Rhode Island Department of Revenue

Lottery Division

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2014

Prepared by the Finance Department

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Rhode Island Department of Revenue
Lottery Division

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Introductory Section

Rhode Island Department of Revenue
Lottery Division

December 2, 2014

The Honorable Lincoln D. Chafee, Governor
Rosemary Booth Gallogly,Director of Revenue

We are pleased to present to you the COMPREHENSIVE ANNUAL FINANCIAL REPORT of the Rhode Island Lottery(the Lottery) for the fiscal year ended June 30, 2014. This report has been prepared by the Finance Department of the Lottery. The Lottery is responsible for the accuracy of the financial data and the completeness and fairness of the presentation, including all disclosures.

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

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

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

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History of the Lottery Industry

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

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

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

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

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

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

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

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

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

The concern about gambling, however, was often overwhelmed by the recognition that the lottery was a means that enabled the accomplishment of useful public projects. William Ames, a Cambridge teacher of many of the leaders of the Massachusetts Bay colony, denounced the playing of the lottery solely for the purpose of gain, but defended lotteries as long as they were intended for some pious end. The settlers of New England would find many virtuous purposes toward which to direct lottery proceeds. During the colonial period, the

New England colonies authorized more lotteries than any other region of the country, which benefited colleges, churches, and every other manner of public works construction one could think of.

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

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

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

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

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

The full history of the decline of the lottery in America lasted from the Civil War until the resumption of the lottery in 1964 when New Hampshire established a state-run lottery for the purpose of raising money for education. New York, which had been the State to pass the first constitutional prohibition of lotteries in the United States in the 1820s, followed New Hampshire's return into the lottery business in 1967. In 1971, the State of New Jersey started their lottery and introduced a computer-based weekly game, which offered inexpensive tickets (50 cents), convenience of sale, and a weekly prize of $50,000. In its first year of operation, the New Jersey Lottery grossed $142.5 million and set the trend for the lottery industry. New York and New Hampshire revamped their systems, and other states introduced lotteries utilizing New Jersey's operation as a model.

Lotteries, through the years, have become more diversified. The vast array of lottery games in existence today caters to a variety of consumer tastes. These changes are largely attributable to the work of marketing experts. With greater selections, come increased sales. Considerable changes and new possibilities were introduced

inlotteries through major technological innovations such as centralized on-line computer systems (1971) and magnetic strip tickets (1992).

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

History of the Rhode Island Lottery

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

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

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

The first instant ticket game, Play Ball, was introduced on May 11, 1976. Since that time an additional 818 instant ticket games have been introduced.

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

The Multi-State Lottery Association (MUSL) was formed in 1988 for the purpose of affording small states the opportunity to offer games with a higher jackpot than their population alone would generate. Along with Rhode Island, the initial members were the District of Columbia, Iowa, Oregon, Kansas and West Virginia. The first such game was called Lotto-America, which was replaced with PowerBall® on April 22, 1992. In February of 1998, Rhode Island replaced the Multi-State DailyMillions Game with the introduction of its own lotto game called Roll Down. This lotto game was succeeded by Easy Win in March 2000, Money Roll in November 2000 and the current game of Wild Money in January 2002.The Rhode Island Lottery began offering Mega Millions® on January 30, 2010 through its participation in the Multi-State Lottery Association.

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

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

In June 2013, casino table gaming opened at Twin River in Lincoln, Rhode Island, having passed statewide and local referenda in November 2012. The casino began offering nine different table games including black jack, craps, roulette, PaiGow poker, Spanish 21, three card poker, mini baccarat, let it ride, and a big six wheel.

History of Lottery Games

Lotto Games

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

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

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

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

Instant Tickets

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

Video Lottery

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

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

Several years later, when the South Dakota Lottery was searching for new sources of revenue, it took up the idea of video lottery. In March of 1989, legislation allowing the establishment of the first server-connected video lottery was approved. In the fall of 1990, South Dakota offered the first operational video lottery in all of the United States. On June 30, 1992, the Rhode Island Division of State Lottery received authorization to conduct video lottery games at pari-mutuel facilities in operation on that date. By the end of calendar year 1992, Oregon, Rhode Island**,** and Louisiana had video lottery terminals up and running in their respective states.

Table Games

The precise origin of casino gambling is unknown, but it is generally believed that gambling in some form or another has existed in most societies in history. The first known European gambling house was established in Italy in 1638. In American history, early gambling establishments were called saloons and were popular in cities such as New Orleans, Chicago, San Francisco, and St. Louis. Casino gambling as we know it today was legalized in Nevada in 1931, and America's first legal casinos were set up there. In 1978, New Jersey allowed casino gaming, and Atlantic City became America's second largest gambling city.

Casino gambling began in New England in 1986. In 2012, legislation was enacted in Rhode Island authorizing State operated table games to be conducted at Twin River, the State's largest video lottery facility. In June 2013, traditional card and dice games were added to video lottery terminals already at the facility.

Keno

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

Rhode Island Lottery Product Offerings

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

Instant Tickets

Instant (or scratch) tickets are played by scratching the latex covering off the play area on the ticket. In order to win, the player must match two or three of a kind, get like symbols or wild features. Instant ticket offerings in Rhode Island include card games, as well as whimsical, sports, money, and holiday themes. Also offered are extended play games with second chance drawings for additional prizes, including Patriots prizepacks and season ticketsand a trip to Las Vegas to play The Price is Right. In fiscal year 2014, a series of 40th anniversary tickets commemorated the Lottery’s 40 year history. Due to the highest payout percentages of cash prizes, a second order of 40th anniversary tickets were ordered.

Daily Numbers

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

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

In May 2014, the midday drawing was added offering additional wagers to the evening drawing. The midday drawing is held daily at 1:30 p.m., and players may view it on YouTube™ or on the Lottery's website.

Keno

Keno was introduced in September of 1992 and quickly proved to be a very popular game. Rhode Island Keno has a 10 of 20 of 80 matrix, with a $100,000 top prize. Players can wager on 1 to 10 numbers (spots) utilizing their own number selection or a computer "quick pick." In January of 2000, Keno drawings increased from every 5 minutes to every 4 minutes. These Keno drawings occur from 5:00 a.m. to 12:45 a.m., Monday through Saturday and 7:00 a.m. to 12:45 a.m. on Sunday. In April of 2001, Keno Plus was introduced. Players have the option to purchase this feature that could increase their winnings by ten times, thus giving Keno players the potential to win up to $1,000,000. Multi Chance Keno started in April 2011, and offers players a chance to win free bonus games and higher prizes up to $500,000.

Bingo

Bingo is a monitor game that was introduced to the Rhode Island Lottery on October 14, 2012. The game is played on a traditional bingo style board, where players must make one of eight patterns to win a prize. For each drawing, 30 numbered balls are drawn. Players can wager $1, $2, $5, or $10 per board, with a top prize of $100,000.

PowerBall®

PowerBall® is a Multi-State Lottery Association game offered in 43 states (including Rhode Island), plus the District of Columbia and U.S. Virgin Islands. For $2, players select "5 out of 59" numbers and a PowerBall® "1 out of 35." Players can select their own numbers or utilize a computer "quick pick." Jackpots start at $40 million and grow by a minimum of $10 million for each drawing not producing a jackpot winner. Televised drawings areshown on Wednesday and Saturday at 10:59 p.m. For an additional $1, players can choose the PowerPlay®option to increase their non-jackpot prizes.The PowerPlay® feature is now a random multiplier whereby players are able to win up to 5X the value of set prizes. The multiplier does not apply to the grand prize jackpot.

Mega Millions®

The Rhode Island Lottery began offering Mega Millions® on January 30, 2010 through its participation in the Multi-State Lottery Association. Players select "5 out of 75" numbers and a Mega Ball "1 out of 15." Players can select their own numbers or utilize a computer "quick pick." Jackpots start at $15 million and grow by a minimum of $5 million for each drawing not producing a jackpot winner. Drawings are held on Tuesday and

Friday at 11:00 p.m. Megaplier®, which is a multiplier option for Mega Millions® winnings, allows players who choose this option on their Mega Millions® ticket to have the chance to increase their winnings by up to 5 times. The multiplier does not apply to a jackpot win.

Wild Money

Wild Money is an on-line game with a starting jackpot of $20,000 that continues to grow until a player matches 5 numbers selected out of a field of 35. Its first jackpot of $315,869 was won on April 13, 2002 and the highest was $601,207 on March 25, 2006. Drawings are held Tuesday, Thursday, and Saturday at 7:30 p.m.

Lucky for Life®

Lucky for Life® is a regional game offered along with five other New England states. Players select "5 out of 43" numbers and a Lucky ball "1 out of 43" and have a chance to win$1,000 a day for life as well as a second chance prize to win $25,000 a year for life. Drawings are held Monday and Thursday at 10:38 p.m. in Connecticut and can be viewed at www.neluckyforlife.com.

Video Lottery

Video Lottery debuted in Rhode Island in September of 1992. There are a total of 5,637 video lottery terminals (VLTs) located in the State's two pari-mutuel facilities, Twin River and Newport Grand. As of June 30, 2014, Twin River has 4,540 VLTs and Newport Grand has 1,097VLTs.Various virtual and multi-layer display games are offered on the VLTs.

Table Games

Table gaming opened in Rhode Island in June 2013 at the Twin River Casino in Lincoln, Rhode Island. There are 80 tables available at the Twin River Casino offering traditional card and dice games.

Pull Tabs

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

Rhode Island Economic Outlook

Rhode Island's population remained approximately the same over a twelve month period at 1.05 million as of July 1, 2014. As of June 2014, the unemployment rate was7.9%;which was above the national rate of 6.1%.

Lottery Industry Economic Outlook

Despite current economic conditions, the United States Lottery Industryexperiencedgrowth in fiscal year 2014. Based on unaudited figures from the North American Association of State & Provincial Lotteries (NASPL), sales increased from $68.7 billion in fiscal year 2013 to $71.1 billion in fiscal year 2014, up3.57%.

Highlights of Fiscal Year 2014

- For fiscal year2014, $376,327,120was transferred to the State's General Fund.

- The Lottery commemorated its 40th Anniversary with a series of 40thanniversary instant tickets capped by a gala event at the Rhode Island State House on May 30, 2014 attended by the Governor, other State dignitaries, past Lottery directors, Lottery retailers, and various business associates.

- Table games at Twin River casino generated net table game revenue of $88.1 million for fiscal year 2014. The number of tables available increased to 80 offering traditional card and dice games including black jack, craps, roulette, and various card games.

- In May 2014, the lottery added a midday draw to the Numbers game in addition to the evening draw. For fiscal year 2014, the midday draw resulted in .6 million of the total Numbers game revenue of $24.1 million.

GFOA Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Rhode Island Lottery for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2013. This was theseventeenth consecutive year that the Lottery has achieved this prestigious award (1997 through 2013).In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR. This report must comply with both generally accepted accounting principles and applicable legal requirements.

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

Accounting Systems and Procedures

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

Budgetary Controls

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

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

Internal Control Environment

Management of the Lottery is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft, or misuse and to ensure that the accounting system allows for recovery of complete, accurate and timely financial information. The structure is designed to provide reasonable assurance, rather than absolute assurance, that these objectives are met.The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires estimates and judgments by management.

Since the Lottery manages a valuable ticket inventory, controls the disbursement of prizes,operates and regulates video lottery activity at the State's two pari-mutuel facilities, and operates and regulates table gaming at the Twin River Casino, the following steps are taken to ensure the operations remain honest and secure:

- Employing an Information Technology Security Manager.
- Employing specialized security staff.
- Maintaining secure Lottery facilities and limiting access to them.
- Performing background checks on retailers, vendors, and employees.
- Printing lottery tickets with special security features.
- Independent Information Technology security audits of Lottery networks.
- Implementing additional Information Technology security control requirements over each video lottery facility's system to protect the integrity of the data within the systems and the financial data used by the Lottery.
- Providing a variety of access and other controls in Information Technology systems and environments.
- 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.
- Monitoring video lottery terminals on a daily basis and reconciling to a cash management system.
- Processing daily transaction data of all retailer activity by Lottery personnel using the Lottery's internal control system programs and reconciling transactions to reports generated by the on-line system.
- Implementation of comprehensive information security objectives for the Lottery's on-line and video lottery systems as provided by its central system provider.
- Monitoring casino procedures and controls over net table game revenue.
- Assignment of table games compliance inspectors and investigators to assess potential violations of regulatory and compliance requirements and game play, and to determine grounds for turning over to law enforcement.

- Continuous monitoring of table games cash and chip management, required financial documents, and surveillance of games in play.

- Implementation of financial, operational, and compliance minimum internal control requirement standards for casino management.

The Lottery currently has 81 employees, 49 of whom are located at the headquarters in Cranston, Rhode Island. Separated from the headquarters, the drawing studio is located at the Twin River pari-mutuel facility. Additionally, 32 employees are located at the Twin River facility operating and regulating table games to ensure compliance with Rhode Island statutory requirements and Lottery rules and regulations.

Future Initiatives

The Lucky for Life® game will expand in January 2015 to include additional states. The top prize of $1,000 a day for life and the second prize of $25,000 a year for life remain the same, however a new prize structure offers more winners and larger prizes in the other prize levels.

The addition of newly authorized video lottery technology providers including Bally and Aristocrat will result in new video lottery terminals and games being tested at both the Twin River and Newport Grand video lottery terminal facilities.

The Lottery continues to enhance its website to allow for second-chance drawings. These drawings allow players to participate by logging onto the website and entering specified serial numbers from tickets that have been purchased at retailer locations.

The retailer website is in the final development stage. This retailer website will allow retailers to access financial and other information specific to their business operation, serve as a point of contact for the retailer with the Lottery, allow retailers to update their information on file with the Lottery, ask questions, submit suggestions, and allow retailers to participate in Lottery-sponsored promotions. After testing and verification of compliance with Lottery requirements by an independent testing lab, the retailer website will be ready for release.

In addition to the Lottery's on-going Play Responsibly Program and the Lottery-sponsored 24-hour Problem Gambling Helpline, the legislation that passed allowing for the implementation of Table Games in Rhode Island requires the Lottery to establish additional problem gambling programs, with annual reimbursement of expenses by Twin River and Newport Grand of no less than $100,000 in aggregate. The Lottery has contracted with a consultant to conduct a Needs Assessment Study to measure the magnitude of problem gambling in Rhode Island. The Lottery has contracted with CODAC in Rhode Island to provide treatment services for uninsured or under-insured problem gamblers. The Lottery continues to play a key role with the Rhode Island Council on Problem Gambling and maintains its relationships with other New England and National Problem Gambling Councils.

The Twin River and Newport Grand video lottery terminal facilities continue to coordinate their regular promotions with their promotional points programs. Both facilities also plan to continue providing entertainment to complement their marketing programs and generate additional revenue.Additionally, reimbursement for certain marketing expenses are paid to the facilities after specific statutory requirements are met, for those marketing expenses as authorized and allowed by the Lottery.

Independent Audit

The Rhode Island General Laws require an annual audit to be performed by the State Auditor General. The fiscal year 2014 audit of the financial statements has been completed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. The Independent Auditor's Report on the Lottery's financial statements is included in the financial section of this report.In accordance with *Government Auditing Standards*, the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, was issued by the Auditor General.

Acknowledgements

Preparation of this report was accomplished with the significant efforts of Sandra Lee, Meghan Torres, and Anissa Colson.

