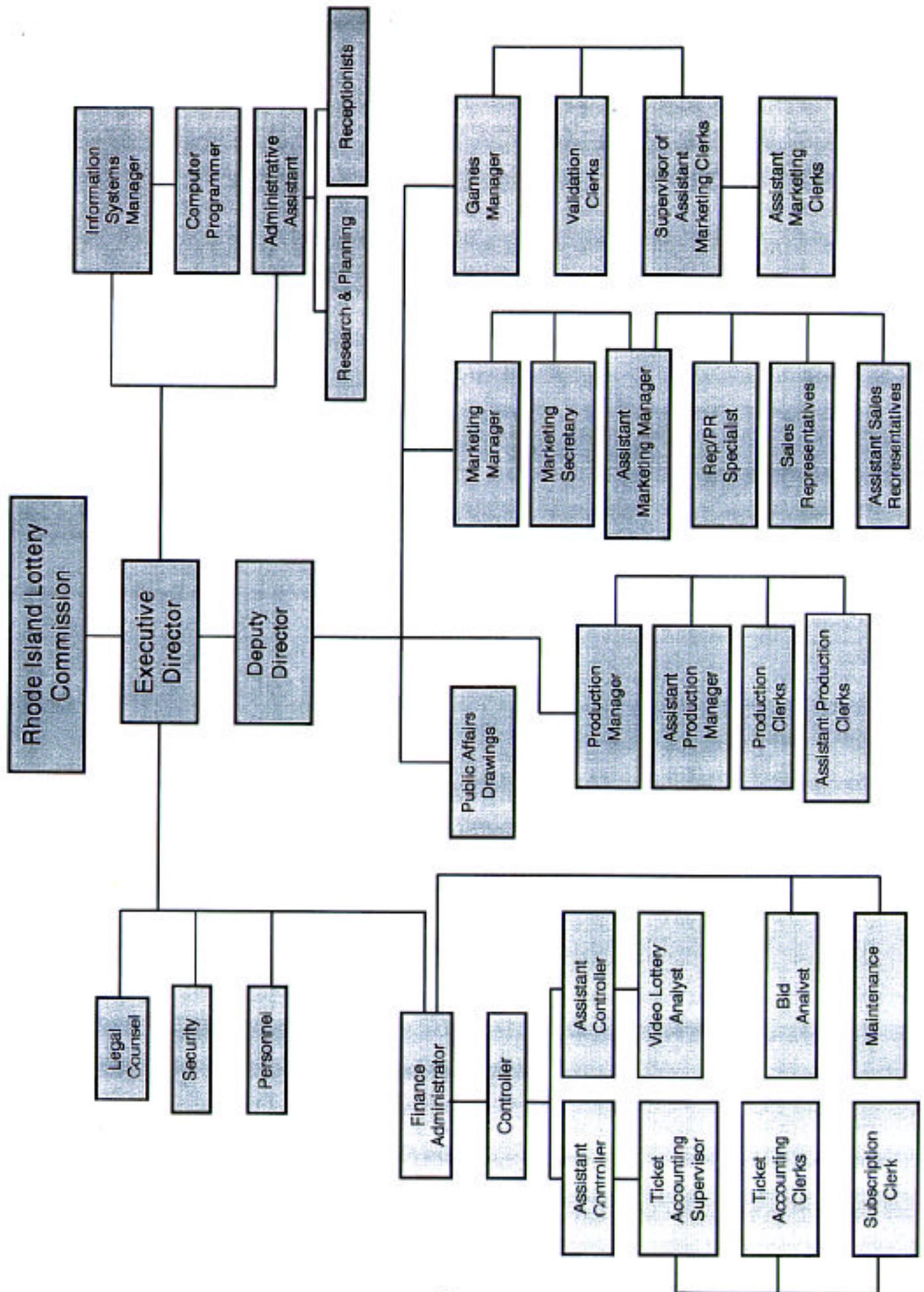
***REPLACED BY THE FOLLOWING SENATOR IN AUGUST OF 1997**

SENATOR MICHAEL DAMIANI

****REPLACED BY THE FOLLOWING REPRESENTATIVE IN JANUARY OF 1998**

REPRESENTATIVE JOSEPH SCOTT

RHODE ISLAND LOTTERY ORGANIZATIONAL CHART



PRINCIPAL OFFICIALS

GERALD S. AUBIN
EXECUTIVE DIRECTOR

RAYMOND E. GRIMES
DEPUTY DIRECTOR

DENNIS B. TRIPODI
FINANCE ADMINISTRATOR

JAMES T. CONNOLLY
MARKETING MANAGER

WILLIAM J. DIMUCCIO
GAMES MANAGER

CHRISTOPHER B. DULUDE
INFORMATION SYSTEMS MANAGER

FINANCIAL SECTION



ERNEST A. ALMONTE, CPA, CFE
Auditor General

State of Rhode Island and Providence Plantations

GENERAL ASSEMBLY

Office of the Auditor General

1145 Main Street
Pawtucket, Rhode Island 02860-4807

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Rhode Island Lottery (Lottery), a component unit of the State of Rhode Island and Providence Plantations, as of and for the years ended June 30, 1998 and 1997, as listed in the Table of Contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

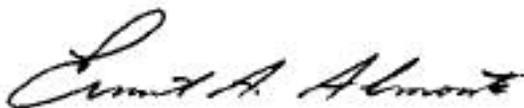
Government Accounting Standards Board Technical Bulletin 98-1, *Disclosures About Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue. The Lottery has included such disclosures in Note 16. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the Lottery's disclosures with respect to the year 2000 issue made in Note 16. Further, we do not provide assurance that the Lottery is or will be year 2000 ready, that the Lottery's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Lottery does business will be year 2000 ready.

In our opinion, except for the effects of such adjustments on the 1998 financial statements, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, the financial statements referred to above present fairly, in all material respects, the financial position of the Lottery as of June 30, 1998 and 1997, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 1998 on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedule I is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The statistical section of this report is not a required part of the financial statements, and we did not audit or apply limited procedures to such information and, accordingly, express no opinion on it.



Ernest A. Almonte, CPA, CFE
Auditor General

December 11, 1998

RHODE ISLAND LOTTERY

Balance Sheets

June 30, 1998 and 1997

<u>Assets</u>	<u>1998</u>	<u>1997</u>
Current Assets:		
Cash and cash equivalents (note 3)	\$ 3,447,957	\$ 1,380,772
Investments for jackpot awards (note 3)	1,807,000	2,386,000
Accounts receivable-less allowance for doubtful accounts of \$221,953 in 1998 and \$206,702 in 1997	7,022,433	5,792,073
Ticket inventory	712,913	448,992
Deposits with Multi-State Lottery Association (MUSL) (note 1)	425,507	282,504
Deferred charges	1,442	9,114
Total current assets	13,447,252	10,299,455
Investments for jackpot awards (note 3)	3,900,905	5,215,938
Property, plant and equipment, net (note 4)	618,690	652,814
Total assets	\$ 17,966,847	\$ 16,168,207
<u>Liabilities and Retained Earnings</u>		
Current Liabilities:		
Due to State's General Fund (note 5)	\$ 1,171,622	\$ 544,452
Current obligation for unpaid prize awards	6,050,639	5,814,361
Accounts payable	5,573,317	3,607,553
Accrued expenses	221,139	134,581
Deferred revenue	726,592	456,794
Total current liabilities	13,743,309	10,557,741
Long-term obligation for unpaid prize awards (note 3)	3,900,905	5,215,938
Total liabilities	17,644,214	15,773,679
Retained Earnings:		
Reserved for building (note 9)	322,633	394,528
Total liabilities and retained earnings	\$ 17,966,847	\$ 16,168,207

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Statements of Revenue, Expenses and Retained Earnings

Years Ended June 30, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Sales (schedule 1):		
On-line games	\$ 129,682,677	\$ 115,251,098
Instant games	40,323,292	27,356,236
Video lottery	<u>464,068,675</u>	<u>406,108,530</u>
Total sales	<u>634,074,644</u>	<u>548,715,864</u>
 Cost of sales:		
Commissions	86,302,679	73,159,559
Prize awards	429,277,957	373,056,150
Unclaimed prize recovery	(1,849,978)	(2,080,535)
Cost of tickets	<u>1,102,38</u>	<u>843,610</u>
Total cost of sales	<u>514,833,296</u>	<u>444,978,784</u>
Gross profit	<u>119,241,348</u>	<u>103,737,080</u>
 Operating expenses:		
Personal services	2,687,572	2,370,964
Advertising	1,384,429	1,102,533
Contract services	164,067	341,476
Equipment leasing (note 14)	331,819	333,583
Depreciation	172,439	150,689
Other	<u>450,359</u>	<u>231,025</u>
Total operating expenses	<u>5,190,685</u>	<u>4,530,270</u>
Operating income	<u>114,050,663</u>	<u>99,206,810</u>
 Non-operating income:		
Pull-tab ticket sales (note 7)	196,280	163,067
Investment earnings	488,379	421,123
Other	<u>264,405</u>	<u>169,343</u>
Total non-operating income	<u>949,064</u>	<u>753,533</u>
Income before transfer to the State's General Fund	<u>114,999,727</u>	<u>99,960,343</u>
Transfer to the State's General Fund (note 5)	<u>115,071,622</u>	<u>100,032,238</u>
Net loss (note 9)	(71,895)	(71,895)
Retained earnings, beginning of year	<u>394,528</u>	<u>466,423</u>
Retained earnings, end of year	<u>\$ 322,633</u>	<u>\$ 394,528</u>

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Statements of Cash Flows

Years Ended June 30, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Cash flows from operating activities:		
Cash received from sales	\$ 632,957,669	\$ 550,444,905
Cash received from MUSL for grand prize winners	6,245,000	6,313,300
Cash received from sale of other tickets	286,767	249,534
Cash received from other sources	262,565	156,691
Cash paid for prizes other than MUSL grand prize winners	(428,999,959)	(374,633,312)
Cash paid to MUSL grand prize winners	(6,245,000)	(6,313,300)
Cash paid for commissions - retailers	(12,383,005)	(10,571,034)
Cash paid for commissions - video lottery	(65,646,618)	(56,141,888)
Cash paid for commissions - on-line games contractor	(6,023,266)	(5,158,422)
Cash paid to suppliers for goods and services	(4,053,131)	(2,625,401)
Cash paid to employees for services	<u>(2,596,707)</u>	<u>(2,352,431)</u>
Net cash provided by operating activities	<u>113,804,315</u>	<u>99,368,642</u>
Cash flows from noncapital financing activities:		
Transfer to State's General Fund	(114,444,452)	(99,963,271)
Repayment of negative cash balance implicitly financed	<u>-</u>	<u>(1,197,511)</u>
Net cash used for noncapital financing activities	<u>(114,444,452)</u>	<u>(101,160,782)</u>
Cash flows from capital and related financing activities:		
Purchase of fixed assets	(150,816)	(141,534)
Proceeds from sale of fixed assets	<u>12,500</u>	<u>19,800</u>
Net cash used for capital and related financing activities	<u>(138,316)</u>	<u>(121,734)</u>
Cash flows from investing activities:		
Proceeds from maturity of investments for jackpot awards	2,387,259	2,873,523
Interest income	<u>488,379</u>	<u>421,123</u>
Net cash provided by investing activities	<u>2,875,638</u>	<u>3,294,646</u>
Net increase in cash and cash equivalents	2,097,185	1,380,772
Cash and cash equivalents, beginning of year	<u>1,380,772</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 3,477,957</u>	<u>\$ 1,380,772</u>

RHODE ISLAND LOTTERY

Statements of Cash Flows

Years Ended June 30, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 114,050,663	\$ 99,206,810
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	172,439	150,689
Installment payments for jackpot awards	(2,387,259)	(2,873,523)
Other receipts classified as operating activities	198,120	165,067
Rental income and other receipts	262,565	156,691
Provision for doubtful accounts	15,251	(10,768)
(Increase) decrease in assets:		
Investment for jackpot awards	1,931,119	2,257,959
Accounts receivable	(1,245,611)	1,881,006
Inventory	(263,921)	177,620
Deposits with MUSL	(143,003)	(47,441)
Deferred charges	7,672	27,623
Increase (decrease) in liabilities:		
Obligation for unpaid prize awards	(1,115,840)	(3,042,133)
Accounts payable	1,965,764	1,404,955
Accrued expenses	86,558	20,611
Deferred revenue	<u>269,798</u>	<u>(106,524)</u>
Total adjustments	<u>(246,348)</u>	<u>161,832</u>
Net cash provided by operating activities	<u>\$ 113,804,315</u>	<u>\$ 99,368,642</u>
Noncash investing activities:		
Increase in fair value of investments for jackpot awards which also increased obligation for unpaid prize awards	\$ 582,142	\$ 709,555
Increase in deposits with MUSL and deferred revenue	<u>143,003</u>	<u>47,441</u>
	<u>\$ 725,145</u>	<u>\$ 756,996</u>

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Notes to Financial Statements

(1) Organization

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

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

Prize payout percentages and amounts required to be transferred to the State's general fund as stipulated in the Rhode Island General Laws are summarized below for the various games operated by the Lottery.

<u>Game</u>	<u>Prize Payout</u>	<u>State's General Fund Share</u>
Daily Numbers Instant Ticket Games Roll Down (1) MUSL – PowerBall MUSL – Daily Millions (2)	no less than 45% nor more than 55% of sales	not less than 30% of ticket sales
Keno	no less than 45 % nor more than 65% of sales	not less than 20% of ticket sales
Video Lottery	Prize payout not established by law	46% of net terminal income (video lottery credits purchased less credits redeemed or redeemable) less pro rata share of Lottery's operating expenses

(1) The Roll Down game began February 24, 1998

(2) The Daily Millions game ended February 21, 1998.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Chapter 42-61.2 of the Rhode Island General Laws authorizes the Commission to conduct and control video lottery games. This chapter stipulates the allocation of video lottery net terminal income (video lottery credits purchased less credits redeemed or redeemable). The Commission's share for deposit in the Lottery fund shall be no less than 46% of net terminal income. The remaining net terminal income is divided among licensed video lottery retailers, the technology providers (video lottery terminal providers), the central communications system provider, the city or town in which the video retailer is licensed, and the owners of dog kennels under contract with a licensed video lottery retailer.

The Lottery sells PowerBall tickets, collects all revenues, and remits prize funds to MUSL net of low-tier prize awards. Jackpot prizes, payable in installments, are satisfied through investments purchased by MUSL. MUSL purchases U.S. government obligations, which are held in irrevocable trusts established by MUSL for the benefit of participating state lotteries. Accordingly, the Lottery does not record an obligation for jackpot awards which are payable in installments from funds provided by MUSL.

The prize pools for PowerBall and Daily Millions are 50 % of each drawing period's ticket sales. MUSL has placed 2% and 4.856% of each drawing period's ticket sales for PowerBall and Daily Millions, respectively, included as part of each member's prize liability, in prize reserve funds. As of January 13, 1998, the MUSL Board of Directors changed the maximum balance on the prize reserve funds for PowerBall and Daily Millions to \$77,000,000 and \$25,000,000, respectively. 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, 1998 and 1997, the prize reserve fund for the PowerBall game had a balance of \$76,506,708 and \$83,137,269, respectively, of which the Lottery's share was \$2,126,422 and \$2,373,705, respectively. The Lottery has charged amounts placed into the prize reserve funds to prize awards expense as the related sales have occurred.

Due to the Lottery's withdrawal from the Daily Millions game, MUSL will refund the remaining balance in the prize reserve account on April 1, 1999. The related receivable of \$335,900 is reported on the balance sheet as of June 30, 1998.

RHODE ISLAND LOTTERY

Notes to Financial Statements

All investment earnings relating to the prize reserve funds are credited to an unreserved account for each member state. This account can be utilized to offset operating costs or for the promotion of any MUSL game as approved by the MUSL Board of Directors. The Lottery's unreserved account is reported on the balance sheets as "Deposits with MUSL". The Lottery is assessed its pro rata share of MUSL's annual operating expenses. MUSL reduced the Lottery's unreserved account by \$114,324 and \$128,683 for operating expenses for the Fiscal Years ended June 30, 1998 and 1997, respectively.

(2) *Summary of Significant Accounting Policies*

(a) *Basis of Accounting*

The financial records of the Lottery, a proprietary fund, are accounted for using the economic resources measurement focus and are maintained on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the related liabilities are incurred. The Governmental Accounting Standards Board (GASB) has the responsibility for establishing generally accepted accounting principles for governmental proprietary fund type activities. In accordance with GASB Statement No. 20, in the absence of specific guidance from a GASB pronouncement, pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989 have been followed.

(b) *Reporting Entity*

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

(c) *Revenues and Expenses*

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.

RHODE ISLAND LOTTERY

Notes to Financial Statements

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 expense are recorded at the amount of credits purchased and the amount of credits redeemable. These amounts are net of credits won and played.

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

(d) Depreciation

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

(e) Cash Equivalents

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

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

Prior to November 15, 1983, annuity contracts were purchased in the name of, and paid directly to, the jackpot winner. Accordingly, the Lottery has not recorded an obligation for prize awards satisfied through annuity contracts purchased in the name of the winner. In Fiscal Year 1998, the Lottery has returned to this practice of satisfying prize obligations relating to their Win for Life instant ticket game.

Jackpot awards for the Lot-0-Bucks game, which is no longer active, are paid in annual installments. The Lottery satisfied these obligations by purchasing investments with maturities corresponding to the jackpot award annual installments. Investments for jackpot awards purchased since November 15, 1983 are in the name of the Lottery. Accordingly, the Lottery has a direct obligation to make future installment payments to the jackpot winner. These investments and related obligations are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair value of investments for Jackpot awards are generally based on published market prices and quotations from national security exchanges and securities pricing services.

RHODE ISLAND LOTTERY

Notes to Financial Statements

(g) Ticket Inventory

Inventory consists of the cost of tickets for the instant games, which is expensed as a percentage of sales from instant ticket games.

(h) Deferred Charges

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

(i) Deferred Revenue

Tickets can be purchased in advance of scheduled drawing dates. Revenue from advance ticket sales is recognized during the period in which the related drawing is held. Sales pertaining to drawings to be held after the balance sheet date are reported as deferred revenue.

Additionally, as described in Note 1, the balance of the Lottery's unreserved account maintained by MUSL is recorded as an asset (deposits with MUSL) with a corresponding liability (deferred revenue). Miscellaneous revenue is recognized as related expenses are incurred.

(j) Reclassifications

Certain 1997 amounts have been reclassified to conform with the current year presentation.

(k) Restatements

The 1997 amounts for investments for jackpot awards and the relating obligation for unpaid prize awards reported on the balance sheet have been restated at fair value to reflect the adoption of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Previously, these investments and the related obligation were recorded at cost plus accrued interest thereon, less annual installments paid. Investment for jackpot awards and related obligation for unpaid prize awards were increased by \$90,174 at June 30, 1997.

RHODE ISLAND LOTTERY

Notes to Financial Statements

(1) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those amounts.

(3) Deposits and Investment Risk

(a) Deposits

The Lottery's book balance at June 30, 1998 was \$1,477,957 and the bank balance was **\$1,688,895**. One account with a bank balance of \$101,685 is held in the Lottery's name; \$100,000 is insured by Federal Depository Insurance and \$1,685 is uninsured and uncollateralized. Remaining deposits totaling \$1,587,210 are held by the State General Treasurer. All General Treasurer accounts at a single institution are aggregated for purposes of determining Federal Depository Insurance coverage.