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

Respectfully submitted,

Gerald S. Aubin
Director

Daniel R. Sarro
Finance Administrator

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

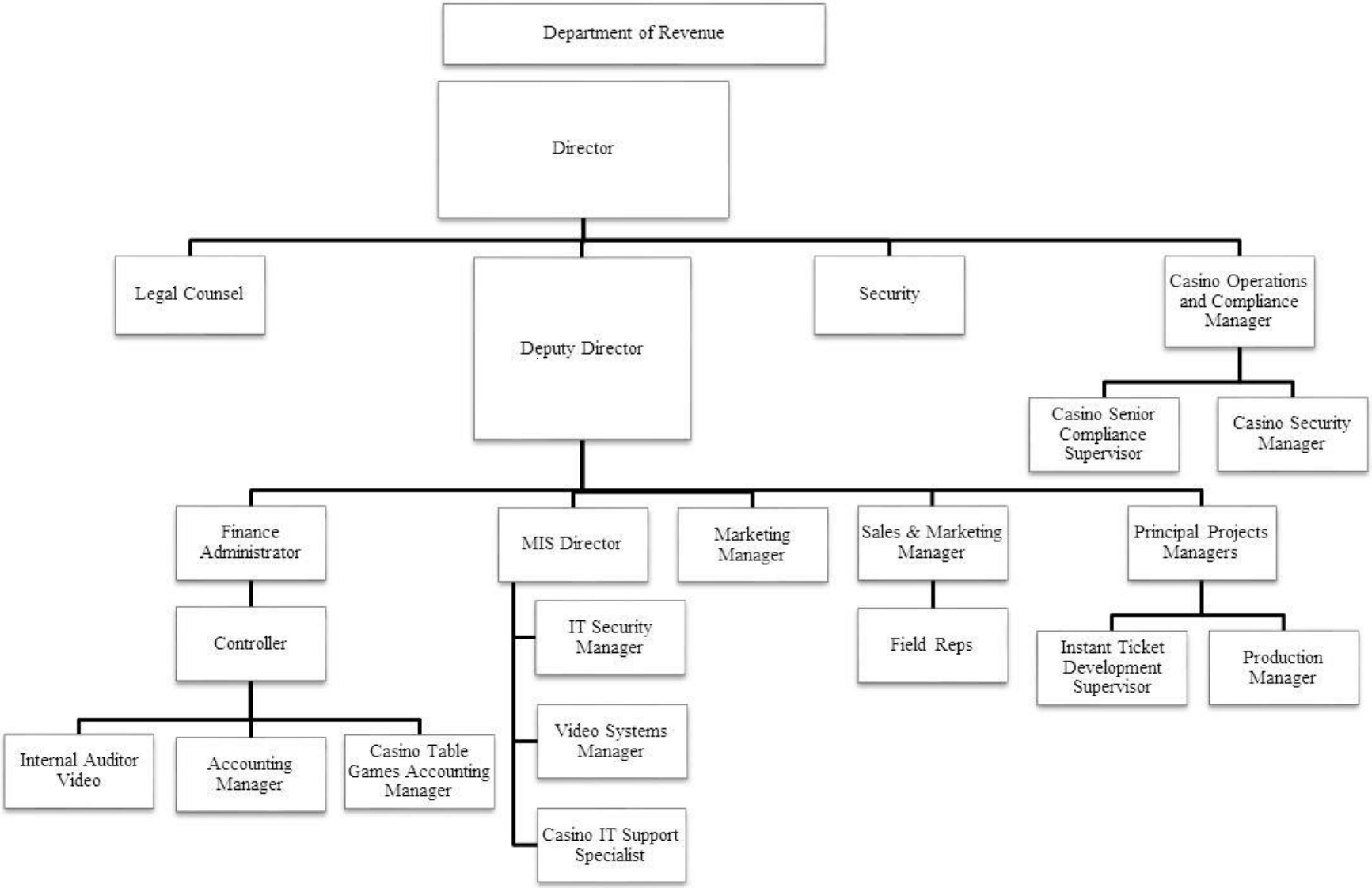
Rhode Island Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

Rhode Island Lottery
Organizational Chart
June 30, 2014



PRINCIPAL OFFICIALS

GERALD S. AUBIN
DIRECTOR

MARGARET D. ROSE
DEPUTY DIRECTOR

DANIEL R. SARRO
FINANCE ADMINISTRATOR

SANDRA M. LEE
CONTROLLER

JOSEPH R. SANTURRI
DIRECTOR OF MANAGEMENT INFORMATION SYSTEMS

KEITH J. TUCKER
CASINO OPERATIONS AND COMPLIANCE MANAGER

DONALD J. CATALDI
SALES AND MARKETING MANAGER

MELISSA JUHNOWSKI
MARKETING MANAGER

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Financial Section

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Rhode Island Lottery (Lottery), an enterprise fund of the State of Rhode Island and Providence Plantations, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lottery as of June 30, 2014, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As more fully described in Note 13(c), the Lottery's gaming operations could be adversely impacted by enacted legislation in the Commonwealth of Massachusetts allowing three casinos and one slot parlor in that State.

As discussed in Note 9, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* is effective for fiscal 2015 and will require the Lottery to restate beginning net position at July 1, 2014 to recognize its proportionate share of the net pension liability determined for the State Employees' Retirement Plan.

As discussed in Note 2(b), the financial statements present only the Lottery enterprise fund and do not purport to, and do not, present fairly the financial position of the State of Rhode Island and Providence Plantations, as of June 30, 2014, the changes in financial position, or, where applicable, cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 19 through 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Lottery's basic financial statements. The supplementary information included in Schedule 1 and the introductory and statistical sections is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Schedule 1 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedule 1 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2014 on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal control over financial reporting and compliance.

Dennis E. Hoyle, CPA
Auditor General

October 6, 2014

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

Management of the Lottery provides this *Management's Discussion and Analysis* of their financial performance for the readers of the Lottery's financial statements. This narrative provides an overview of the Lottery's financial activity for the fiscal year ended June 30, 2014. This analysis is to be considered in conjunction with the financial statements to provide an objective analysis of the Lottery's financial activities based on facts, decisions, and conditions currently facing management.

Understanding the Lottery's Financial Statements

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

The most important relationship demonstrated within the Lottery's financial statements is the requirement that the Lottery transfer all net income to the State's General Fund. Accordingly, the primary focus of these financial statements is determining net income available for payment to the State's General Fund rather than the change in net position of the Lottery. It is also important to note that most financial statement balances have a direct relationship to revenue. Generally, as lottery revenues increase for a particular game, the related amount paid to the State's General Fund also increases. Similarly, increases in revenue for a particular lottery game result in direct increases to the related prize awards and commissions expense.

Most assets included on the Statement of Net Position represent current amounts such as cash and accounts receivable from Lottery retailers. Most liabilities represent current prize awards owed, vendor commission payments, and amounts due to the State's General Fund. Current assets approximate the amounts required to satisfy current liabilities at year-end.

The deficit in net positionof $5.6million reported at June 30, 2014relates entirely to the Lottery's sale of its exclusive rights to operate its gaming systems. The Lottery sold this exclusive right to its current gaming systems provider for a 20-year period at a cost of $12.5 million and immediately paid the proceeds to the State's General Fund. According to the terms of the agreement, if for any reason, this contract is voided prior to its completed term; the Lottery will be required to refund a pro-rata share of the sales price to the gaming system provider. In accordance with generally accepted accounting principles, the Lottery will recognize the revenue related to this transaction over the 20 year life of the contract.

Financial Highlights

- Due largely to two higher jackpots of $636.0 million in December2013 and $400.0 million in March2014, Mega Millions sales increased by $4.7 million or 59.16% in fiscal 2014.

- Due largely to two higher jackpots of $378,129 in August 2013 and $270,794 in November 2013, Wild Money sales increased $942,024 or 26.29% in fiscal year 2014.

- In fiscal year 2014, the first full year of table games operations at Twin River, net table games revenue was $88.1 million and resulted in net income of $11.7 million from operations after the payment of related commissions and operating expenses.

Assets and Liabilities

	June 30, 2014	June 30, 2013
Assets:		
Current assets		
Cash and cash equivalents	$ 18,563,846	$ 18,914,619
Accounts receivable, net	6,543,195	7,325,858
Other	741,075	740,426
Total current assets	25,848,116	26,980,903
Long-term assets		
Capital assets, net	460,135	402,288
Total assets	26,308,251	27,383,191
Liabilities:		
Current liabilities		
Due to State's General Fund - net income from operations	$ 270,580	$ 847,359
Due to State's General Fund - operating expenses	270,308	353,432
Accounts payable	12,520,990	13,941,559
Prize obligations	7,907,347	7,178,210
Compensated absences	208,938	166,774
Other liabilities	5,467,729	5,297,629
Total current liabilities	26,645,892	27,784,963
Long-term liabilities		
Compensated absences	287,359	223,228
Unearned contract revenue	5,000,000	5,625,000
Total long-term liabilities	5,287,359	5,848,228
Total liabilities	31,933,251	33,633,191
Net Position:		
Net investment in capital assets	460,135	402,288
Unrestricted	(6,085,135)	(6,652,288)
Total net position (deficit)	$ (5,625,000)	$ (6,250,000)

The majority of the Lottery's assets consist of cash (including amounts invested in cash equivalent type instruments) and accounts receivable derived from sales of the Lottery's games. At June 30, 2014, the Lottery's assets included $18.6million in cash and cash equivalents as compared with $18.9 million at June 30, 2013. The Lottery's accounts receivable approximated $6.5and $7.3 million, respectively, at June 30, 2014 and 2013.

The Lottery's liabilities included at the balance sheet date are amounts owed for vendor payables, prize obligations and a residual amount owed to the State's General Fund for June net operations and operating expenses. The amount owed to the General Fund for June net operations approximated $0.3million atJune 30, 2014and $0.8 million at June 30, 2013. At June 30, 2014, vendor payables, made up largely of commissions due to video lottery participants, and prize obligations, attributable mostly to instant ticket games were $12.5 million and $7.9 million, respectively. In comparison, vendor payables and prize obligations at June 30, 2013 were $13.9million and $7.2 million, respectively.

The majority of the Lottery's assets represent current resources necessary to pay the current liabilities owed to vendors, prize winners, video lottery participants, and ultimately the State's General Fund.

The deficit in net position reported at June 30, 2014, as previously explained, relates to the Lottery's immediate transfer, in a prior fiscal year, to the State's General Fund, of all proceeds received from the sale of its exclusive rights over the operation of its gaming systems.

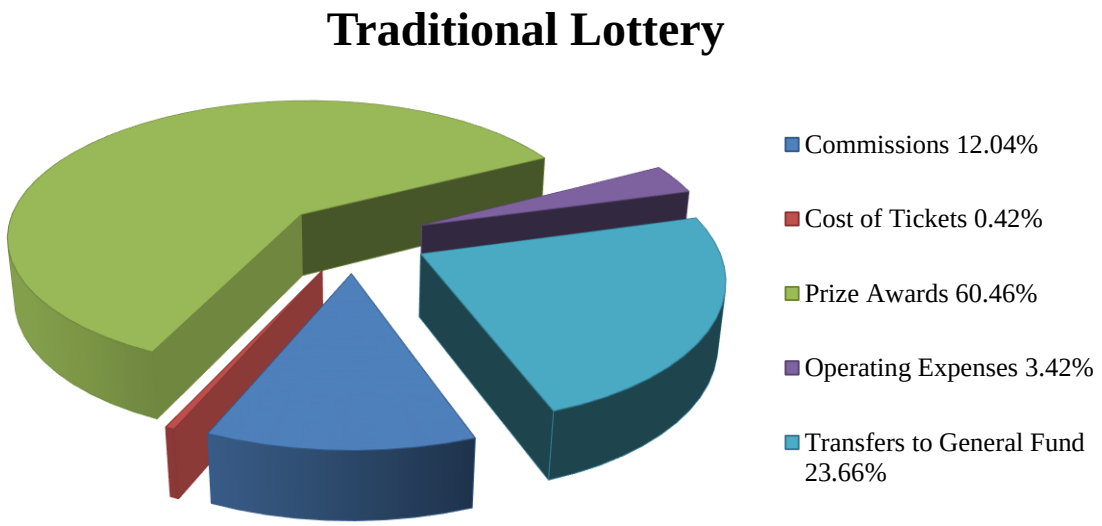
Lottery Operations

	June 30, 2014	June 30, 2013
Revenue:		
On-line games	$ 158,810,169	$ 168,360,807
Instant games	83,975,581	85,003,754
Video lottery, Net	507,056,712	520,747,106
Table games	88,108,367	1,881,238
Other income	1,131,429	1,209,985
Total revenue	839,082,258	777,202,890
Expenses:		
Cost of gaming operations	(451,679,526)	(390,103,599)
Operating expenses	(10,473,985)	(7,521,824)
Total expenses	(462,153,511)	(397,625,423)
Income before transfers	376,928,747	379,577,467
Transfers to State's General Fund	(376,327,120)	(379,224,717)
Transfers from RI Capital Plan Fund	23,373	272,250
Increase in net position	625,000	625,000
Total net position (deficit), beginning of year	(6,250,000)	(6,875,000)
Total net position (deficit), end of year	$ (5,625,000)	$ (6,250,000)

Revenue

Traditional Lottery

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



- On-line games offered were PowerBall®, Mega Millions®, Keno, Bingo, Daily Numbers, Wild Money and Lucky for Life® at June 30, 2014. In total, on-line revenue decreased by $9.6 million. Significant changes in on-line game revenue from the prior year included:

    - The Raffle game which generated $2.3 million in revenue for fiscal year 2013 was not offered in fiscal year 2014.

    - Revenue from Powerball®decreased $9.5 million for fiscal 2014 over the prior year in large part from higher rolling jackpots in the prior year.

    - Revenue from Mega Millions®increased $4.7 million for fiscal 2014 over the prior year mostly due to two large jackpots including a record $636 million previously discussed.

    - Revenue from Lucky for Life® sales decreased $2.0 million from the prior year.

- Instant ticket revenue for the fiscal year ended June 30, 2014decreased slightlyfrom the preceding fiscal year.

The following graph depicts the Lottery's on-line sales for the fiscal years ended June 30, 2014 and 2013.

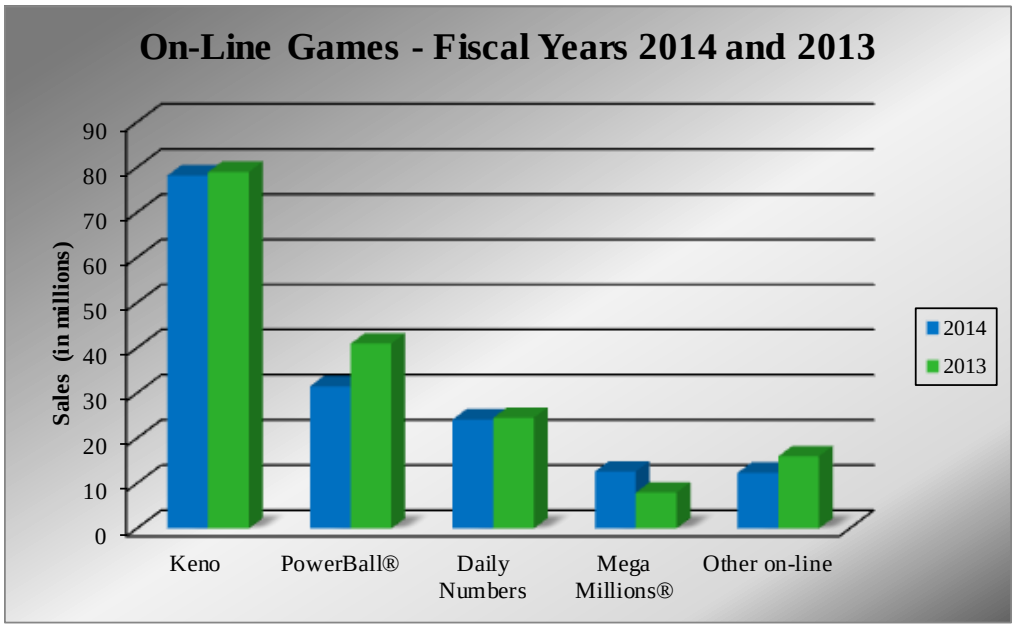
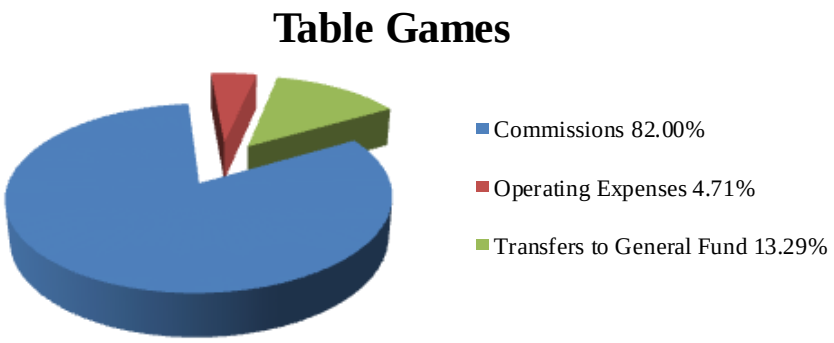


Table Games

- Table games were introduced at Twin River in Lincoln, Rhode Island in mid-June 2013. For the fiscal year ending June 30, 2014, net table game revenue was $88.1 million. During the fiscal year ending June 30, 2014, the number of available gaming tables went from 66 to 80.