(b) Investments

The Lottery's investments are categorized below to provide an indication of the level of market and credit risk assumed by the Lottery at June 30, 1998 and 1997. Investments for jackpot awards were made by the Lottery in accordance with guidelines established by the Commission. All other investments, principally cash equivalent type investments, are made by the State General Treasurer in accordance with guidelines established by the State Investment Commission, which is responsible for the investment of all State funds. Pursuant to Chapter 35-10 of the R.I. General Laws, the State Investment Commission may, in general, "invest in securities as would be acquired by prudent persons of discretion and intelligence in these matters who are seeking a reasonable income and the preservation of their capital. "

RHODE ISLAND LOTTERY

Notes to Financial Statements

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

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

	Fair Value <u>1998</u>	Fair Value <u>1997</u>
Zero coupon U.S. Treasury bonds	\$ 5,707,905	\$ 7,601,938
Repurchase agreements	<u>2,000,000</u>	<u>700,000</u>
Total investments	7,707,905	8,301,938
Less amounts classified as cash equivalents	<u>2,000,000</u>	<u>700,000</u>
Total investments for jackpot awards	5,707,905	7,601,938
Less short-term investments for jackpot awards	<u>1,807,000</u>	<u>2,386,000</u>
Long-term investments for jackpot awards	<u>\$ 900,905</u>	<u>\$ 5,215,938</u>

(c) Cash and Cash Equivalents

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

	<u>1998</u>	<u>1997</u>
Cash balance per books	\$ 1,477,957	\$ 680,772
Investments reclassified as cash equivalents	<u>2,000,000</u>	700,000
Cash and cash equivalents	<u>\$ 3,477,957</u>	<u>\$ 1,380,772</u>

RHODE ISLAND LOTTERY

Notes to Financial Statements

(4) Property, Plant and Equipment

A summary of property, plant and equipment follows:

	<u>Estimated Useful Life</u>	<u>1998</u>	<u>1997</u>
Buildings	20	\$ 1,437,912	\$ 1,437,912
Building improvements	10	134,370	117,741
Ticket production and computer equipment	10	17,806	17,372
Office equipment	10	116,757	115,082
Furniture and fixings	10	46,349	46,880
Lottery drawing equipment	3	68,861	59,410
Automobiles	3	136,300	103,069
Computer equipment	3	205,942	219,553
Trucks	3	22,445	<u>22,445</u>
		2,186,742	2,139,464
		<u>1,568,052</u>	<u>1,486,650</u>
Less: Accumulated depreciation			
Property, plant and equipment (net)		\$ <u>618,690</u>	\$ <u>652,814</u>

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

(5) Due to State's General Fund

Due to State's General Fund represents the balance of net income for the period (after adjustment for depreciation expense on the Lottery's headquarters - see note 9) that is to be transferred to the State's General Fund. The amounts transferred and amounts due to State's General Fund are summarized below:

	<u>1998</u>	<u>1997</u>
Transfer to State's General Fund	\$ 115,071,622	\$ 100,032,238
Cash transferred during fiscal year	(114,444,452)	(99,963,271)
Amount due to State's General Fund, beginning of fiscal year	<u>544,452</u>	<u>475,485</u>
Due to State's General Fund	\$ <u>1,171,622</u>	\$ <u>544,452</u>

RHODE ISLAND LOTTERY

Notes to Financial Statements

(6) Commissions

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

The General Laws provide for reductions of certain video lottery commissions. The amount reduced is to be credited to the State's Distressed Communities Relief Fund which is part of the State's General Fund. The Lottery has reflected the actual video commissions paid as an expense. The amount to be credited to the Distressed Communities Relief Fund is included in the transfer to the State's General Fund.

(7) Pull-Tab Ticket Sales

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

	<u>1998</u>	<u>1997</u>
Pull-tab ticket sales	\$ 286,767	\$ 249,534
Cost of tickets	<u>(90,487)</u>	<u>(86,467)</u>
Net pull-tab ticket sales	<u>\$ 196,280</u>	<u>\$ 163,067</u>

(8) Compensated Absences

The Lottery accrues an estimated liability for vested benefits relating to future compensated absences. This includes an expected obligation in connection with vacation credits and accumulated vested sick pay for those employees eligible for retirement. As of June 30, 1998 and 1997, the estimated liability was \$153,454 and \$75,792, respectively. The liability is calculated using the current hourly rates of pay.

(9) Retained Earn

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

RHODE ISLAND LOTTERY

Notes to Financial Statements

(10) Retirement Plan

Plan Description:

All Lottery employees must participate in a cost-sharing multiple-employer defined benefit pension plan administered by the State of Rhode Island Employees' Retirement System (ERS). The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to state employees is established by Chapter 36-10 of the General Laws which is subject to amendment by the general assembly. The ERS issues a publicly available financial report that includes financial statements and required supplementary information for plans administered by the system. The report may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903.

Funding Policy:

The funding policy, as set forth in Rhode Island General Laws, Section 36-10-2, provides for actuarially determined periodic contributions to the plan. However, the actuarially determined contribution rates can be statutorily changed by the legislature. Lottery employees are required to contribute 8.75 % of their annual covered salary. The Lottery is required to contribute at an actuarially determined rate; the Fiscal Year 1998 rate is 10.83% of annual covered payroll. The Lottery contributed \$198,081, \$164,663 and \$144,012 for the years ended June 30, 1998, 1997 and 1996, respectively, equal to the required contributions for each year.

(11) Postemployment Benefits

In accordance with the General Laws, postemployment healthcare benefits are provided to all state employees who retire on or after July 1, 1989. The benefits in general cover medical and hospitalization costs for pre-Medicare eligible retirees and a Medicare supplement for Medicare eligible retirees. The retiree is required to pay a portion of the monthly premium. This payment varies with years of service and ranges from 50% for retirees with 10-15 years of service to 0% for retirees with 35 years of service. The Lottery contributed .66% of covered payroll for the years ended June 30, 1998 and 1997 to fund the cost of these benefits.

RHODE ISLAND LOTTERY

Notes to Financial Statements

(12) Deferred Compensation

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

(13) Commitments

The Lottery has contracted with a vendor to furnish computer hardware and software together with the related services necessary for the operation of the Lottery's computerized games. Commissions range from 4 % to 4.8 % of sales from the online games. The Lottery leases a portion of its headquarters to the vendor to house computer hardware necessary for the on-line games. The term of the lease coincides with the vendor contract and provides for a rent of \$41,520 per annum. This contract is effective through October 31, 2002 and allows the Lottery the option of extending the agreement for five one-year terms.

The Lottery has also contracted with this vendor to install, operate and maintain a central communications system for the operation of its video lottery games. This contract is effective through August 27, 2002. Commissions, equal to 3 % of net terminal income from video lottery sales, are paid from the technology provider's share of net terminal income.

The Lottery is in the process of soliciting bids for building renovations. The Lottery has estimated the cost of these renovations at \$220,000, which includes a \$25,000 contingency in the event any unknown problems arise.

(14) Equipment Lea

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. The following is a schedule, by year, of future minimum lease payments under operating leases as of June 30, 1998, that have initial or remaining lease terms in excess of one year.

<u>Fiscal Year Ending June 30</u>	<u>Lease Payments</u>
1999	\$ 321,662
2000	32,246
Total future minimum lease payments	<u>\$ 353,908</u>

RHODE ISLAND LOTTERY

Notes to Financial Statements

(15) Contingencies

Litigation

A suit was filed by a former Lottery employee against the Rhode Island Lottery Commission, the Governor and the Director of Administration. The litigation concerns the former employee's claim that his termination on March 25, 1996 was unlawful. Management believes the likelihood of an unfavorable outcome and any potential damages is impossible to estimate at this time.

(16) Year 2000

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Lottery's operations as early as Fiscal Year 1999.

The Lottery has completed an inventory of its computer systems and has determined that certain software (general ledger and telephone system) and personal computers must be upgraded to be Year 2000 compliant. The Lottery has assessed these systems and plans to accomplish remediation by purchasing new, year 2000 compliant versions of the software and personal computers. The Lottery estimates such costs to approximate \$70,000.

The Lottery uses external organizations (on-line games contractor, central communications provider, and video lottery technology providers) to operate its lottery games. The external organizations are responsible for any required remediation to these systems. The external organizations have indicated that they are now assessing and planning any required remediation. Any costs associated with remediation and testing of these systems will be borne by the external organizations.

The Lottery also uses certain statewide accounting systems (receipts, disbursements, and payroll). The State is responsible for remediating these systems and is also responsible for any related costs. These statewide accounting systems are presently in the remediation phase.

Because of the unprecedented nature of the Year 2000 issue, its effect and the success of related remediation efforts will not be determinable until the year 2000 and thereafter. Management cannot assure the Lottery will be Year 2000 ready, that the Lottery's remediation efforts will be successful in whole or in part, or that the parties with whom the Lottery does business; will be year 2000 ready.

SUPPLEMENTARY INFORMATION

RHODE ISLAND LOTTERY
Sales, Commissions and Prize Awards Expense
Years Ended June 30, 1998 and 1997

Year Ended June 30, 1998

	Sales	Commissions	Prize Awards Expense	Unclaimed Prize Recovery	Cost of Tickets	Cost of Sales	Gross Profit
Lottery games:							
On-line games							
Keno	\$ 51,617,137	\$ 6,370,298	\$ 33,846,585	\$ (254,516)	\$ -	\$ 39,962,367	\$ 11,634,770
PowerBall	43,345,345	5,349,439	21,671,239	(737,303)	-	26,283,375	17,061,970
Daily Numbers	29,257,141	3,610,752	14,527,973	(210,094)	-	17,928,631	11,328,510
Daily Millions	2,162,126	266,837	750,666	(191,390)	-	826,113	1,336,013
Roll Down	3,300,928	407,382	1,654,017	-	-	2,061,399	1,239,529
	<u>129,682,677</u>	<u>16,004,708</u>	<u>72,450,480</u>	<u>(1,393,303)</u>	<u>-</u>	<u>87,061,885</u>	<u>42,620,792</u>
Instant Tickets	40,323,292	2,438,008	24,923,500	(429,199)	1,102,638	28,034,947	12,288,345
Video Lottery	464,068,675	67,859,963	331,903,977	(27,476)	-	399,736,464	64,332,211
Totals	<u>\$ 634,074,644</u>	<u>\$ 86,302,679</u>	<u>\$ 429,277,957</u>	<u>\$ (1,849,978)</u>	<u>\$ 1,102,638</u>	<u>\$ 514,833,296</u>	<u>\$ 119,241,348</u>

Video Commissions - Detail

Facilities	\$ 39,818,373
Technology Providers	16,552,669
Central Communications Provider	3,964,941
Dog Kennel Owners	6,202,334
City/Town	1,321,646
Total	<u>\$ 67,859,963</u>

Year Ended June 30, 1997

	Sales	Commissions	Prize Awards Expense	Unclaimed Prize Recovery	Cost of Tickets	Cost of Sales	Gross Profit
Lottery games:							
On-line games							
Keno	\$ 41,801,453	\$ 5,204,049	\$ 27,264,335	\$ (200,818)	\$ -	\$ 32,267,566	\$ 9,533,887
PowerBall	37,881,052	4,715,980	18,940,526	(979,707)	-	22,676,799	15,204,253
Daily Numbers	29,405,124	3,660,775	14,542,857	(219,093)	-	17,984,539	11,420,585
Daily Millions	5,051,443	628,877	2,525,722	-	-	3,154,599	1,896,844
Rhody Cash	1,112,026	141,363	567,407	(91,785)	-	616,985	495,041
	<u>115,251,098</u>	<u>14,351,044</u>	<u>63,840,847</u>	<u>(1,491,403)</u>	<u>-</u>	<u>76,700,488</u>	<u>38,550,610</u>
Instant Tickets	27,356,236	1,364,353	15,454,746	(540,797)	843,610	17,121,912	10,234,324
Video Lottery	406,108,530	57,444,162	293,760,557	(48,335)	-	351,156,384	54,952,146
Totals	<u>\$ 548,715,864</u>	<u>\$ 73,159,559</u>	<u>\$ 373,056,150</u>	<u>\$ (2,080,535)</u>	<u>\$ 843,610</u>	<u>\$ 444,978,784</u>	<u>\$ 103,737,080</u>

Video Commissions - Detail

Facilities	\$ 33,677,876
Technology Providers	13,978,377
Central Communications Provider	3,370,758
Dog Kennel Owners	5,293,565
City/Town	1,123,586
Total	<u>\$ 57,444,162</u>

See independent auditor's report.

STATISTICAL SECTION

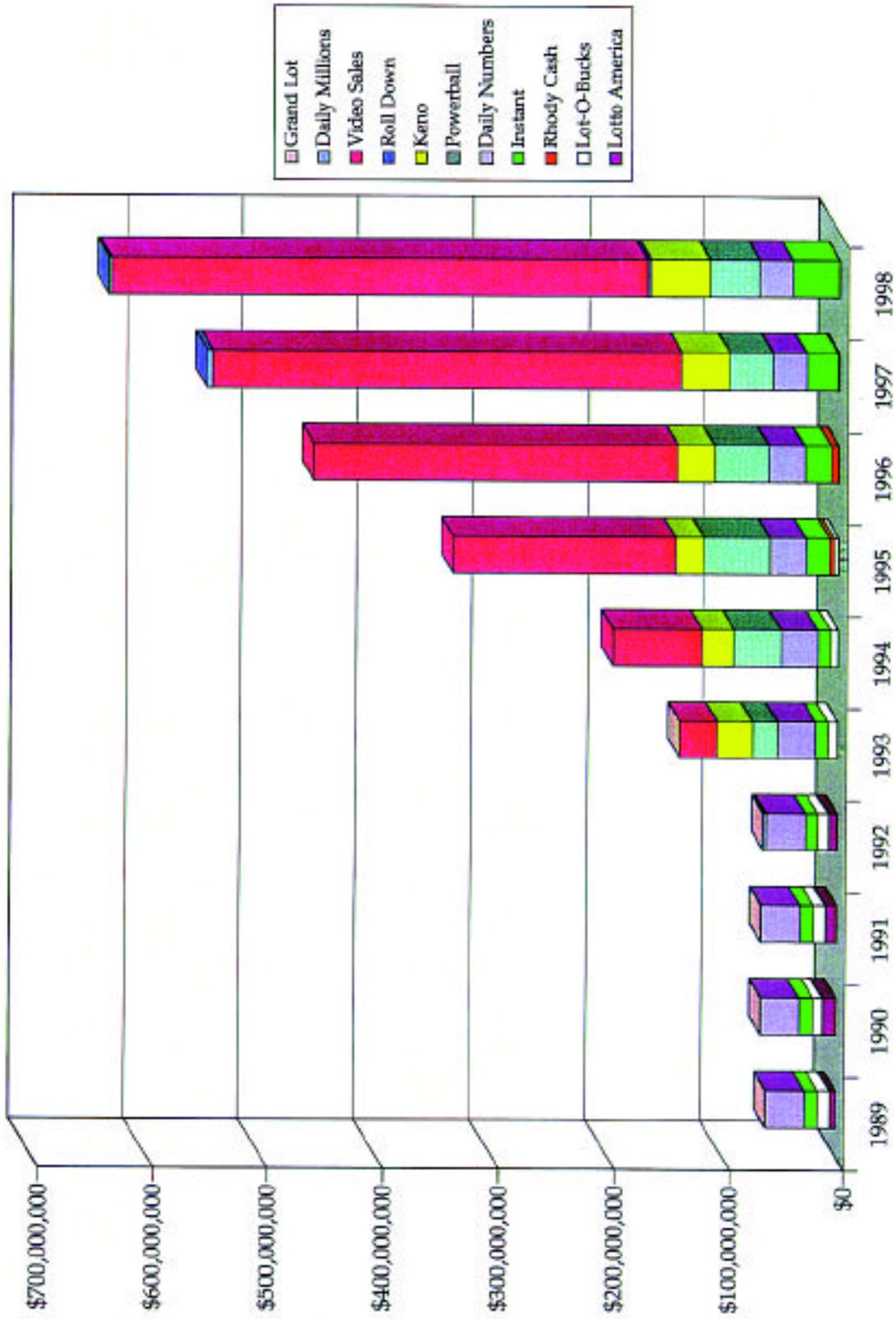
RHODE ISLAND STATISTICS

**RHODE ISLAND LOTTERY
REVENUES
FISCAL YEARS 1989 THROUGH 1998**

SALES	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
VIDEO										
VLTs	-	-	-	-	\$12,725,369	\$76,694,627	\$192,818,304	\$314,852,436	\$406,108,530	\$464,068,675
ON-LINE										
Grand Lot	166,046	134,488	124,292	95,480	21,267	-	-	-	-	-
Daily Numbers	33,595,406	33,378,068	33,826,258	34,111,383	33,271,675	32,325,382	31,196,077	30,600,023	29,405,124	29,357,141
Lot-O-Backs	10,067,317	8,367,000	9,774,793	8,663,939	8,799,942	6,639,794	3,974,231	-	-	-
Rhody Cash	-	-	-	-	-	-	4,115,596	6,849,222	1,112,026	-
Daily Millions	-	-	-	-	-	-	-	-	5,051,443	2,162,126
PowerBall	-	-	-	2,640,066	21,612,441	40,562,732	57,474,718	67,622,832	37,891,052	43,345,315
Lotto America	5,223,068	11,677,295	10,053,843	7,051,839	-	28,399,977	-	-	-	-
Keno	-	-	-	-	30,794,180	-	24,927,298	32,003,602	41,801,453	51,617,137
Roll Down	-	-	-	-	-	-	-	-	-	3,300,928
Total On-Line	49,052,737	53,576,851	53,779,186	53,462,647	94,409,665	107,927,887	121,687,920	117,075,679	115,251,098	129,682,677
INSTANT TICKETS:										
Instant Tickets	11,983,123	12,267,781	11,972,342	11,146,332	10,922,036	11,300,376	20,840,747	23,339,726	27,356,226	40,323,292
TOTAL SALES	61,035,860	65,844,632	65,751,528	64,608,979	138,037,000	195,922,896	334,546,971	438,297,841	548,715,864	634,074,644
OTHER REVENUES:										
Investment Earnings	972,669	547,637	416,032	207,178	194,424	257,711	521,709	456,930	421,123	488,379
Net Pull Tab Sales	248,403	245,933	222,744	221,365	205,278	185,454	185,439	162,788	163,067	196,280
Miscellaneous	27,163	27,035	31,687	29,319	27,267	26,475	182,147	105,147	169,343	264,405
TOTAL OTHER REVENUES	1,248,235	820,605	670,463	437,862	426,969	469,646	889,195	724,865	753,533	949,064
TOTAL SALES & REVENUES	62,284,095	66,665,237	66,421,991	65,046,841	138,463,969	196,392,542	335,436,166	443,162,706	549,469,397	635,023,708