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

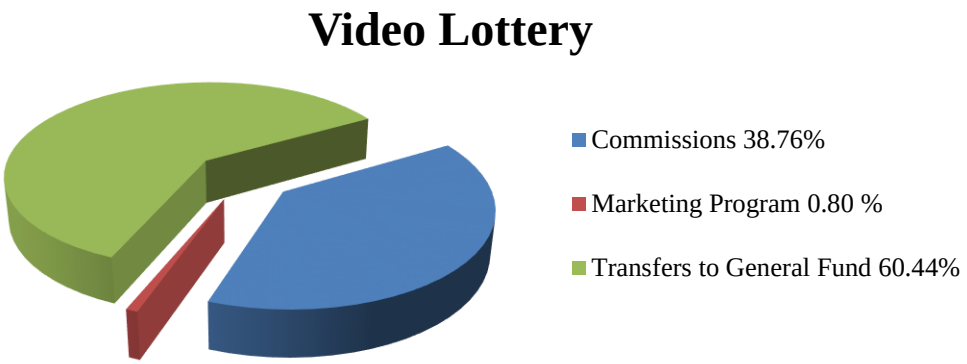


Video Lottery

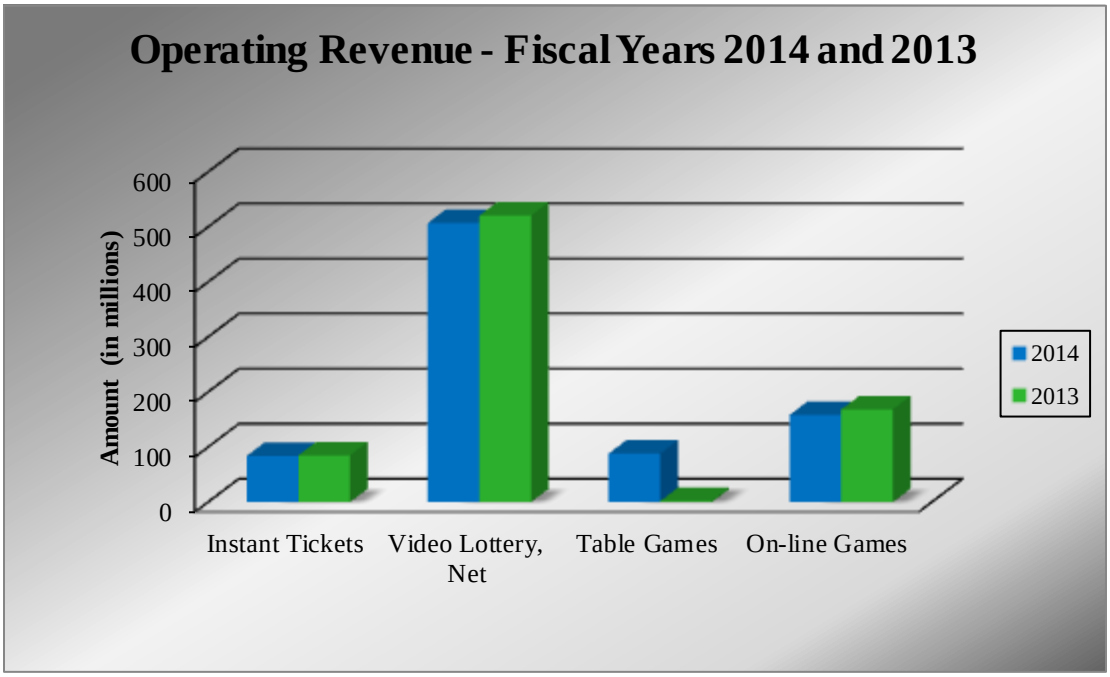
- Video lottery net revenue decreased $13.7 million or 2.6% over the prior fiscal year. During fiscal year 2014, video terminal inputs (cash and credits transferred) decreased by $164 million; and, patrons cashed out (terminal outputs) $150 million less as compared to the prior year.

  Video lottery net terminal income at both Twin River and Newport Grand trended down for fiscal 2014. Net terminal income at Twin River totaled $462.4 million, a 2.2% decrease compared to fiscal 2013. Net terminal income at Newport Grand totaled $44.7 million, a 7.2% decrease compared to fiscal 2013. Total terminal inputs (cash and credits played) decreased by $164.1 million in fiscal 2014 as compared to fiscal 2013 while a related reduction in terminal outputs of $150.3 million was noted between the fiscal years. The payout percentage (terminal outputs / terminal inputs) was comparable between the years and did not significantly impact net terminal income derived from operations between the years. While it is difficult to attribute the decrease in video lottery net terminal income to one specific reason, the decreases experienced at both facilities is consistent with those experienced in the regional market as a whole.

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

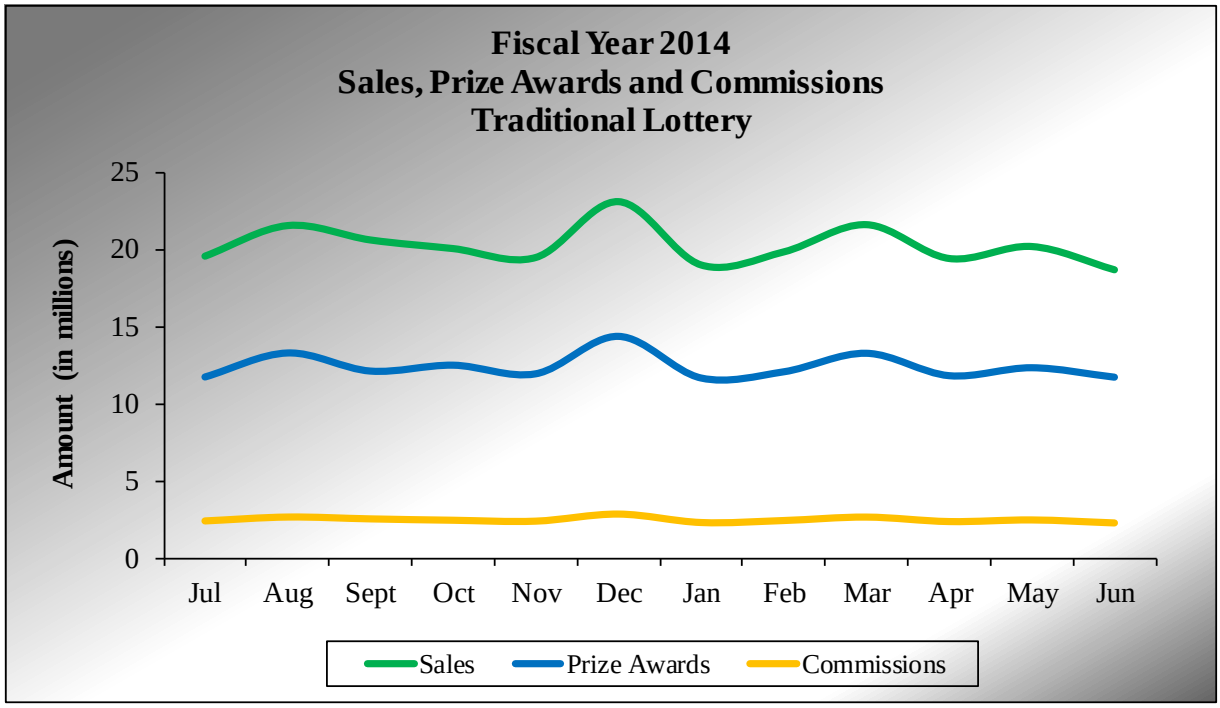


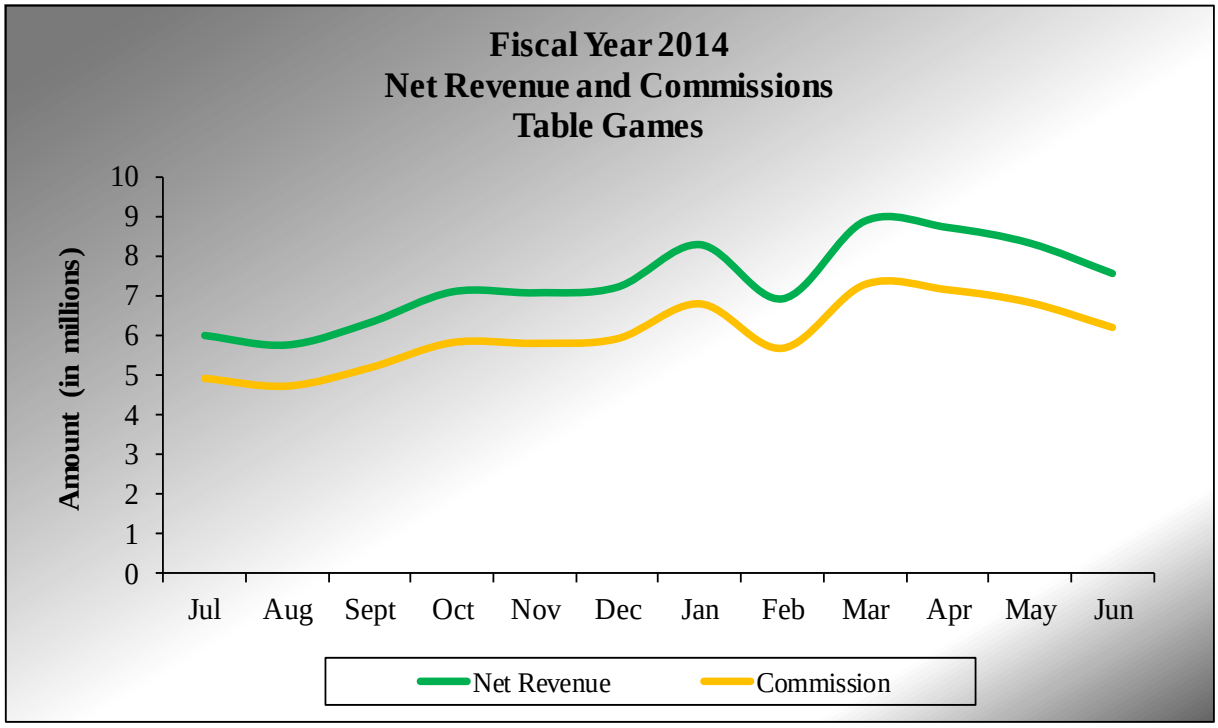
The following graphdepicts the Lottery's on-line, instant, table games, and video lottery operating revenue for the fiscal year ended June 30, 2014in comparison to fiscal year ended June 30, 2013.

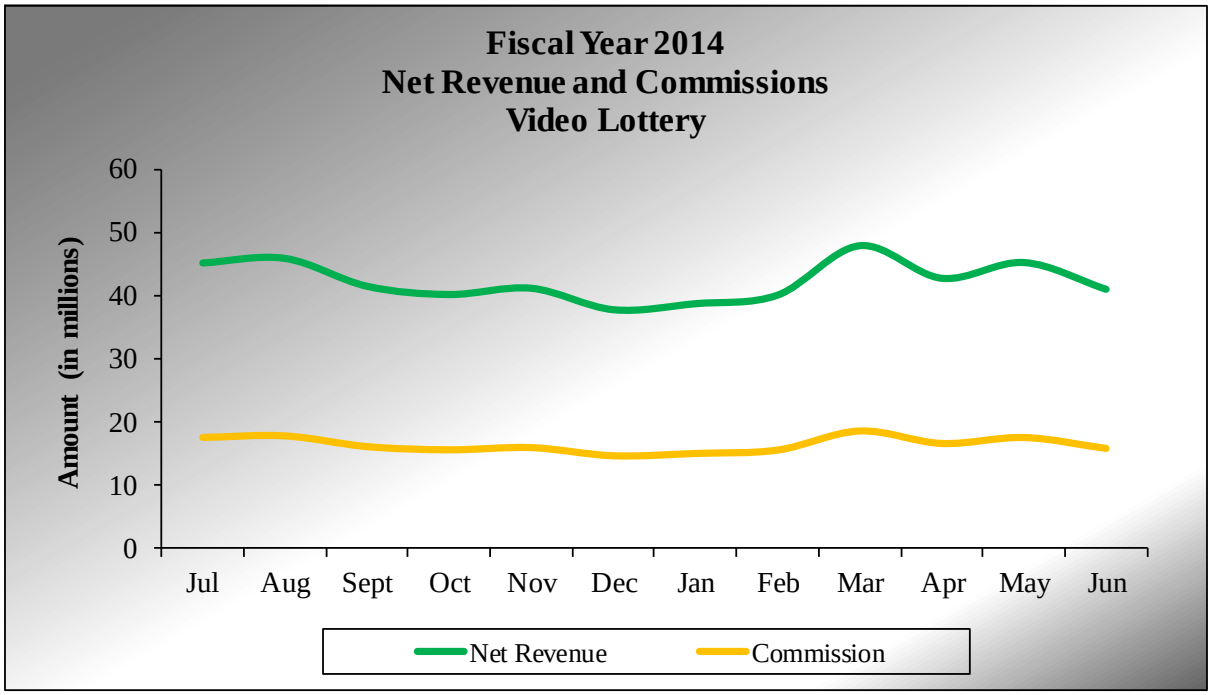


Commissions and Prize Awards Expense

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

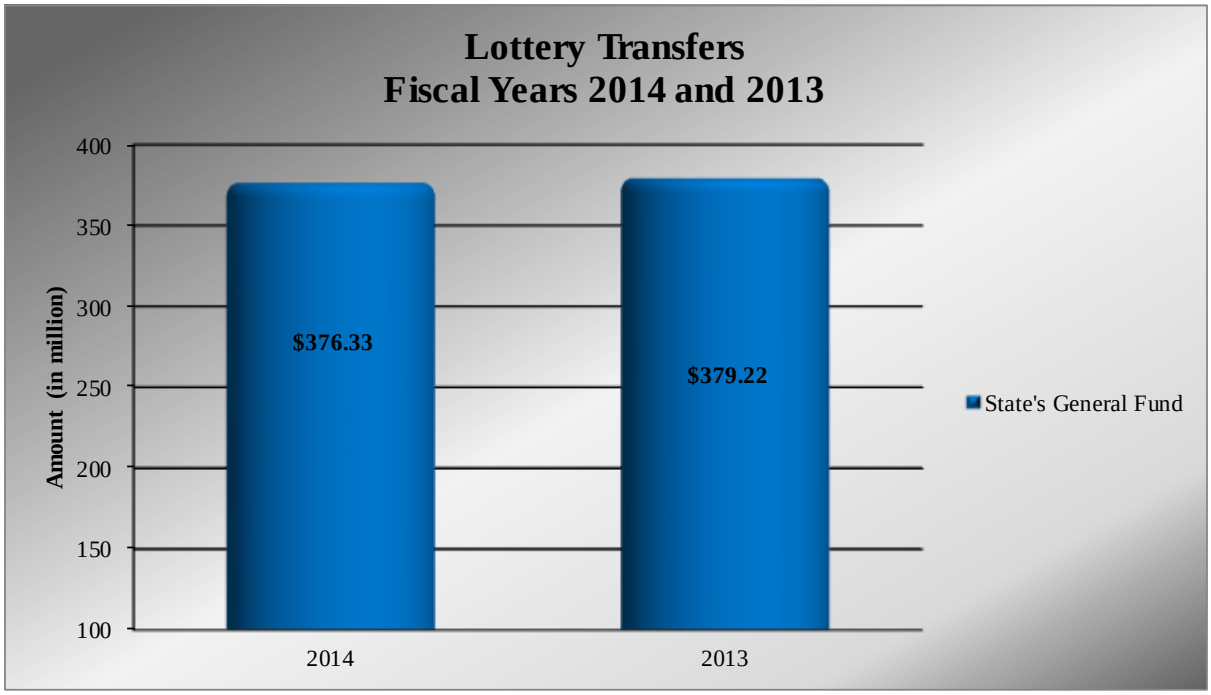

Fiscal Year 2014
Sales, Prize Awards and Commissions
Traditional Lottery
Amount (in millions)
25
20
15
10
5
0
Jul
Aug
Sept
Oct
Nov
Dec
Jan
Feb
Mar
Apr
May
Jun
Sales
Prize Awards
Commissions


Fiscal Year 2014
Net Revenue and Commissions
Table Games
Amount (in millions)
10
9
8
7
6
5
4
3
2
1
0
Jul
Aug
Sept
Oct
Nov
Dec
Jan
Feb
Mar
Apr
May
Jun
Net Revenue
Commission



Lottery Transfers

Net income transferred by the Lottery for the fiscal years ended June 30, 2014and June 30, 2013 was $376.3million and$379.2 million, respectively. All fiscal 2014 transfers were made by the Lottery directly to the State's General Fund, as required by the General Laws.