SOURCE: RHODE ISLAND LOTTERY

**RHODE ISLAND LOTTERY
SALES BY PRODUCT
FISCAL YEARS 1989 THROUGH 1998**



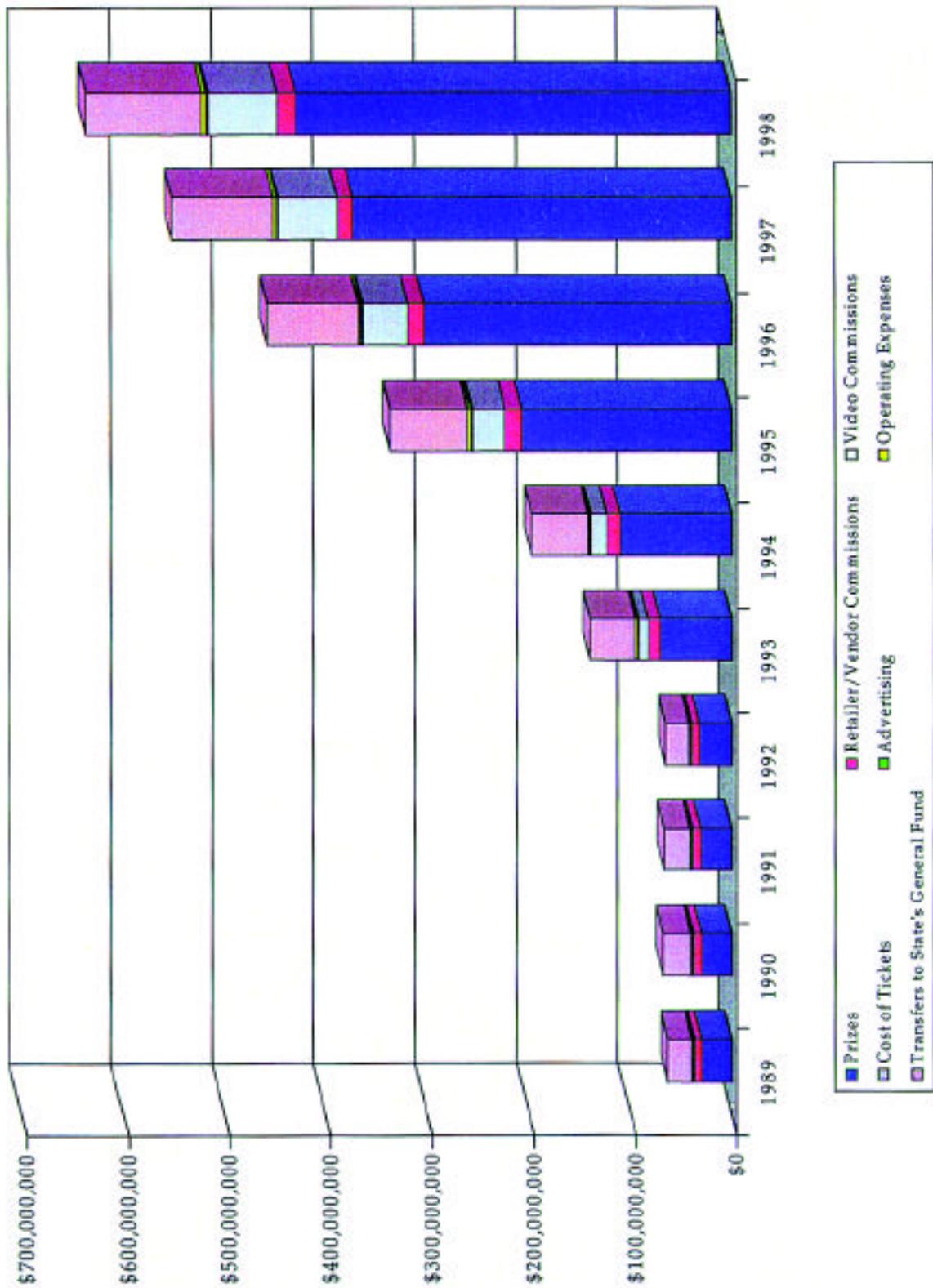
SOURCE: RHODE ISLAND LOTTERY

**RHODE ISLAND LOTTERY
EXPENSES AND TRANSFERS TO STATE'S GENERAL FUND
FISCAL YEARS 1989 THROUGH 1998**

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
EXPENSES										
Prizes	\$29,592,679	\$30,006,321	\$30,996,299	\$32,145,535	\$70,978,039	\$109,803,118	\$207,427,166	\$303,401,899	\$373,056,150	\$429,277,957
Retailer/Vendor Commissions	6,777,389	7,365,637	7,385,651	7,347,580	12,075,388	13,987,194	16,090,163	15,629,373	15,715,397	18,442,716
Video Commissions	-	-	-	-	8,741,973	14,436,984	32,281,395	43,849,000	57,444,162	67,859,963
Cost of Tickets	521,321	427,110	398,206	401,691	417,581	379,050	567,290	619,223	843,610	1,102,638
Unclaimed Prizes Recovery	(707,566)	(709,285)	(664,423)	(719,776)	(996,235)	(1,237,054)	(1,688,010)	(2,110,340)	(2,080,535)	(1,849,978)
Advertising	575,905	595,114	417,864	538,488	771,543	647,021	1,156,710	1,263,290	1,102,533	1,384,429
Operating Expenses	1,799,193	1,836,678	1,924,311	1,848,188	1,988,840	2,142,081	2,878,668	3,046,570	3,427,737	3,806,256
TOTAL EXPENSES	\$38,559,118	\$39,520,975	\$40,457,708	\$41,581,706	\$93,977,129	\$140,157,494	\$258,713,322	\$345,719,115	\$449,509,694	\$520,623,981
TRANSFERS TO STATE'S GENERAL FUND	\$23,799,541	\$27,218,477	\$26,007,912	\$23,579,798	\$44,578,444	\$56,306,951	\$76,795,039	\$90,375,486	\$100,032,238	\$115,071,622

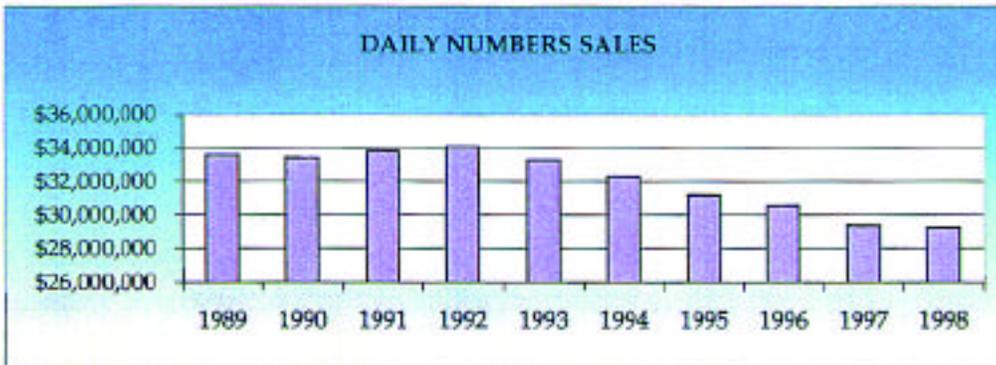
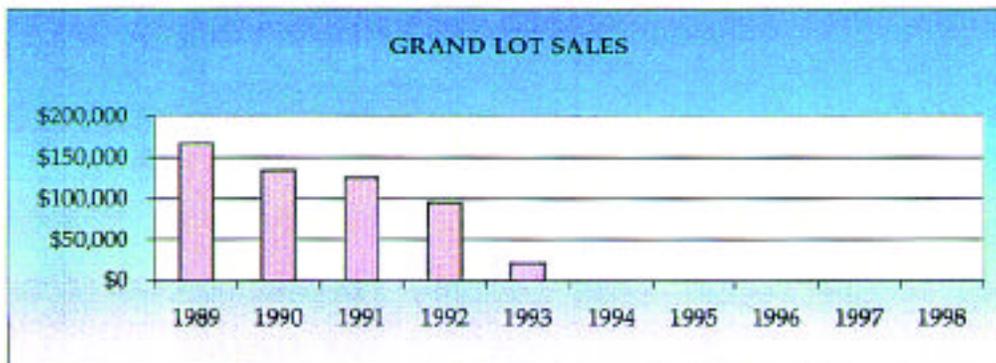
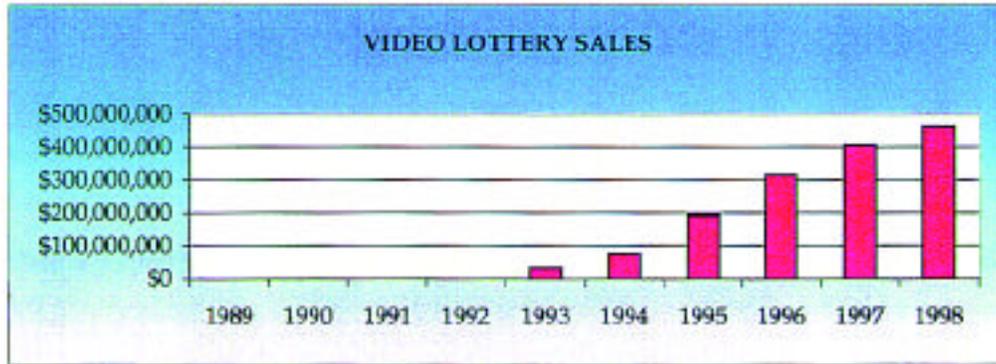
SOURCE: RHODE ISLAND LOTTERY

**RHODE ISLAND LOTTERY
EXPENSES AND TRANSFERS TO STATE'S GENERAL FUND
FISCAL YEARS 1989 THROUGH 1998**



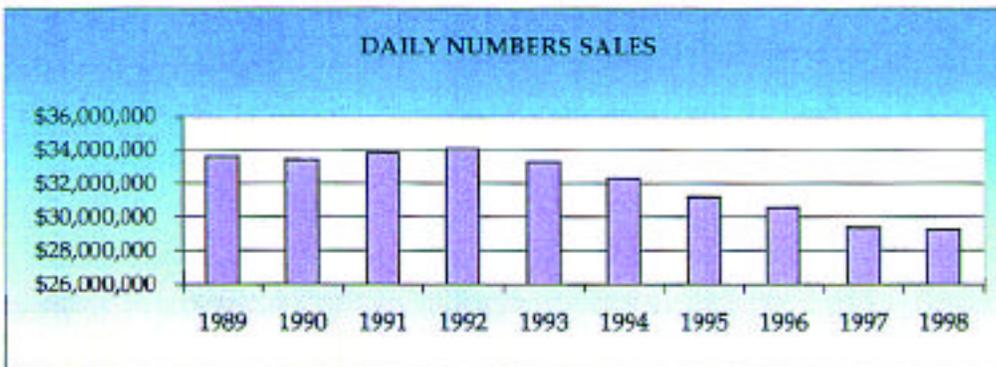
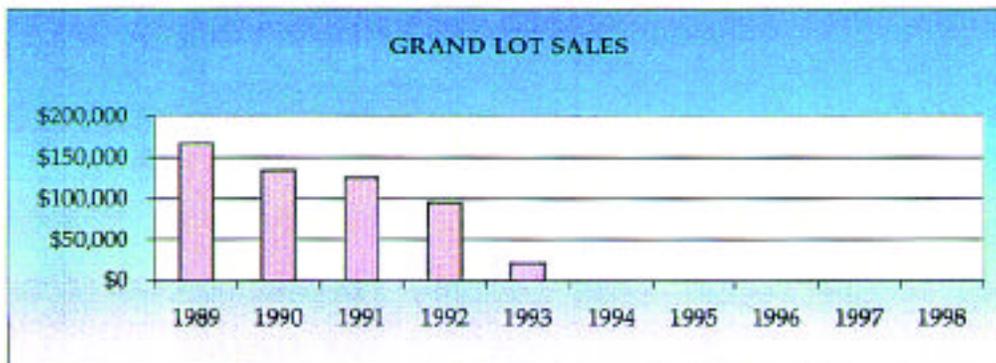
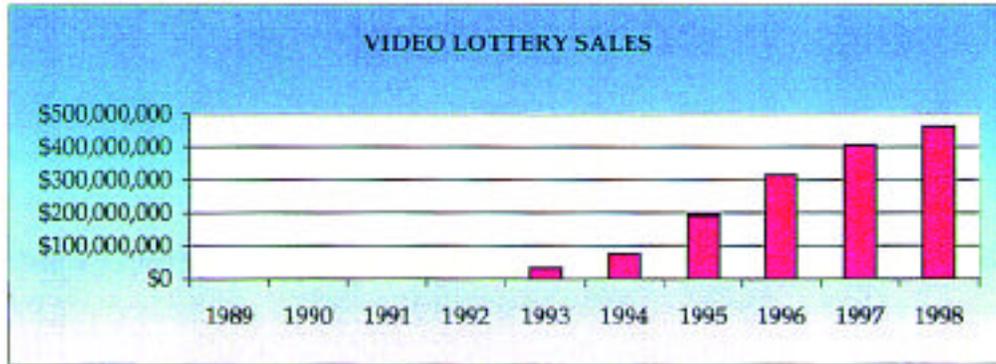
SOURCE: RHODE ISLAND LOTTERY

**RHODE ISLAND LOTTERY
SALES BY GAME
FISCAL YEARS 1989 THROUGH 1998**



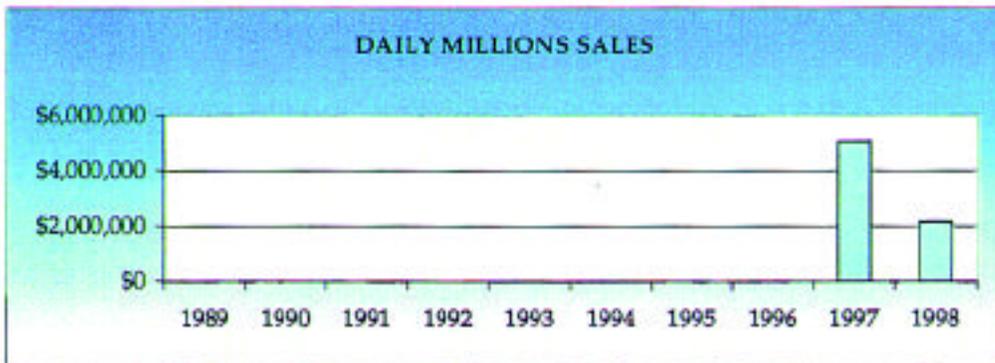
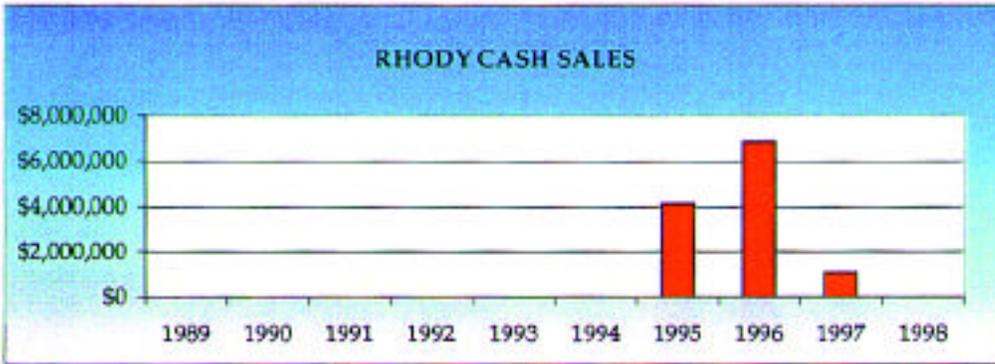
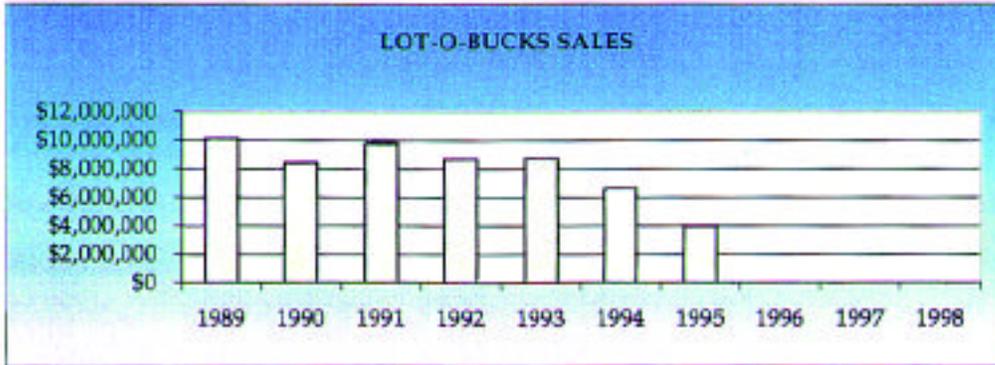
SOURCE: RHODE ISLAND LOTTERY

**RHODE ISLAND LOTTERY
SALES BY GAME
FISCAL YEARS 1989 THROUGH 1998**



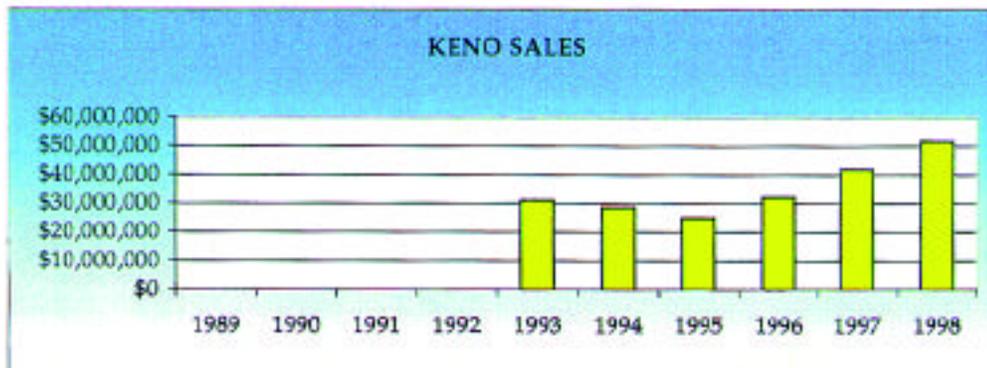
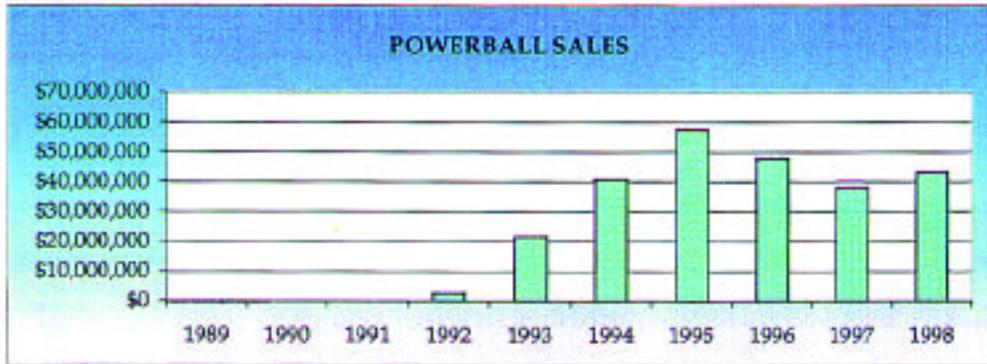
SOURCE: RHODE ISLAND LOTTERY