Debt Administration

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

As of September 2013, the Lucky for Life® regional game offers top and second prize winners an annuity or cash option payment. If selected by the winner, the Lucky for Life® regional game requires each selling lottery to purchase an insurance annuity to fully fund the top and second prizes won in that state. All participating lotteries share in the cost of the insurance annuity or cash option, however, the selling lottery is responsible for settling the top and second prize liabilities. Annuities shall be purchased in accordance with the applicable laws of the state purchasing the annuity. Qualified insurance companies must meet the minimum rating requirements established by each participating state. Rhode Island has not had a top prize winner to date but plans to purchase its annuities for any future top prize winners through MUSL with an insurance company with an AM Best rating of A or better. Rhode Island has purchased its second prize winners' annuities through MUSL in accordance with insurance company rating requirements.

Capital Assets

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

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

Potential Factors Impacting Future Operations

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

- Master video lottery contracts and amendments thereto with its video lottery facilities, Twin River and Newport Grand include provisions for the continued operation of promotional play programs where the facilities reward patrons with free video terminal play up to an amount authorized by the Lottery. These agreements also require the Lottery to reimburse the facilities for its net terminal income share of certain qualified marketing and promotional expenses. These agreements provide significant incentives for the facilities to continue to invest appropriately in the promotion of their facilities and the Lottery's video and table games activities. See Note 12 to the financial statements for details regarding these agreements.

- The Lottery's gamingoperations currently compete with casinos in nearby Connecticut. In addition, Massachusetts's law makers passed legislation allowing three resort-style casinos and one slot parlor in the State. Massachusetts has divided the State into three regions and accepted license applications for each. The regions include Eastern Massachusetts (region A), Western Massachusetts (region B), and Southeastern Massachusetts (region C) as category 1 resort-style casino licenses. The Western Massachusetts (region B) category 1 license was awarded in June 2014 and the Eastern Massachusetts (region A- Greater Boston) category 1 license was awarded in September 2014. The category l license award in the Southeastern Massachusetts (region C) is anticipated to be awarded in August 2015. Additionally, a category 2 slots only license was awarded in February 2014.In November 2014, Massachusetts voters will consider a statewide ballot referendum to reverse the prior approval of casino gaming. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.

- The General Laws delineating the allocation of net table game revenue between Twin River Casino and the State included modification of the commission percentage for Twin River Casino and the Town of Lincoln subsequent to the first full year video lottery net terminal income decreases after the implementation of table games. For the fiscal year ending June 30, 2014, net terminal income at Twin River decreased from the prior year. This results in the State's share of fiscal year 2015 net table game revenue decreasing by 2% to 16%, and an additional 1% going to Twin River and an additional 1% going to the Town of Lincoln. The additional 1% to the Town of Lincoln is payable through June 30, 2018 when this 1% will be paid to Twin River.

- In fiscal year 2014, Newport Grand entered into a purchase and sale agreement of its state-licensed video lottery facility. Recent legislation authorizes a statewide and local majority on the November 2014 ballot to authorize casino gaming including table games upon passage. The sale is contingent on the passage of casino gaming in Newport Rhode Island and subject to regulatory approval.

Contacting the Lottery's Financial Management

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

RHODE ISLAND LOTTERY

Statement of Net Position

June 30, 2014

Assets

Current assets:		
Cash and cash equivalents (note 3)	$	18,563,846
Accounts receivable-less allowance for doubtful accounts of $100,363		6,543,195
Deposits with Multi-State Lottery Association (MUSL) (note 1)		42,042
Prepaid Expense		3,375
Ticket inventory		695,658
Total current assets		25,848,116
Capital assets, net (note 4)		460,135
Total assets		26,308,251

Liabilities

Current liabilities:		
Due to State's General Fund - net income from operations (note 5)	$	270,580
Due to State's General Fund - operating expenses (note 5)		270,308
Accounts payable		12,520,990
Obligation for unpaid prize awards		7,907,347
Accrued expenses		4,484,411
Compensated absences (note 7)		208,938
Advances for future drawings		221,162
Unearned contract revenue (note 8)		625,000
Other current liabilities		137,156
Total current liabilities		26,645,892
Long-term liabilities:		
Compensated absences (note 7)		287,359
Unearned contract revenue (note 8)		5,000,000
Total long-term liabilities		5,287,359
Total liabilities		31,933,251

Net Position

Net position, net investment in capital assets (note 8)		460,135
Unrestricted (deficit) (note 8)		(6,085,135)
Total net position (deficit)	$	(5,625,000)

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Statement of Revenue, Expenses and Changes in Net Position

Year Ended June 30, 2014

Operating Revenue (schedule 1):		
On-line games	$	158,810,169
Instant games		83,975,581
Video lottery (note 2)		507,056,712
Table games (note 2)		88,108,367
Total revenue		837,950,829
Cost of gaming operations (schedule 1):		
Commissions (note 6)		298,517,746
Prize awards, online and instant games		148,570,701
Incentive programs, video lottery		4,070,183
Advertising		2,089,016
Unclaimed prize recovery		(2,611,675)
Cost of tickets		1,043,555
Total cost of gaming operations		451,679,526
Gross profit		386,271,303
Operating expenses:		
Personal services		9,438,106
Contract services		56,822
Depreciation and amortization		114,087
Other		864,970
Total operating expenses		10,473,985
Operating income		375,797,318
Non-operating income (expenses):		
Investment income		108,350
Other income (expenses)		1,023,079
Income before transfers		376,928,747
Transfers to State's General Fund (note 5)		(376,327,120)
Transfers from RI Capital Plan Fund		23,373
Increase in net position		625,000
Total net position (deficit), beginning of year		(6,250,000)
Total net position (deficit), end of year (note 8)	$	(5,625,000)

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Statement of Cash Flows

Year Ended June 30, 2014

Cash flows from operating activities:	
Receipts from lottery sales, online and instant games	$ 243,577,754
Receipts from video lottery operations	507,056,712
Receipts from table games	88,108,367
Receipts from MUSL for grand prize winners	2,333,000
Receipts from MUSL for Lucky for Life® top prize winners	711,604
Receipts for problem gambling program	100,000
Receipts from sale of other tickets	67,069
Other receipts	347,042
Payments for on-line and instant ticket prizes	(145,938,994)
Payments to MUSL grand prize winners	(2,333,000)
Payments for commissions - retailers	(8,932,729)
Payments for commissions - video lottery	(196,559,997)
Payments for commissions - table games	(73,602,436)
Payments to facilities - video lottery incentive program	(4,079,733)
Payments for commissions - on-line games contractor	(20,642,722)
Payments to suppliers for goods and services	(4,286,788)
Payments to employees for services	(9,331,812)
Net cash provided by operating activities	376,593,337
Cash flows from noncapital financing activities:	
Transfers to State's General Fund	(376,903,899)
Transfers from RI Capital Plan Fund	23,373
Net cash used for noncapital financing activities	(376,880,526)
Cash flows from capital and related financing activities:	
Purchase of capital assets	(171,934)
Net cash used for capital and related financing activities	(171,934)
Cash flows from investing activities:	
Interest income	108,350
Net cash provided by investing activities	108,350
Net decrease in cash and cash equivalents	(350,773)
Cash and cash equivalents at July 1, 2013	18,914,619
Cash and cash equivalents at June 30, 2014	$ 18,563,846

See accompanying notes to financial statements.

Continued.

RHODE ISLAND LOTTERY

Statements of Cash Flows (Continued)

Year Ended June 30, 2014

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 375,797,318
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation and amortization	114,087
Miscellaneous receipts classified as operating activities	50,822
Rental income and other receipts	347,256
(Increase) decrease in assets:	
Accounts receivable	782,663
Deposits with MUSL	(214)
Prepaid expense	(3,375)
Inventory	2,939
Increase (decrease) in liabilities:	
Due to State's General Fund - operating expenses	(83,124)
Accounts payable	(1,420,567)
Obligation for unpaid prize awards	729,137
Accrued expenses and other	273,172
Advances for future drawings	3,223
Total adjustments	796,019
Net cash provided by operating activities	$ 376,593,337

See accompanying notes to financial statements.

(1) *Organization*

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

The Lottery offers the following games to the public:

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

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

ii) Multi-state games, which include Powerball® and Mega Millions®, which are operated in accordance with rules and agreements established by the Multi-State Lottery Association (MUSL). These games offer jackpot prize awards to patrons in participating states. Specific details regarding the operations of these games are as follows:

(a) *PowerBall®*

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

The prize pool for PowerBall® is 50% of each drawing period's ticket sales. MUSL may place up to 5% of each drawing period's ticket sales for PowerBall®, included as part of each member's prize liability, in prize reserve funds. The prize reserve deduction begins at 2% when an annuity jackpot exceeds $120 million and 4% when an annuity jackpot exceeds $250 million. The maximum balance on the prize reserve funds for PowerBall®is $80 million. Once the prize reserve funds exceed this designated cap, the excess becomes part of the prize pool. The prize reserve funds serve as a contingency reserve to protect MUSL from unforeseen prize liabilities, and these reserve funds are to be used at the discretion of the MUSL Board of Directors. The prize reserve funds are refundable to MUSL members if the MUSL disbands or if a member leaves MUSL. Members leaving MUSL must wait one year before receiving their remaining share, if any, of prize reserve funds.

(1) *Organization* - (Continued)

At June 30, 2014, the prize reserve funds for the PowerBall® game reported a balance of $76.3 million of which the Lottery's share was $1.0 million. The Lottery has charged amounts placed into the prize reserve funds to prize awards expense as the related sales have occurred.

All investment earnings relating to the prize reserve funds are credited to an unreserved account for each member state. This account can be utilized to offset operating costs or for the promotion of any MUSL game as approved by the MUSL Board of Directors. The Lottery has recorded all income andoperating expenses related to its unreserved account and has reported the balance of $42,042at June 30, 2014 on the Statement of Net Position in "Deposits with MUSL".

(b) *Mega Millions®*

MUSL participates as a member (or party) lottery of the Mega Millions® Product Group (a group of lotteries participating under an agreement between the Mega Millions® lotteries and MUSL to offer the Mega Millions® game within their State jurisdictions). The Rhode Island Lottery participates as a member of MUSL, in the sale of tickets, payment of prizes, and associated activities related to the Mega Millions® lottery game. As such, the Lottery sells Mega Millions® tickets, collects all revenues, and remits prize funds to MUSL net of low-tier prizes. Jackpot prizes are payable either in a lump-sum cash distribution or annual installments. Annual installments are satisfied through investments purchased by MUSL. MUSL purchases U.S. government obligations, which are held in irrevocable trusts established by MUSL for the benefit of participating lotteries. Accordingly, the Lottery does not record an obligation for jackpot awards which are payable in installments from funds provided by MUSL.

iii) Lucky for Life®, a regional game operates under an agreement between the six New England states ("Party Lotteries") to offer a game with a top prize of $1,000 per day for life. A new second tier prize offer of $25,000 a year for life was introduced in 2014. The Lottery sells Lucky for Life® tickets, collects all revenues, and pays prizes based on its share of total sales, as a party lottery operating the regional game. The party lotteries have entered into an agreement with MUSL to administer certain aspects of the game. MUSL communicates and collects the share of prize amounts owed by each party lottery. The top prize and second prize is paid in accordance with official game rules and is shared based on each state's percentage of sales in proportion to the total top prize liability. Total low-tier prizes are shared based on a percentage of sales in proportion to the total low-tier prize liability.

(1) *Organization* - (Continued)

Top Prize Settlement

All top prizes are funded through the purchase of insurance annuities with an alternative cash option which was added in September 2013. For the annuity option top prizes are based on a $365,000 deferred annuity paid annually based on the winner's natural life with a minimum payment period of 20 years. If there is more than one top prize winner, up to 14 winners, the annuitized prize will be split equally, including the number of top prize winners exercising the cash option, with a minimum value of $500 per week to each winner exercising the annuity option.

For top prizes claimed in Rhode Island, the Lottery will utilize MUSL to purchase insurance annuities to satisfy the prize liability. The Lottery has adopted the following minimum qualification requirements for insurance companies providing insurance annuities for top prize winners:

- An AM Best rating of A or better;
- At least $100 million in capital and surplus;
- At least $1 billion in assets per the balance sheet of the company's most recently audited financial statements prepared by an independent certified public accountant; and
- A National Association of Insurance Commissioners' (NAIC) risk based capital (RBC) ration of 200% or greater.

In the event of default on an insurance annuity for a Rhode Island winner, the Lottery may be contingently liable for any remaining prize amounts due the winner.

As an alternative to the annuitized payment option, the top prize winner may request the top prize cash option payment of $5,750,000. If there is more than one top prize winner, the top prize cash option will be divided by the total number of prize winners, including top prize winners selecting the annuitized payment option.

If more than 14 top prize winners, the top prize liability will be split equally among all top prize winners and paid in one lump sum cash payment, without an annuitized option.

SecondTier Prize Settlement

For up to 20 second prize winners, including those who exercise the cash option, the annuity payment option will be $25,000 per year for life to each second prize winners exercising the annuity option. For up to 20 second prize winners, including those who exercise the annuity option, the cash option will be $390,000 to each second prize winner exercising the cash option.

(1) *Organization* - (Continued)

If more than 20 second prize winners, the second prize liability is capped and will be split equally among all second prize winners and paid in one lump sum cash payment, without an annuitized option.

All low-tier prizes (all levels except the top prize and second prizes) are paid in one lump sum cash payment through the Selling Lottery. There is a reconciliation by the Game Administrator for both low-tier and unclaimed expired prizes (prize levels 2-10) when a party lottery varies from its projected prize liabilities and its unclaimed expired prizes.

(B) Instant (or scratch) ticket offerings sold through licensed lottery retailersinclude a wide array of themed games where patrons must match two or three of a kind, get like symbols or wild features, or meet other game requirements to win the prize shown.

(C) Video lottery games are operated through 5,637 video lottery terminals (VLTs) at two licensed facilities, Twin River and Newport Grand. Video lottery offers various virtual and multi-layer display games, hosting a wide array of card and theme games to the public.

Chapter 42-61.2 of the General Laws authorizes the Division of Lotteries to conduct and control video lottery games. This chapter stipulates the allocation of video lottery net terminal income (video lottery credits purchased less credits redeemed or redeemable). Consistent with the General Laws, net terminal income is distributed to licensed video lottery facility operators, the technology providers (video lottery terminal providers), the central communications system provider, the city or town in which the video facility is licensed and the Narragansett Indian Tribe. All residual net terminal income after mandated commission payments, other transfers, and reimbursable marketing expenses is remitted to the State's General Fund.

(D) Table games areoperated at the Twin River Casino in Lincoln, Rhode Island. Chapter 42-61.2 of the General Laws authorizes the State to operate casino gaming, and the Lottery Division to promulgate rules and regulations and set policy for table gaming. This chapter stipulates the allocation of net table game revenue. Consistent with the General Laws, net table game revenue derived from Twin River is deposited in the State Lottery Fund for administrative purposes with commissions distributed to Twin River (82% of net table game revenue for fiscal year 2014), and the balance being remitted to the General Fund. Consistent with the general laws, subsequent to the first full State fiscal year that video net terminal income is less than the prior year, the commissions distributed to Twin River Casino are 83% and to the Town of Lincoln, RI are 1% through June 30, 2018, at which point the commission to Twin River Casino is 84%.

Prize payout percentages and amounts required to be paid to the State's General Fund as stipulated in the General Laws are summarized below for the various games operated by the Lottery.

(1) *Organization* - (Continued)

Game	Prize Payout	Mandated Payments to the State
Daily Numbers Instant Ticket Games PowerBall® Mega Millions® Wild Money Lucky for Life® Bingo	Not less than 45% or more than 65% of sales	Payments to the General Fund –net of prizes, commissions, administrative and operating expenses.
Keno	Not less than 45% or more than 72% of sales	Payments to the General Fund –net of prizes, commissions, administrative and operating expenses.
Video Lottery	Prize payout not established by law	Payments to the General Fund - net terminal income (video lottery credits purchased less credits redeemed or redeemable, including prize contributions to multi-state video lottery progressive jackpots) minus commission payments and incentive program reimbursements.
Table Games	Prize payout not established by law	Payments to the General Fund - net table game revenue minus commission payments and table game administrative and operating expenses.

(2) *Summary of Significant Accounting Policies*

(a) *Basis of Accounting*

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

The Lottery has considered the impact and requirements of newly effective GASB Statements in the preparation of these financial statements. Specifically, the application of GASB Statement No. 65 –*Items Previously Reported as Assets and Liabilities* resulted in no amounts that were required to be reported as deferred inflows or outflows of resources for fiscal 2014.

(b) *Reporting Entity*

The Lottery, a division of the Department of Revenueof the State of Rhode Island and Providence Plantations (State), isaccounted for as an enterprise fund for financial reporting purposes.

Accordingly, its annual financial statements are included in the State's Comprehensive Annual Financial Report (CAFR). The accompanying financial statements are not intended to present the financial position and results of operations of the State.

(c) *Revenues and Expenses*

The Lottery defines all revenues and expenses deriving from on-line, instant ticket, video lottery, and table games as operating. The Lottery accrues for the maximum prizes payable. Prize obligations, other than those relating to prizes payable in installments, that remain unclaimed one year after the drawing date are reported as a reduction to cost of sales.

Revenue from the sale of lottery tickets, video lottery, and table games and expenses for prizes and commissions are recognized as follows:

1. On-line lottery games with specific drawing dates - when the related drawings are held. For the Mega Millions® and Powerball® games, prize awards expense is recorded equal to the required contributions to the jackpot pool and low-tier prizes won. For the Lucky for Life® game, prize awards expense is recorded equal to the estimated cost of actual prizes won. Prize awards expense is subsequently adjusted based on the Lottery's share of purchased annuities for the top prize and a settlement for actual low tier prizes won in all participating states.

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

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 - are reported on a net basis. Gross revenue is recognized when game credits are purchased via cash or credit redemption at the terminal (gross terminal inputs). Related prizes are recognized when game credits are issued by a video lottery terminal making them redeemable as credits in another video terminal or for cash by a patron (gross terminal outputs).

   The gross video lottery terminal inputs and outputs for fiscal 2014 and reported video lottery net revenue are detailed in the following schedule:

Schedule of Video Lottery Net Revenue
For the Fiscal Year Ended June 30, 2014

Video Terminal Cash-In (Gross Terminal Inputs):	
Cash collected from video lottery terminals	$ 1,470,158,673
Plus: Credit vouchers redeemed for play in video lottery terminals	1,811,079,883
Total cash in reported by video lottery terminals	3,281,238,556
Less:	
Video Terminal Cash-out (Gross Terminal Outputs):	
Video lottery credit vouchers issued by video lottery terminals	2,773,955,394
Plus: Contributions to progressive video jackpots from patron play	226,450
Total cash-out amounts reported by video lottery terminals	2,774,181,844
Video lottery revenue, net	$ 507,056,712

4. Table games are reported on a net table game (win) basis from the Twin River facility. Net table game revenue, calculated daily at each table, is cash in the drop box, plus front money (patron funds left on deposit with the facility that are drawn for chips at a table), less fills, plus credits, less beginningchip inventory, and plus ending chip inventory.

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

The State, through the Division of State Lottery, has operational control and regulating authority to collect casino gaming gross receipts, allocate receipts according to statute, define and limit the rules of play and odds of authorized games including minimum and maximum wagers and payouts for each game. Amounts required by statute to be paid to Twin River are reported as commissions. The statute further stipulates that the Division of State Lottery establish rules and regulations and set policy for table games. These policies, and regulations (promulgated in accordance with the Lottery's established minimum control standards and federal and State statute) stipulate that the table games retailer (Twin River) be responsible for obtaining approved equipment (tables, dice, cards, etc.) and bearing all risk for the management, security, and monitoring of authorized table games. Twin River is also responsible for marketing table games and all related expenses. The Lottery Division incurs operating and administrative costs relating to the oversight and regulation of casino operations which are netted against the State's statutory share of net table game revenue prior to transferring the balance to the State's General Fund.

All other revenues and expenses are defined as non-operating. Non-operating revenues include income from pull tab tickets (the Lottery is not responsible for prizes won), rental income, and refunds from the Multi-state Lottery Association.

(d) *Capital Assets*

Capital assets are stated at historical cost. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets. Asset and useful lives are as follows:

Asset Category	Useful Life	Threshold
Buildings	50 years	$1,000,000
Building Improvements	20 years	$1,000,000
Computer Equipment	5 years	$5,000
Furniture and Equipment	5 years	$5,000
Automobiles	5 years	$5,000

In addition, the Lottery capitalizes certain intangible assets and amortizes those assets over their expected benefit period. Beginning in fiscal year 2013, the Lottery adopted the State’s capitalization threshold and useful lives for capital asset categories.

(e) *Cash Equivalents*

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

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

(f) *Ticket Inventory*

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

(g) *Advances for Future Drawings*

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.

(h) *Unearned Contract Revenue*

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

(i) *Incentive Programs – Video Lottery*

The Lottery reimburses its contracted video lottery facilities for the State's share (net terminal income percentage) of certain marketing and promotional expenses incurred by the facilities. Complete details of the Lottery's reimbursement are disclosed in Note 12, Commitments.

(j) *Compulsive and Problem Gambling Program*

Pursuant to section 42-61.2-14 of the Rhode Island General Laws, the Lottery is required to establish a program for compulsive and problem gamblers in conjunction with Twin River and Newport Grand to include awareness, player self-exclusion, and promotion of a problem gambling hotline. The program is funded through aggregate reimbursements made by Twin River and Newport Grand totaling not less than $100,000 annually. At June 30, 2014, the Lottery, included $50,064 in accrued expenses representing the unexpended portion of the annual reimbursements from the facilities for the compulsive and problem gambling program.

(k) *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 reportedamounts 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 cash deposit balances at June 30, 2014 totaled $10,781,427, with corresponding bank balances totaling $10,755,401. The bank balances consisted of $941,819 in demand deposit accounts and $9,813,582 in collateralized deposit investment accounts.

All deposits were in the custody of the State General Treasurer. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Lottery's (or State's) name.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to 100% of deposits, regardless of maturity. None of the cash deposits of the Lottery were required to be collateralized at June 30, 2014 pursuant to Chapter 35-10.1 of the General Laws. However, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the uninsured deposit amounts. Of the total bank deposit balance totaling $10,755,401at year end, the entire amount was either covered by federal depository insurance or collateralized by securities held by an independent third party custodian.

(b) *Investments*

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

(3) *Deposits and Investment Risk*– (Continued)

At June 30, 2014, the Lottery had investments consisting of $7,782,419 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The Lottery's investment accounted for less than 2% of the total investment in OSIP at June 30, 2014. Agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State may invest in OSIP. OSIP operates in a manner consistent with SEC Rule 2a-7 like pools and thus, reports all investments at amortized cost rather than fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue - 2nd Floor, Warwick, RI 02886.

Custodial Credit Risk: Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the government and are held by either: a) the counterparty or b) the counterparty's trust department or agent but not in the government's name.

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

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Based on SIC policy, the State's short-term investment portfolio, whenever possible, will be structured to minimize interest rate risk, by matching the maturities of investments with the requirements for funds disbursement. The Lottery's investments are typically money market mutual funds or investments with maturities less than 30 days thereby minimizing the Lottery's exposure to interest rate risk.

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

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

(3) *Deposits and Investment Risk*– (Continued)

(c) *Cash and Cash Equivalents*

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

Cash deposit balance per books	$ 10,781,427
Investments classified as cash equivalents	7,782,419
Cash and cash equivalents	$ 18,563,846

(4) *Capital Assets*

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

A summary of capital assets follows:

	Estimated Useful Life	Balance at June 30, 2013	2014 Additions	2014 Disposals	Balance at June 30, 2014
Cost					
Building	50	$ 1,437,912			$ 1,437,912
Building improvements	20	1,944,601			1,944,601
Ticket production equipment	5	11,486			11,486
Office equipment	5	101,237			101,237
Furniture and fixtures	5	90,856			90,856
Lottery drawing equipment	5	99,402			99,402
Automobiles	5	315,673	171,934	(60,863)	426,744
Computer equipment	5	179,692		(9,997)	169,695
Trucks	5	22,445			22,445
Intangible Assets	7	175,424			175,424
Total		$ 4,378,728	$ 171,934	$ (70,860)	$ 4,479,802
Less: Accumulated Depreciation and Amortization					
Building		$ 1,437,912			$ 1,437,912
Building improvements		1,838,795	4,273		1,843,068
Ticket production equipment		11,486			11,486
Office equipment		56,387	44,848		101,235
Furniture and fixtures		90,856			90,856
Lottery drawing equipment		97,644	752		98,396
Automobiles		234,403	37,246	(60,863)	210,786
Computer equipment		171,893	1,908	(9,997)	163,804
Trucks		22,445			22,445
Intangible Assets		14,619	25,060		39,679
Total		$ 3,976,440	$ 114,087	$ (70,860)	$ 4,019,667
Capital assets, net		$ 402,288	$ 57,847	$ -	$ 460,135

(5) *Transfers to the State*

(a) The Lottery is required to transfer net proceeds from the Lottery's games in accordance with RI General Laws sections 42-61-15 and 42-61.2-7. Transfers to the State's General Fund for fiscal 2014 are reported as follows in the Lottery's financial statements:

Due to State's General Fund, beginning of year	$847,359
Transfers to State's General Fund	376,327,120
Cash paid during fiscal year	(376,903,899)
Due to State's General Fund, end of year	$270,580

The General Assembly recently modified the requirements for transfers to the State general fund in anticipation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27*, becoming effective in fiscal 2015. Beginning in fiscal 2015, the Lottery will still be mandated to transfer net income to the State's general fund based on pension expense reflected on the basis of the Lottery's actual contributions (which is the actuarially determined contribution required to be made by law) to the State Employees' pension plan. Pension expense reported in the Lottery's financial statements in accordance with GASB 68 will be a different amount reflecting the change in the net pension liability during the fiscal year.

(b) The Lottery also reimburses the State's General Fund for a variety of operating expenses associated with personnel costs, information technology resources, utilities, etc. Amounts owed to the General Fund at year-end for operating expenses totaled $270,308. This amount is reported on the Statement of Net Positionseparate of amounts due to the State's General Fund-net income from operations.

(6) *Commissions*

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

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

(7) *Compensated Absences*

The Lottery accrues an estimated liability for vested benefits relating to future compensated absences. This includes an expected obligation in connection with vacation credits, pay reduction credits, and accumulated vested sick pay for those employees eligible for retirement. The liability for compensated absences was approximately $496,297 as of June 30, 2014and is recorded as a liabilityin the Statement of Net Position. The current portion of $208,938as reported was estimated based on a three year average of employee utilization experience.

Changes in the reported liability for compensated absences for fiscal 2014 are as follows:

	Balance at July 1, 2013	Increase	Decrease	Balance at June 30, 2014
Liability for Compensated Absences	$390,002	$325,190	$218,895	$ 496,297

(8) *Net Position -(Deficit)*

On May 12, 2003, the Lottery entered into a 20-year contract, effective July 1, 2003, with its gaming system provider. The contract granted the provider the right to be the Lottery's exclusive vendor of hardware and software, together with the related services necessary for the operation of the Lottery's computerized games, through June 30, 2023. In return, the provider made a one-time payment of $12.5 million to the Lottery as consideration for this exclusive contract right. The Lottery recorded unearned contract revenue in the amount of $12.5 million and transferred the cash to the State's General Fund on June 30, 2003. This prior year transferof unearned contract revenue resulted in a deficit in net position at June 30, 2014 of $5.63million. As the contract revenue is recognized over the twenty-year life of the contract, the deficitin net position will be reduced by $625,000 per year. Accordingly, the Lottery has recognized $625,000 as the current portion of unearned revenue as of June 30, 2014.

Net position reported by the Lottery also includes its net investment in capital assets. The Lottery had no debt related to capital assets at June 30, 2014.

(9) *Retirement Plan*

The State administered retirement system includesboth defined benefit and defined contribution plan components.

Defined Benefit Plan Description:

All Lottery employees 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 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.

(9) *Retirement Plan* - (Continued)

Funding Policy:

The funding policy, as set forth in the General Laws, Section 36-10-2, provides for actuarially determined periodic contributions to the plan. TheLottery employees are required to contribute 3.75% of their annual covered salary. The Lottery is required to contribute at an actuarially determined rate; the rate 23.05% of annual covered payroll for the fiscal year ended June 30, 2014. The Lottery contributed $1,127,463, $730,252, and $728,878for the fiscal years ended June 30, 2014, 2013 and 2012, respectively, equal to 100% of the required contributions for each year.

New Accounting Guidance Effective For Fiscal 2015:

GASB Statement No, 68, *Accounting and Financial Reporting for Pensions*, is effective for fiscal 2015 and is applicable for employees participating in a cost-sharing multiple employer plan such as ERS. The Lotterywill be required to restate beginning net position as of July 1, 2014 to recognize the employer's proportionate share of the plan's net pension liability. Pension expense reported in the Lottery's financial statements will reflect the change in the net pension liability for the fiscal year.

Defined Contribution Plan Description:

Employees participating in the defined benefit plan, as described above, also participate in a defined contribution plan of the Employees' Retirement System as authorized by General Law Chapter 36-10.3. The defined contribution plan is established under IRS section 401(a) and is administered by TIAA-CREF. Employees may choose among various investment options available to plan participants. Employees contribute 5% of their annual covered salary andemployers contribute 1% of annual covered salary. Employee contributions are immediately vested while employer contributions are vested after three years of contributory service. Contributions required under the plan by both the employee and employerareestablished by the General Laws, which are subject to amendment by the General Assembly.

Amounts in the defined contribution plan are available to participants in accordance with Internal Revenue Service guidelines for such plans.

The Lottery contributed $48,914 and $34,479 for the fiscal years ended June 30, 2014 and 2013(which was the first year of the defined contribution plan), respectively, equal to 100% of the required contributions for these years.

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 of Rhode Island, 50 Service Avenue, Warwick, RI 02886.

(10) *PostemploymentHealthcare Plan*

Plan Description:

The Lottery contributes to the State Employees' defined benefit post-employment health care plan, a cost sharing multiple employer plan administered through the Rhode Island State Employees' and Electing Teachers OPEB System (OPEB System). The State of Rhode Island OPEB Board (Board) was authorized, created and established under Chapter 36-12.1 of the RI General Laws. The Board was established to independently hold and administer, in trust, the funds of the OPEB system. The plan provides medical benefits to certain retired employees of participating employers including the Lottery.

Pursuant to legislation enacted by the General Assembly, a trust has been established to accumulate assets and pay benefits and other costs associated with the system.

The OPEB system issues a stand-alone financial report. A copy can be obtained from the State Controller's Office, 1 Capitol Hill, Providence, RI 02908.

Funding Policy

RIGL Sections 36-12.1, 36-12-2.2, and 36-12-4 govern the provisions of the OPEB System. The contribution requirements of plan members, the State, and other participating employers are established and may be amended by the General Assembly. Active employees make no contribution to the OPEB plan. Employees who retired after October 1, 2008 must contribute 20% of the annual estimated benefit cost (working rate) or annual premium for Medicare supplemental coverage. Employees retiring before October 1, 2008 have varying co-pay percentages ranging from 0% to 50% based on age and years of service at retirement. Further information about the contributions of plan members can be found in the financial report of the OPEB System.