**RHODE ISLAND LOTTERY
SALES BY GAME
FISCAL YEARS 1989 THROUGH 1998**



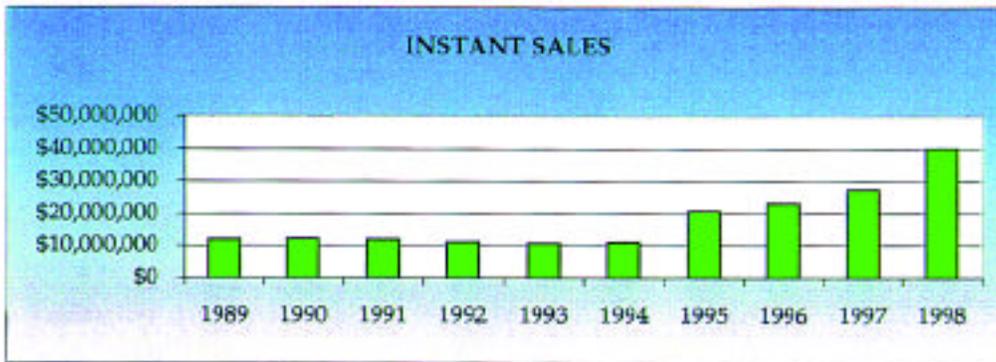
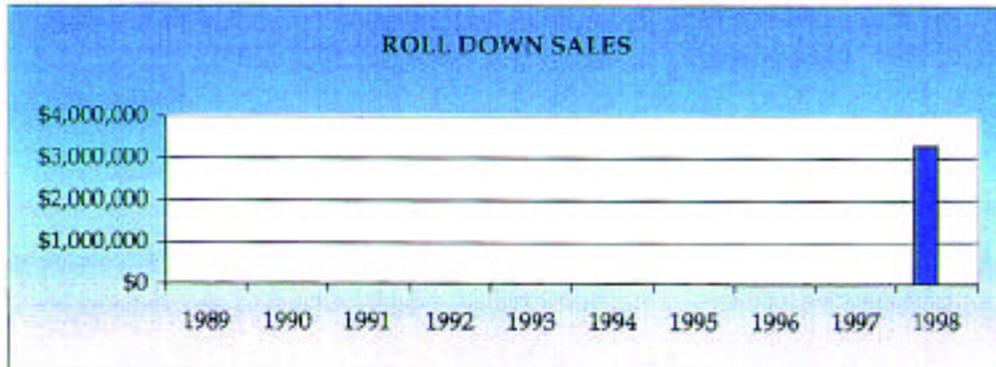
SOURCE: RHODE ISLAND LOTTERY

**RHODE ISLAND LOTTERY
SALES BY GAME
FISCAL YEARS 1989 THROUGH 1998**



SOURCE: RHODE ISLAND LOTTERY

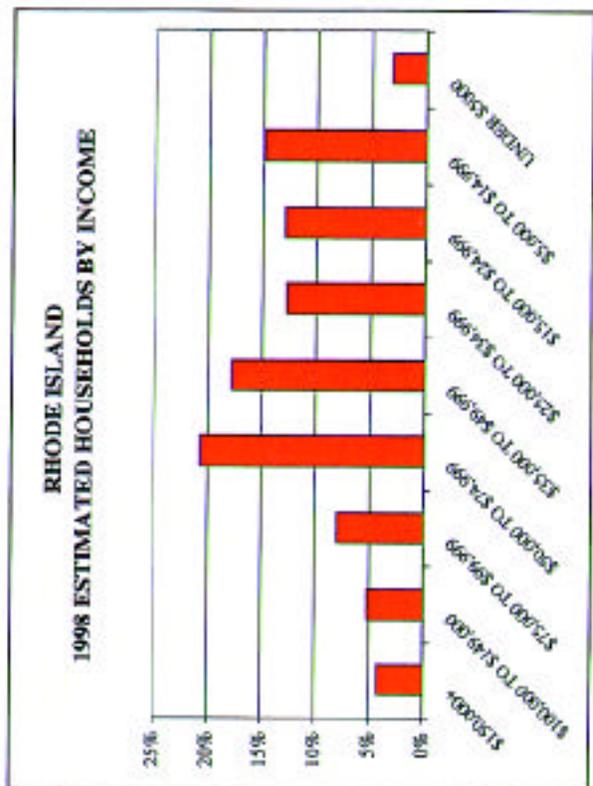
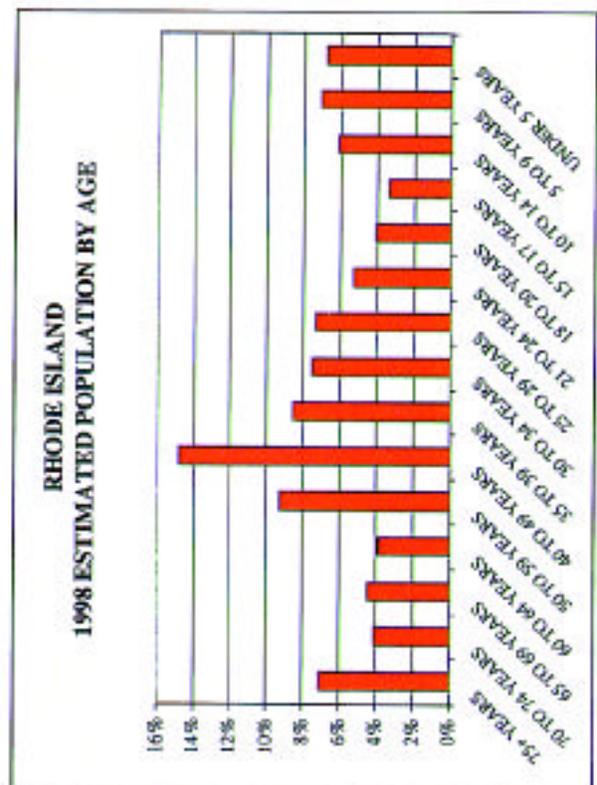
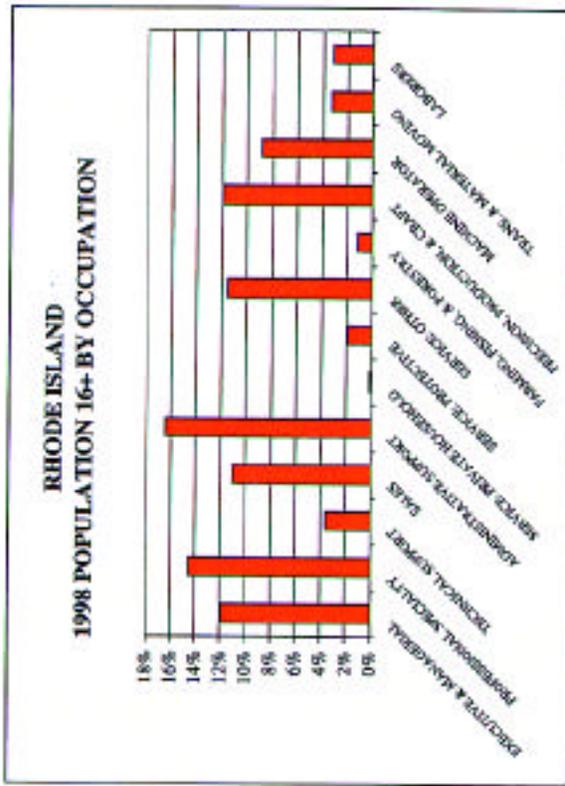
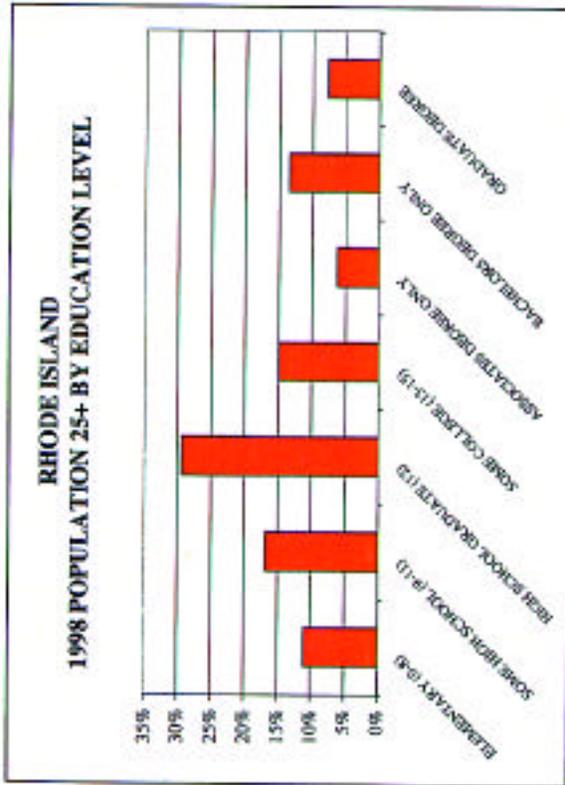
**RHODE ISLAND LOTTERY
SALES BY GAME
FISCAL YEARS 1989 THROUGH 1998**



NOTE: NOT ALL GAMES WERE ACTIVE DURING THIS 10 YEAR PERIOD.
 VIDEO LOTTERY BEGAN IN FY 93
 GRAND LOT ENDED IN FY 93
 LOT-O-BUCKS ENDED IN FY 95
 RHODY CASH BEGAN IN FY 95 AND ENDED IN FY 97
 DAILY MILLIONS BEGAN IN FY 97 AND ENDED IN FY 98
 POWERBALL BEGAN IN FY 92
 LOTTO AMERICA ENDED IN FY 92
 KENO BEGAN IN FY 93
 ROLL DOWN BEGAN IN FY 98

SOURCE: RHODE ISLAND LOTTERY

RHODE ISLAND
STATE DEMOGRAPHICS



SOURCE: RHODE ISLAND LOTTERY

NATIONAL STATISTICS

LOTTERY STATEMENT OF OPERATIONS
FISCAL YEAR 1997
(dollars in millions)

STATE	TOTAL REVENUES	PRIZES	EXPENSES	NET INCOME	PRIZES AS % OF REVENUES	EXPENSES AS % OF REVENUES	NET INCOME AS % OF REVENUES
Arizona	250.51	132.25	25.01	78.26	52.8%	10.0%	31.2%
California	2,078.85	1,030.54	187.48	727.61	49.6%	9.0%	35.0%
Colorado	362.75	215.11	32.14	94.59	59.3%	8.9%	26.1%
Connecticut	770.72	450.68	25.95	253.51	58.5%	3.4%	32.9%
Delaware	103.59	53.75	9.56	34.48	51.9%	9.2%	33.3%
D.C. ¹	205.37	101.65	23.41	69.33	49.5%	11.4%	33.8%
Florida	2,085.23	1,027.51	122.40	817.53	49.3%	5.9%	39.2%
Georgia	1,660.66	857.28	116.99	568.22	51.6%	7.0%	34.2%
Idaho	87.64	53.32	11.07	18.40	60.8%	12.6%	21.0%
Illinois	1,585.43	827.41	89.71	587.17	52.2%	5.7%	37.0%
Indiana	583.27	322.88	46.10	176.31	55.4%	7.9%	30.2%
Iowa	174.57	96.90	24.35	43.43	55.5%	13.9%	24.9%
Kansas	186.27	98.31	20.70	56.85	52.8%	11.1%	30.3%
Kentucky	570.75	339.87	42.80	153.73	59.5%	7.5%	26.9%
Louisiana	283.87	139.77	28.37	101.63	49.2%	10.0%	35.8%
Maine	148.01	82.16	13.96	41.79	55.5%	9.4%	28.2%
Maryland	1,043.50	551.71	41.32	393.38	52.9%	4.0%	37.7%
Massachusetts	3,214.26	2,238.10	69.15	719.99	69.6%	2.2%	22.4%
Michigan ¹	1,636.57	866.46	63.11	595.11	52.9%	3.9%	36.4%
Minnesota	372.83	224.45	40.88	88.46	60.2%	11.0%	23.7%
Missouri	440.93	241.86	38.65	132.67	54.9%	8.8%	30.1%
Montana	28.50	14.33	6.02	6.60	50.3%	21.1%	23.2%
Nebraska	77.74	40.40	12.92	20.59	52.0%	16.6%	26.3%
New Hampshire	179.60	102.15	13.75	54.20	56.9%	7.7%	30.2%
New Jersey	1,591.29	812.73	45.81	647.58	51.1%	2.9%	40.7%
New Mexico	81.87	41.37	14.95	20.27	50.5%	18.3%	24.8%
New York ¹	4,004.47	2,026.16	195.23	1,542.75	50.6%	4.9%	38.5%
Ohio	2,301.57	1,312.22	92.67	751.99	57.0%	4.0%	32.7%
Oregon ²	338.53	207.62	32.23	78.24	61.3%	9.5%	23.1%
Pennsylvania	1,720.63	857.20	75.27	701.62	49.8%	4.4%	40.8%
RHODE ISLAND ³	143.36	79.29	8.39	45.05	55.3%	5.8%	31.4%
South Dakota ²	29.62	15.45	6.02	6.56	52.2%	20.3%	22.1%
Texas ¹	3,764.19	2,151.74	245.26	1,179.80	57.2%	6.5%	31.3%
Vermont	77.74	46.05	4.06	23.73	59.2%	5.2%	30.5%
Virginia	932.21	475.38	64.83	342.47	51.0%	7.0%	36.7%
Washington	408.54	258.30	30.74	94.56	63.2%	7.5%	23.1%
West Virginia ²	164.20	92.80	19.63	43.63	56.5%	12.0%	26.6%
Wisconsin	436.21	244.02	29.96	137.72	55.9%	6.9%	31.6%
TOTAL	34,125.9	18,729.2	1,970.8	11,449.8	54.9%	5.8%	33.6%
VLTs (only)							
Delaware ³	3,066.95	2,811.05	33.07	93.33	91.7%	1.1%	3.0%
Oregon ³	3,636.67	3,243.48	35.41	126.61	89.2%	1.0%	6.2%
RHODE ISLAND ³	406.11	293.76		54.91	72.3%	0.0%	13.5%
South Dakota ³	505.16	326.50		89.36	64.6%	0.0%	17.7%
West Virginia ³	969.21	886.88		29.12	91.5%	0.0%	3.0%
TOTAL	8,584.10	7,561.67	68.48	493.33	88.1%	0.8%	5.7%

¹ Fiscal year ends June 30 except New York (March 31), Texas (August 31), and D.C. and Michigan (September 30).

² Data represents only revenue from traditional lottery games and not video lottery terminal (VLT) operations.

³ Data represents only revenue from video lottery terminal (VLT) operations.

PER CAPITA STATEMENT OF OPERATIONS
FISCAL YEAR 1997
(dollars in millions)

STATE	POPULATION (in millions)	PER CAPITA REVENUES	PER CAPITA PRIZES	PER CAPITA EXPENSES	PER CAPITA NET INCOME
Arizona	4.6	54.46	28.75	5.44	17.01
California	32.3	64.36	31.91	5.80	22.53
Colorado	3.9	93.01	55.16	8.24	24.25
Connecticut	3.3	233.55	136.57	7.86	76.82
Delaware	0.7	147.99	76.79	13.66	49.26
D.C. ¹	0.5	410.74	203.30	46.82	138.66
Florida	14.7	141.85	69.90	8.33	55.61
Georgia	7.5	221.42	114.30	15.60	75.76
Idaho	1.2	73.03	44.43	9.23	15.33
Illinois	11.9	133.23	69.53	7.54	49.34
Indiana	5.9	98.86	54.73	7.81	29.88
Iowa	2.9	60.20	33.41	8.40	14.98
Kansas	2.6	71.64	37.81	7.96	21.87
Kentucky	3.9	146.35	87.15	10.97	39.42
Louisiana	4.4	64.52	31.77	6.45	23.10
Maine	1.2	123.34	68.47	11.63	34.83
Maryland	5.1	204.61	108.18	8.10	77.13
Massachusetts	6.1	526.93	366.90	11.34	118.03
Michigan ¹	9.8	167.00	88.41	6.44	60.73
Minnesota	4.7	79.33	47.76	8.70	18.82
Missouri	5.4	81.65	44.79	7.16	24.57
Montana	0.9	31.67	15.92	6.69	7.33
Nebraska	1.7	45.73	23.76	7.60	12.11
New Hampshire	1.2	149.67	85.13	11.46	45.17
New Jersey	8.1	196.46	100.34	5.66	79.95
New Mexico	1.7	48.16	24.34	8.79	11.92
New York ¹	18.1	221.24	111.94	10.79	85.23
Ohio	11.2	205.50	117.16	8.27	67.14
Oregon ²	3.2	105.79	64.88	10.07	24.45
Pennsylvania	12.0	143.39	71.43	6.27	58.47
RHODE ISLAND ²	1.0	143.36	79.29	8.30	45.05
South Dakota ²	0.7	42.31	22.07	8.60	9.37
Texas ¹	19.4	194.03	110.91	12.64	60.81
Vermont	0.6	129.57	76.75	6.77	39.55
Virginia	6.7	139.14	70.95	9.68	51.11
Washington	5.6	72.95	46.13	5.49	16.89
West Virginia ²	1.8	91.22	51.56	10.91	24.24
Wisconsin	5.2	83.89	46.93	5.76	26.48
TOTAL	231.7	147.28	80.83	8.51	49.42
VLTs (only)					
Delaware ³	0.7	4,381.36	4,015.79	47.24	133.33
Oregon ³	3.2	1,136.46	1,013.59	11.07	70.82
RHODE ISLAND ³	1.0	406.11	293.76		54.91
South Dakota ³	0.7	721.66	466.43		127.66
West Virginia ³	1.8	538.45	492.71		16.18
TOTAL	7.4	1,160.01	1,021.85	9.25	66.67

¹ Fiscal year ends June 30 except New York (March 31), Texas (August 31), and D.C. and Michigan (September 30).

² Data represents only revenue from traditional lottery games and not video lottery terminal (VLT) operations.

³ Data represents only revenue from video lottery terminal (VLT) operations.

COMPLIANCE SECTION



ERNEST A. ALMONTE, CPA, CFE
Auditor General

State of Rhode Island and Providence Plantations

GENERAL ASSEMBLY

Office of the Auditor General

1145 Main Street
Pawtucket, Rhode Island 02860-4807

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

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

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

We have audited the financial statements of the Rhode Island Lottery (Lottery), a component unit of the State of Rhode Island and Providence Plantations, as of and for the year ended June 30, 1998 and have issued our report thereon dated December 11, 1998, which was qualified because insufficient audit evidence exists to support the Lottery's disclosures with respect to the year 2000 issue. Except as discussed in the preceding sentence, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

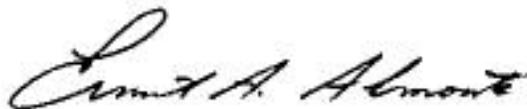
Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lottery's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving compliance and the internal control over financial reporting which we will report to management of the Lottery in a separate communication.

This report is intended for the information of the Joint Committee on Legislative Services, the Rhode Island Lottery Commission and Lottery management. However, this report is a matter of public record and its distribution is not limited.



Ernest A. Almonte, CPA, CFE
Auditor General

December 11, 1998