For fiscal 2014, employers were required to contribute 7.07% of covered payroll. The employer required contribution rate is determined on an actuarially determined basis consistent with a funding approach outlined in the General Laws and as adopted by the OPEB System Board. The Lottery fully funded its required contribution to the plan for the years ended June 30, 2014, 2013 and 2012 which were $345,821, $236,522 and $218,485 respectively.

(11) *Deferred Compensation*

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

(12) *Commitments*

(a) Gaming Systems Provider –GTECH (an indirect wholly-owned subsidiary ofLottomaticaGroup S.p.A.)

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

As consideration for this exclusive right, the gaming systems provider paid the Lottery $12.5 million. In the event that the contract term is not fulfilled, the Lottery will be obligated to refund a pro-rata share of this amount to the gaming systems provider.Additionally, GTECH was obligated to invest $100 million in connection with the construction of a new corporate headquarters and expansion of its manufacturing operations in the State. The gaming system contractor is also required to employ no less than 1,000 full time active employees during the term of the agreement.

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

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

The Lottery also leases to the vendor a portion of its headquarters to house the computer hardware and office space necessary for the operation of the Lottery's games. The term of the lease is five (5) years, commencing October 19, 2012 andthe square footage leased is 5,101 square feet. The annual lease amount for the first year approximated $117,000 and the four (4) remaining years will increase by four percent (4%) per annum, effective October19. The tenant has one (1) four (4) year term renewal option. The base rate for the renewal options will be an increase of four percent (4%) per annum unless a mutually acceptable rate is negotiated.

(12) *Commitments* – (Continued)

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

On July 18, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with UTGR, Inc. (UTGR), the owners of Twin River, to manage one of the State's licensed video lottery facilities. The contract entitles UTGR to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility. UTGR and the lottery extended the contract and signed the first five-year extension term commencing on July 18, 2010. The second term would commence on July 18, 2015. Certain extensions are contingent on UTGR's compliance with full-time employment mandates.

The Master Contract has been amended in recent years to reflect the statutory authorization of a promotional points program at Twin River. In fiscal 2014, Twin River was authorized and issued approximately $33.4 million in promotional points to facility patrons.

The Master Contract has also been amended to reflect the statutory requirement that the Lottery reimburse UTGR for allowable marketing expenses at an amount not to exceed $6 million multiplied by the Lottery's percentage of net terminal income (61.02% and 61.12% for fiscal years 2014 and 2013, respectively). The reimbursement of marketing expenses by the Lottery occurs only after UTGR has incurred $4 million in qualified marketing expenses (with marketing expenses defined by the Lottery). The Master Contract is being amended to reflect recently enacted legislation regarding the Lottery's reimbursement to UTGR for allowable marketing expenses not to exceed an additional $3 million multiplied by the Lottery's percentage of net terminal income. The reimbursement of marketing expenses by the Lottery occurs after UTGR has incurred an additional $4 million in qualified marketing expenses defined by the Lottery.

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

On November 23, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with Newport Grand to continue to manage one of the State's licensed video lottery facilities. Newport Grand and the Lottery extended the contract and signed the first five-year extension term of the contract commencing on November 23, 2010. The second term, which would commence on November 23, 2015, is contingent on Newport Grand's compliance with full-time employment mandates specified in the 2010 law. The contract, as amended, entitles Newport Grand to compensation equal in percentage of net terminal income to that of Twin River. Recent legislation increased the percentage of net terminal income by 2.25% effective July 1,2013, and expiring June 30, 2015.

(12) *Commitments* - (Continued)

The Master Contract has been amended in recent years to reflect the statutory authorization of a promotional points program at Newport Grand. In fiscal 2014, Newport Grand was authorized and issued approximately $5.4 million in promotional points to facility patrons.

The Master Contract has also been amended to reflect the statutory requirement that the Lottery reimburse Newport Grand for allowable marketing expenses at an amount not to exceed $840,000 multiplied by the Lottery's percentage of net terminal income (59.23% and 61.67% for fiscal years 2014 and 2013, respectively). The reimbursement of marketing expenses by the State occurs only after Newport Grand has incurred $560,000 in qualified marketing expenses (with marketing expenses to be defined by the Lottery).

(13) *Contingencies*

(a) The Lottery's master contracts with its video lottery facilities contain revenue protection provisions in the event that existing video lottery facilities incur revenue losses caused by new gaming ventures within the State.

(b) A significant portion of the Lottery's revenues are derived from video lottery gaming at two licensed video lottery facilities. Newport Grand, one of those video lottery facilities is subject to certain financing agreement restrictions. In 2008, Newport Grand entered into a $25,000,000 financing agreement with two banks for expansion and renovation of its video lottery terminal facility. Prior events of default relative to failing to meet earnings levels amended the loan agreement which required additional partner contributions, quarterly deposits and restricted dividend distributions. During fiscal 2014, a subsequent loan amendment required continued deposits and a new loan covenant requirement.

(c) The Lottery's gaming operations could be adversely impacted by enacted legislation in Massachusetts allowing three casinos and one slot parlor in that State. Massachusetts has divided the State into three regions and accepted license applications for three category 1 resort-style casinos. In addition, a category 2 slots only license was awarded in February 2014. The Western Massachusetts (region B) category 1 license was awarded in June 2014 and the region A Greater Boston category 1 license was awarded in September 2014. The region C Southeastern Massachusetts category 1 licenseis anticipated to be awarded in August 2015. The region C Southeastern Massachusetts category 1 licenses were recently opened to new applicants. Depending on the resulting location of the facilities within Massachusetts, lottery revenues in Rhode Island could decrease. Massachusetts voters will consider a statewide ballot question in November 2014 to reverse the prior approval of casino gambling in Massachusetts.

(13) *Contingencies* – (Continued)

(d) The Narragansett Indian Tribe filed a complaint against the State of Rhode Island in the Superior Court on or about September 28, 2011, inter alia, challenging the constitutionality of the casino gaming act on the grounds that it would not be "state-operated" and the act "delegates unconstitutional authority to a private corporation", on or about June 29, 2012.The Superior Court found that the Narragansett Indian Tribe had not sustained their burden of proof that the act violates the state or United States constitution. The Narragansett Indian Tribe filed a notice of appeal of that decision with the Rhode Island Supreme Court. Legal briefs are expected to be filed by the parties in the Supreme Court on the constitutional issues in October 2014. The Court will thereafter schedule the matter for hearing either later in the current term or next term. The remaining issues in the case which are still pending in the Superior Court relate to whether the state "operates" Twin River and Newport Grand. There has been no further action taken in that matter.

(e) In the event of default on an insurance annuity contract for a Rhode Island winner of the Lucky for Life® jackpot prize award, the Lottery may be contingently liable for any remaining prize amounts due the winner.

(14) *Risk Management*

The Lottery is exposed to various types of risk related to its operations. These risks can result in losses incurred from property damage or destruction, inability to operate gaming activitiesand worker compensation claims. The Lottery manages these risks through the purchase of commercial insurance. During fiscal 2014, the Lottery maintained its amount ofpurchased insurance coverage. Claims and settlements incurred for fiscal years 2014, 2013 and 2012 have not exceeded the Lottery's insurance coverage.

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

(15) *Subsequent Event*

Lottery management has evaluated subsequent events through October 6, 2014, the date for which the financial statements were available for issuance.

In July 2014, GTECH, S.p.A, and IGT (International Gaming Technology) entered into a definitive merger agreement for the acquisition of IGT by GTECH. Under the terms of the agreement, IGT and GTECH will combine under a newly formed holding company organized in the United Kingdom.

In July 2014, Twin River Management Group, Inc., sole owner of UTGR Inc., purchased a casino in Biloxi Mississippi. Twin River refinanced existing and added new debt as a result of the purchase. There is a new regulatory agreement by and amongst the Division of Lotteries, the Rhode Island Department of Business Regulation, Twin River Management Group, Twin River Worldwide Holdings, Inc., and UTGR. The regulatory agreement contains certain reporting obligations applicable to Twin River Worldwide Holdings, Inc., Twin River Management Group, and UTGR. These include new notification requirements, filing requirements, compliance reports, and minimum capital expenditures.

SupplementaryInformation

RHODE ISLAND LOTTERY

Operating Revenue and Cost of Gaming Operations

Year Ended June 30, 2014

Schedule 1

	Revenue [2]	Commissions	Prize Awards Expense	Unclaimed Prize Recovery	Cost of Tickets	Advertising	Incentive Programs	Cost of Gaming Operations	Gross Profit/(Loss)
Lottery games:									
On-line games									
Keno	$ 78,203,765	$ 10,164,476	$ 51,499,700	$ (252,337)	$ -	$ 196,804	$ -	$ 61,608,643	$ 16,595,122
Bingo	1,094,274	142,435	761,457	(10,839)	-	2,501	-	895,554	198,720
PowerBall®	31,502,543	4,095,516	15,756,377	(518,473)	-	629,577	-	19,962,997	11,539,546
Daily Numbers	24,141,676	3,137,694	11,617,948	(240,169)	-	120,729	-	14,636,202	9,505,474
Mega Millions®	12,622,344	1,641,096	6,413,442	(75,725)	-	388,824	-	8,367,637	4,254,707
Wild Money	4,525,777	588,318	2,533,489	(42,575)	-	53,651	-	3,132,883	1,392,894
Lucky for Life®	6,719,790	873,187	3,114,053	(229,553)	-	183,525	-	3,941,212	2,778,578
Raffle	-	-	-	(29,500)	-	-	-	(29,500)	29,500
	158,810,169	20,642,722	91,696,466	(1,399,171)	-	1,575,611	-	112,515,628	46,294,541
Instant tickets	83,975,581	8,932,729	56,874,235	(1,034,882)	1,043,555	513,405	-	66,329,042	17,646,539
Video Lottery [1]	507,056,712	196,693,434	-	(177,622)	-	-	4,070,183	200,585,995	306,470,717
Table Games	88,108,367	72,248,861	-	-	-	-	-	72,248,861	15,859,506
Totals	$ 837,950,829	$ 298,517,746	$ 148,570,701	$ (2,611,675)	$ 1,043,555	$ 2,089,016	$ 4,070,183	$ 451,679,526	$ 386,271,303

Video Lottery Commissions - Detail

Facilities	$ 141,216,322
Technology Providers	34,964,634
Central Communications Provider	12,570,589
City/Town	7,155,819
Narragansett Indian Tribe	786,070
Total	$ 196,693,434

(1) See note 2 (c) (3) for detail of gross video lottery terminal activity.
(2) See note 2 (c) for details of revenue accounting policy.

See accompanying notes to financial statements.

Statistical Section

Statistical Section

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

Contents **Page**

Lottery Statistics – Rhode Island 56

These schedules contain trend information to help the reader understand how the Lottery's financial performance and well-being have changed over time.

Rhode Island Demographics 61

These schedules offer demographic and economic indicators to help give the reader a better understanding of the Lottery's and the State of Rhode Island's environment.

Lottery Statistics – National 64

These schedules contain financial information to help the reader understand the Lottery's performance compared to the other lottery jurisdictions within the United States of America.

Lottery Statistics – Rhode Island

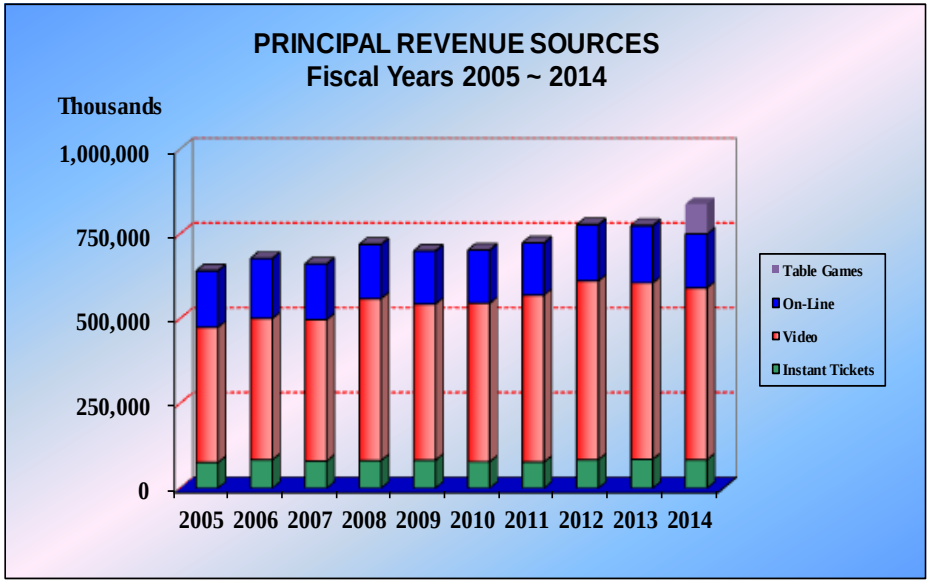
RHODE ISLAND LOTTERY

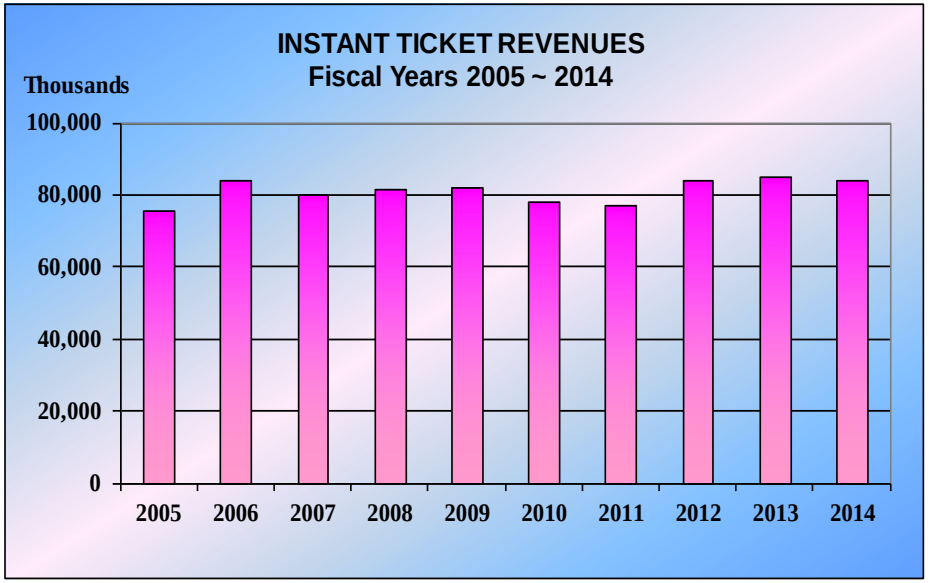
Principal Revenue Sources

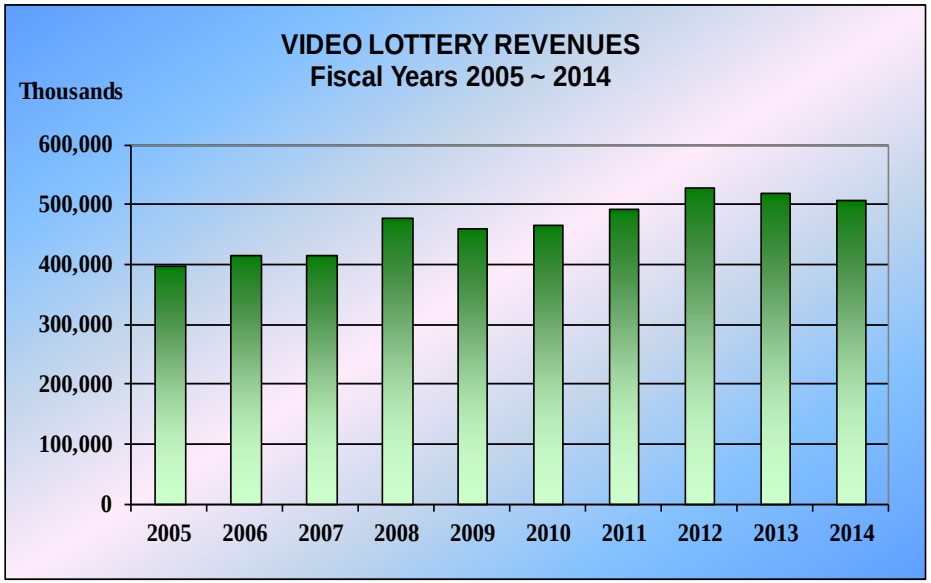
Fiscal Years 2005 through 2014

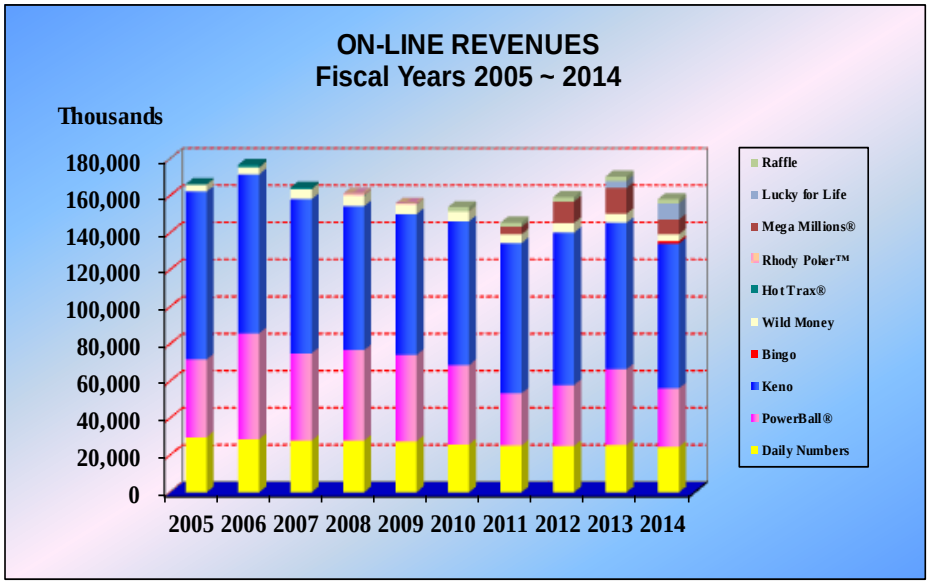
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Operating Revenue										
Instant tickets										
Instant tickets	$ 75,598,569	$ 84,018,698	$ 79,980,026	$ 81,557,881	$ 82,348,042	$ 77,978,026	$ 77,217,452	$ 83,950,804	$ 85,003,754	$ 83,975,581
Percentage of total revenues	11.8%	12.4%	12.0%	11.3%	11.7%	11.1%	10.7%	10.8%	10.9%	10.0%
Video										
Video lottery	399,186,666	416,502,488	416,793,363	477,773,837	460,895,733	467,772,084	492,594,189	527,323,124	520,747,106	507,056,712
Percentage of total revenues	62.1%	61.3%	62.7%	66.2%	65.8%	66.5%	68.0%	67.8%	67.0%	60.5%
Table games										
Table games	-	-	-	-	-	-	-	-	1,881,238	88,108,367
Percentage of total revenues	-	-	-	-	-	-	-	-	0.2%	10.5%
On-line										
Daily Numbers	28,584,281	27,838,055	27,835,994	27,446,355	25,814,615	25,176,010	24,933,177	25,412,018	24,522,578	24,141,676
PowerBall®	41,969,907	57,196,851	47,082,311	48,856,098	46,583,080	42,684,765	28,175,659	32,858,107	40,949,997	31,502,543
Mega Millions®	-	-	-	-	-	4,067,206	11,543,667	13,943,638	7,930,357	12,622,344
Keno	90,550,499	85,708,538	83,189,252	77,646,539	76,036,908	77,708,084	81,061,025	82,251,847	78,964,759	78,203,765
Bingo	-	-	-	-	-	-	-	-	1,381,565	1,094,274
Wild Money	3,742,142	5,415,054	5,708,730	5,140,754	5,185,904	4,755,803	5,261,888	4,891,994	3,583,753	4,525,777
Lucky for Life	-	-	-	-	-	-	-	3,774,422	8,726,218	6,719,790
Hot Trax®	1,439,442	944,912	48,097	-	-	-	-	-	-	-
Rhody Poker™	-	-	1,003,564	590,426	109,943	-	-	-	-	-
Raffle	-	-	-	-	2,399,740	2,254,980	2,399,880	2,399,940	2,301,580	-
Total on-line	166,286,271	177,103,410	164,867,948	159,680,172	156,130,190	156,646,848	153,375,296	165,531,966	168,360,807	158,810,169
Percentage of total revenues	25.9%	26.0%	24.8%	22.1%	22.3%	22.3%	21.2%	21.3%	21.7%	18.9%
Total revenue	**641,071,506**	**677,624,596**	**661,641,337**	**719,011,890**	**699,373,965**	**702,396,958**	**723,186,937**	**776,805,894**	**775,992,905**	**837,950,829**
Non-operating income										
Investment income	605,983	1,216,873	1,412,256	1,404,108	445,149	98,194	76,759	92,061	114,980	108,350
Net pull tab sales	201,848	161,363	155,177	130,736	116,311	98,594	70,582	65,891	63,322	44,672
Contract revenue	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000
Miscellaneous	402,146	339,382	443,289	354,257	402,289	206,708	396,278	162,823	406,683	353,407
Total non-operating revenues	**1,834,977**	**2,342,618**	**2,635,722**	**2,514,101**	**1,588,749**	**1,028,496**	**1,168,619**	**945,775**	**1,209,985**	**1,131,429**
Percentage of total revenues	0.3%	0.3%	0.4%	0.3%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%
Total revenues	**$ 642,906,483**	**$ 679,967,214**	**$ 664,277,059**	**$ 721,525,991**	**$ 700,962,714**	**$ 703,425,454**	**$ 724,355,556**	**$ 777,751,669**	**$ 777,202,890**	**$ 839,082,258**

Source: Rhode Island Lottery









Source: Rhode Island Lottery

RHODE ISLAND LOTTERY

Change in Net Position

Fiscal Years 2005 through 2014

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Operating revenues										
Instant tickets	$ 75,598,569	$ 84,018,698	$ 79,980,026	$ 81,557,881	$ 82,348,042	$ 77,978,026	$ 77,217,452	$ 83,950,804	$ 85,003,754	$ 83,975,581
Video lottery	399,186,666	416,502,488	416,793,363	477,773,837	460,895,733	467,772,084	492,594,189	527,323,124	520,747,106	507,056,712
Table games	-	-	-	-	-	-	-	-	1,881,238	88,108,367
On-line	166,286,271	177,103,410	164,867,948	159,680,172	156,130,190	156,646,848	153,375,296	165,531,966	168,360,807	158,810,169
Total operating revenue	641,071,506	677,624,596	661,641,337	719,011,890	699,373,965	702,396,958	723,186,937	776,805,894	775,992,905	837,950,829
Cost of gaming operations										
Prizes	$ 146,786,867	$ 157,936,589	$ 147,612,474	$ 147,609,517	$ 144,856,173	$ 144,273,818	$ 142,324,102	$ 155,108,308	$ 153,205,932	$ 148,570,701
Retailer/vendor commissions	29,684,102	31,987,214	29,833,892	29,388,939	29,044,890	28,670,310	28,150,798	30,440,073	30,919,173	29,575,451
Video commissions	153,449,964	160,092,955	159,561,783	181,939,172	175,984,230	178,828,883	189,461,494	202,701,572	200,429,711	196,693,434
Table games commissions	-	-	-	-	-	-	-	-	1,542,615	72,248,861
Incentive programs, video	-	-	-	-	-	-	2,212,253	4,003,153	4,076,294	4,070,183
Advertising and promotion	1,675,078	2,018,181	2,361,834	2,139,525	2,203,027	2,441,014	2,088,973	2,281,816	2,159,542	2,089,016
Cost of tickets	1,034,313	1,475,528	1,454,429	1,437,347	1,193,898	1,226,637	1,109,481	1,299,406	1,098,515	1,043,555
Unclaimed prize recovery	(3,355,320)	(3,303,355)	(3,979,177)	(3,315,397)	(3,198,266)	(3,270,897)	(2,368,721)	(2,619,903)	(3,328,183)	(2,611,675)
Total cost of gaming operations	329,275,004	350,207,112	336,845,235	359,199,103	350,083,952	352,169,765	362,978,380	393,214,425	390,103,599	451,679,526
Gross Profit	**311,796,502**	**327,417,484**	**324,796,102**	**359,812,787**	**349,290,013**	**350,227,193**	**360,208,557**	**383,591,469**	**385,889,306**	**386,271,303**
Operating Expenses										
Personal services	3,963,421	4,232,168	4,450,807	4,753,505	4,764,132	4,727,577	4,826,364	5,178,848	6,212,132	9,438,106
Contract services	208,100	95,493	136,973	159,549	58,480	57,509	80,732	133,469	61,413	56,822
Equipment leasing	-	-	-	-	-	-	-	-	-	-
Depreciation and amortization	312,825	292,694	261,956	245,940	240,281	246,683	234,375	220,856	151,218	114,087
Other	972,485	615,256	967,257	974,820	898,064	926,177	749,718	672,676	1,097,061	864,970
Total operating expenses	5,456,831	5,235,611	5,816,993	6,133,814	5,960,957	5,957,946	5,891,189	6,205,849	7,521,824	10,473,985
Operating Income	**306,339,671**	**322,181,873**	**318,979,109**	**353,678,973**	**343,329,056**	**344,269,247**	**354,317,368**	**377,385,620**	**378,367,482**	**375,797,318**
Non-operating income (expenses)										
Interest income	605,983	1,216,873	1,412,256	1,404,108	445,149	98,194	76,759	92,061	114,980	108,350
Contract revenue	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000
Other	603,994	500,745	598,466	484,993	518,600	305,302	466,860	228,714	470,005	398,079
Total non-operating income (expenses)	1,834,977	2,342,618	2,635,722	2,514,101	1,588,749	1,028,496	1,168,619	945,775	1,209,985	1,131,429
Income Before Transfers	**308,174,648**	**324,524,491**	**321,614,831**	**356,193,074**	**344,917,805**	**345,297,743**	**355,485,987**	**378,331,395**	**379,577,467**	**376,928,747**
Transfers from (to) State's General Fund	(307,549,648)	(323,899,491)	(320,989,831)	(354,321,087)	(337,515,478)	(344,672,743)	(354,860,987)	(377,706,395)	(379,224,717)	(376,327,120)
Transfers from (to) RI Capital Plan Fund	-	-	-	-	-	-	-	-	272,250	23,373
Transfers from (to) Permanent School Fund	-	-	-	(1,152,762)	(6,777,327)	-	-	-	-	-
Transfers from (to) RI Council on the Arts	-	-	-	(94,225)	-	-	-	-	-	-
Increase (decrease) in Net Position	**$ 625,000**	**$ 625,000**	**$ 625,000**	**$ 625,000**	**$ 625,000**	**$ 625,000**	**$ 625,000**	**$ 625,000**	**$ 625,000**	**$ 625,000**

Source: Rhode Island Lottery

RHODE ISLAND LOTTERY

Net Position

June 30, 2005 through 2014

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net Position at Year-End										
Net investment in capital assets	$ 1,549,770	$ 1,314,290	$ 1,138,619	$ 908,218	$ 808,117	$ 690,870	$ 469,496	$ 266,828	$ 402,288	$ 460,135
Unrestricted (deficit)	(12,799,770)	(11,939,290)	(11,138,619)	(10,283,218)	(9,558,117)	(8,815,870)	(7,969,496)	(7,141,828)	(6,652,288)	(6,085,135)
Total Net Position (Deficit)	$ (11,250,000)	$ (10,625,000)	$ (10,000,000)	$ (9,375,000)	$ (8,750,000)	$ (8,125,000)	$ (7,500,000)	$ (6,875,000)	$ (6,250,000)	$ (5,625,000)

Source: Rhode Island Lottery

RHODE ISLAND LOTTERY

Changes in Cash and Cash Equivalents

Fiscal Years 2005 through 2014

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Cash Flows from Operating Activities										
Receipts from lottery sales, online and instant games	$ 240,185,260	$ 261,375,505	$ 243,904,024	$ 245,433,184	$ 238,317,868	$ 236,400,252	$ 229,312,781	$ 246,010,593	$ 253,639,499	$ 243,577,754
Receipts from video lottery operations	399,186,666	416,502,488	416,793,363	477,773,837	460,895,733	467,772,084	492,594,189	527,323,124	520,747,106	507,056,712
Receipts from table games	-	-	-	-	-	-	-	-	1,881,238	88,108,367
Receipts from MUSL for grand prize winners	6,279,032	6,251,891	6,245,000	8,069,149	10,095,229	3,549,000	3,293,000	249,359,349	2,333,000	2,333,000
Receipts from MUSL for Lucky for Life® top prize winners	-	-	-	-	-	-	-	-	-	711,604
Receipts from problem gambling program	-	-	-	-	-	-	-	-	-	100,000
Receipts from sale of other tickets	294,516	238,707	228,582	191,079	171,072	143,942	103,042	96,476	92,835	67,069
Other receipts	410,740	258,364	219,906	414,776	390,203	452,624	489,956	204,397	409,444	347,042
Payments for on-line and instant ticket prizes	(143,035,087)	(154,189,884)	(144,690,653)	(144,571,030)	(141,253,003)	(141,845,470)	(140,191,970)	(149,317,420)	(150,828,237)	(145,938,994)
Payments to MUSL grand prize winners	(6,279,032)	(6,251,891)	(6,245,000)	(8,069,149)	(10,095,229)	(3,549,000)	(3,293,000)	(249,359,349)	(2,333,000)	(2,333,000)
Payments for commissions - retailers	(17,624,409)	(18,959,373)	(8,469,884)	(8,672,377)	(8,763,660)	(8,334,037)	(8,208,460)	(8,931,584)	(9,035,425)	(8,932,729)
Payments for commissions - video lottery	(153,345,011)	(159,580,145)	(157,009,564)	(184,316,798)	(176,354,565)	(177,252,004)	(187,874,908)	(200,322,843)	(202,426,041)	(196,559,997)
Payments for commissions - table games	-	-	-	-	-	-	-	-	-	(73,602,436)
Payments to facilities - video lottery incentive program	-	-	-	-	-	-	-	(2,199,328)	(4,007,075)	(4,079,733)
Payments for commissions - on-line games contractor	(12,017,289)	(12,028,077)	(21,551,637)	(20,696,559)	(21,232,654)	(20,363,068)	(19,933,400)	(22,427,886)	(21,883,748)	(20,642,722)
Payments to suppliers for goods and services	(3,544,227)	(3,964,374)	(5,057,261)	(4,630,285)	(4,551,759)	(4,965,158)	(3,926,542)	(4,592,414)	(3,670,584)	(4,286,788)
Payments to employees for services	(3,901,173)	(4,412,858)	(4,431,229)	(4,790,432)	(4,634,479)	(4,567,917)	(4,867,093)	(5,213,577)	(6,221,555)	(9,331,812)
Net cash provided by operating activities	306,609,986	325,240,353	319,935,647	356,135,395	342,984,756	347,441,248	357,497,595	380,629,538	378,697,457	376,593,337
Cash Flows from Noncapital Financing Activities										
Transfers from (to) State's General Fund	(307,141,649)	(324,349,647)	(319,099,489)	(356,789,829)	(336,474,883)	(344,588,425)	(353,775,229)	(377,904,813)	(380,910,701)	(376,903,899)
Transfers from (to) RI Capital Plan Fund	-	-	-	-	-	-	-	-	272,250	23,373
Transfers from (to) from State's Permanent School Fund	-	-	-	-	(7,939,748)	9,659		-	-	-
Transfers fom (to) RI Council on the Arts	-	-	-	(94,225)	-	-	-	-	-	-
Negative cash balance implicitly financed	23,964	(23,964)	-	-	-	-	-	-	-	-
Net cash used for noncapital financing activities	(307,117,685)	(324,373,611)	(319,099,489)	(356,884,054)	(344,414,631)	(344,578,766)	(353,775,229)	(377,904,813)	(380,638,451)	(376,880,526)
Cash Flows from Capital and Related Financing Activities										
Purchase of capital assets	(155,534)	(57,214)	(86,285)	(15,539)	(146,153)	(131,578)	(13,000)	(18,188)	(294,330)	(171,934)
Proceeds from sale of capital assets	-	-	-	16,500	-	-	-	-	7,652	-
Net cash provided by (used for) capital and related financing activities	(155,534)	(57,214)	(86,285)	961	(146,153)	(131,578)	(13,000)	(18,188)	(286,678)	(171,934)
Cash Flows from investing Activities										
Proceeds from maturity of investments for jackpot awards	-	-	-	-	-	-	-	-	-	-
Interest income	605,983	1,216,872	1,412,256	1,404,109	445,149	98,194	76,759	92,061	114,980	108,350
Net cash provided by investing activities	605,983	1,216,872	1,412,256	1,404,109	445,149	98,194	76,759	92,061	114,980	108,350
Net increase (decrease) in cash and cash equivalents	(57,250)	2,026,400	2,162,129	656,411	(1,130,879)	2,829,098	3,786,125	2,798,598	(2,112,692)	(350,773)
Cash and cash equivalents, beginning of year	7,956,679	7,899,429	9,925,829	12,087,958	12,744,369	11,613,490	14,442,588	18,228,713	21,027,311	18,914,619
Cash and cash equivalents, end of year	**$ 7,899,429**	**$ 9,925,829**	**$ 12,087,958**	**$ 12,744,369**	**$ 11,613,490**	**$ 14,442,588**	**$ 18,228,713**	**$ 21,027,311**	**$ 18,914,619**	**$ 18,563,846**

Source: Rhode Island Lottery

Rhode Island Demographics

RHODE ISLAND LOTTERY

Rhode Island Demographics

Rhode Island Population by County - As of July 1

Population	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Bristol County	50,914	50,881	50,574	50,138	49,979	49,878	49,542	49,875	49,800	48,959
Kent County	171,083	171,153	170,551	169,416	168,658	168,635	168,752	166,158	165,535	164,933
Newport County	85,255	84,513	82,794	83,367	81,305	80,699	80,300	82,888	82,695	82,210
Providence County	636,454	636,721	633,405	630,186	628,280	627,437	627,690	626,667	626,709	628,215
Washington County	127,798	128,146	127,665	127,089	126,787	126,853	126,925	126,979	126,563	125,987
Total Rhode Island Population	1,071,504	1,071,414	1,064,989	1,060,196	1,055,009	1,053,502	1,053,209	1,052,567	1,051,302	1,050,304
Percent Increase/(Decrease)	0.75%	(.01%)	(.60%)	(.45%)	(.49%)	(.14%)	(.03%)	(.06%)	(.12%)	(.09%)

Total Personal Income, Per Capita Personal Income and Unemployment Rate Data - Calendar Years 2003 - 2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total Personal Income (in thousands)	35,865,528	37,584,566	38,570,324	40,664,256	42,661,474	44,122,354	42,772,951	44,200,452	46,248,437	48,184,495
Per Capita Personal Income	33,472	35,079.41	36,217	38,355	40,437	41,882	40,612	41,993	43,992	45,877
Unemployment Rate	5.4%	5.2%	5.1%	5.1%	5.2%	7.7%	10.9%	11.7%	11.2%	10.4%

Source: *U.S. Census Bureau*

Top 10 Rhode Island Employers

2013

Rank	Employer	Employed	% of Total Employment
1	Lifespan	12,750	2.29%
2	Care New England	6,657	1.20%
3	Southcoast Health Systems	6,485	1.17%
4	CVS Corporation	6,200	1.11%
5	Royal Bank of Scotland	5,390	0.97%
6	Elecctric Boat	2,760	0.50%
7	Bank of America (Fleet Financial Co	2,500	0.45%
8	Walmart Stores Inc.	2,305	0.41%
9	Amica Mutual Insurance Co	1,554	0.28%
10	Raytheon Integrated Defense Syste	1,415	0.25%

2003

Rank	Employer	Employed	% of Total Employment
1	Lifespan	10,036	1.79%
2	Care New England	5,720	1.02%
3	CVS Corporation	5,655	0.80%
4	Stop and Shop Supermarket Co., Inc.	4,500	0.73%
5	Brown University	4,450	0.71%
6	Citizens Financial Group (Royal Bank of Scotland)	4,100	1.01%
7	Fleet Financial Corp	3,958	0.79%
8	The Jan Companies	3,000	0.53%
9	Metropolitan Life Insurance	2,200	0.39%
10	General Dynamics	2,075	0.37%

Source: Providence Business News, Commerce Rhode Island, and Rhode Island Department of Labor and Training
Some employers are not listed because they did not wish to participate.

RHODE ISLAND LOTTERY

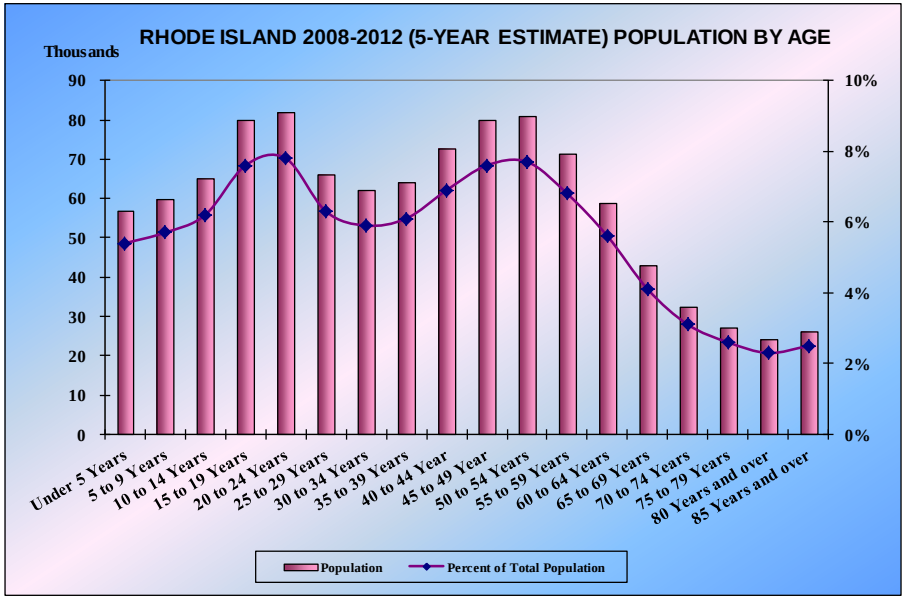
Rhode Island Lottery Employees by Function

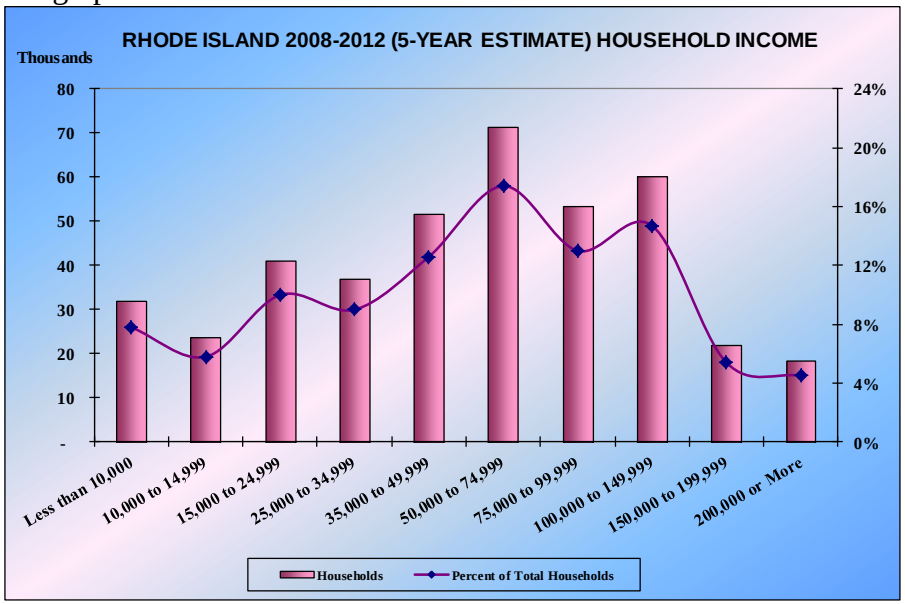
	Total Employees									
Categories	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Officials/Managers/Administrators	6	5	6	6	6	5	5	6	8	8
Professionals	15	14	13	13	12	11	12	12	19	19
Technicians	3	4	5	5	5	4	4	5	6	6
Protective Services	3	2	2	2	2	2	2	2	10	9
Para Professionals	16	16	17	17	16	17	17	16	28	29
Administrative Support	12	12	12	11	7	8	8	8	9	9
Maintenance	2	3	2	2	2	2	2	2	2	1
Total	57	56	57	56	50	49	50	51	82	81

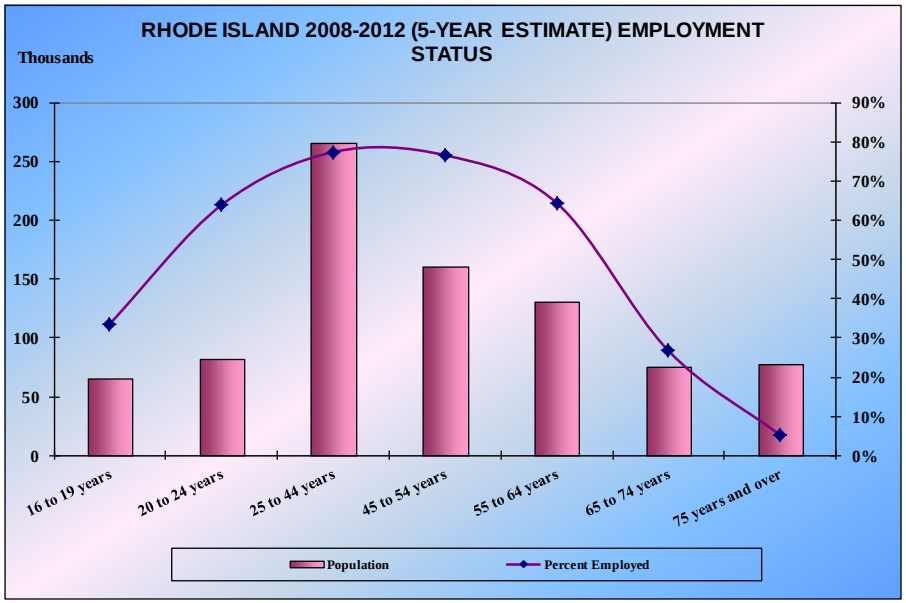
Source: Rhode Island Lottery

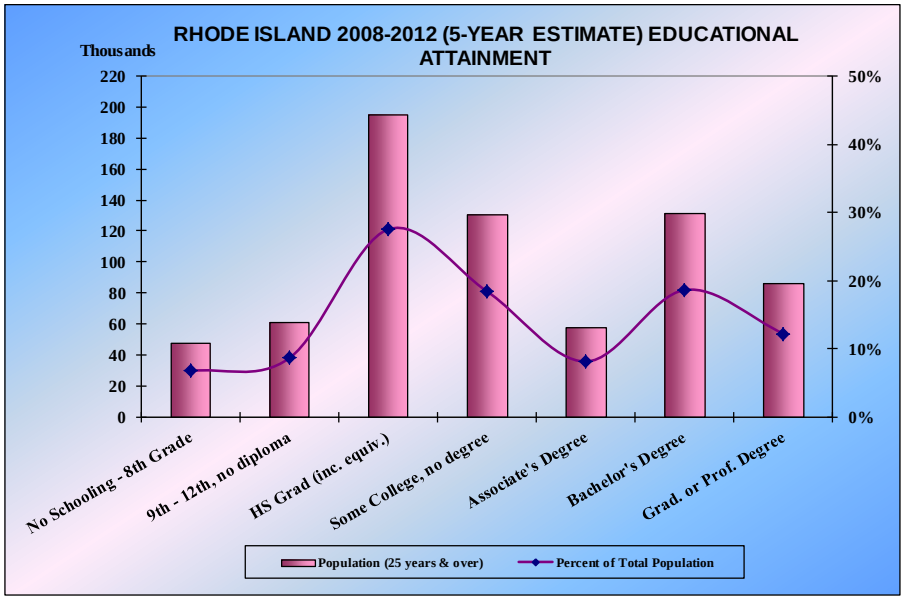
RHODE ISLAND LOTTERY

Rhode Island Demographics









Source: U.S. Census Bureau

Lottery Statistics – National

U.S. LOTTERIES RANKED BY FISCAL YEAR 2014 SALES

RANK	LOTTERY	FY '13 SALES ($M)	FY '14 SALES ($M)
1	New York	8,934.29	9,226.49
2	Florida	5,013.00	5,368.23
3	California	4,445.87	5,034.66
4	Massachusetts	4,839.27	4,852.38
5	Texas	4,376.29	4,384.60
6	Georgia	3,912.16	4,022.20
7	Pennsylvania	3,699.67	3,799.57
8	Ohio	2,863.45	3,180.72
9	New Jersey	2,821.40	2,901.65
10	Illinois	2,832.58	2,802.71
11	Michigan	2,476.40	2,596.44
12	Maryland	2,364.84	2,557.99
13	North Carolina	1,689.80	1,839.28
14	Virginia	1,689.24	1,810.82
15	Tennessee	1,367.54	1,417.07
16	South Carolina	1,199.21	1,264.44
17	West Virginia	1,328.38	1,214.28
18	Missouri	1,140.83	1,157.05
19	Connecticut	1,122.69	1,112.40
20	Oregon	1,067.83	1,052.81
21	Indiana	934.03	1,018.73
22	Kentucky	846.67	858.86
23	***Rhode Island****	***775.99***	***837.95***
24	Arizona	692.93	723.95
25	Delaware	631.89	597.19
26	Washington	569.59	594.52
27	Wisconsin	566.10	568.84
28	Colorado	566.28	545.03
29	Minnesota	560.40	531.52
30	Louisiana	447.42	448.97
31	Arkansas	439.55	410.07
32	Iowa	339.25	314.06
33	New Hampshire	279.34	275.61
34	Kansas	244.77	245.71
35	South Dakota	241.99	239.33
36	Maine	227.72	229.96
37	District of Columbia	242.43	215.98
38	Idaho	197.45	208.89
39	Oklahoma	200.21	191.13
40	Nebraska	160.75	157.90
41	New Mexico	141.76	136.00
42	Vermont	102.09	102.31
43	Montana	56.98	53.29
44	North Dakota	27.84	26.95
	TOTAL	**68,678.12**	**71,128.52**

U.S. LOTTERIES RANKED BY SALES % CHANGE

RANK	LOTTERY	% CHANGE
1	California	13.2%
2	Ohio	11.1%
3	Indiana	9.1%
4	North Carolina	8.8%
5	Maryland	8.2%
6	***Rhode Island****	***8.0%***
7	Virginia	7.2%
8	Florida	7.1%
9	Idaho	5.8%
10	South Carolina	5.4%
11	Michigan	4.8%
12	Arizona	4.5%
13	Washington	4.4%
14	Tennessee	3.6%
15	New York	3.3%
16	New Jersey	2.8%
17	Georgia	2.8%
18	Pennsylvania	2.7%
19	Kentucky	1.4%
20	Missouri	1.4%
21	Maine	1.0%
22	Wisconsin	0.5%
23	Kansas	0.4%
24	Louisiana	0.3%
25	Massachusetts	0.3%
26	Vermont	0.2%
27	Texas	0.2%
28	Connecticut	-0.9%
29	Illinois	-1.1%
30	South Dakota	-1.1%
31	New Hampshire	-1.3%
32	Oregon	-1.4%
33	Nebraska	-1.8%
34	North Dakota	-3.2%
35	Colorado	-3.8%
36	New Mexico	-4.1%
37	Oklahoma	-4.5%
38	Minnesota	-5.2%
39	Delaware	-5.5%
40	Montana	-6.5%
41	Arkansas	-6.7%
42	Iowa	-7.4%
43	West Virginia	-8.6%
44	District of Columbia	-10.9%
		3.57%

Above schedule reflects net VLT sales, which is a change from prior year presentation.

Results are unofficial and unaudited

Source: North American Association of State & Provincial Lotteries

U.S. LOTTERIES RANKED BY FISCAL YEAR 2014 PROFIT

RANK	LOTTERY	FY '13 PROFIT ($M)	FY '14 PROFIT ($M)
1	New York	3,045.77	3,172.96
2	Florida	1,424.31	1,495.41
3	California	1,284.37	1,349.60
4	Texas	1,214.10	1,220.72
5	Pennsylvania	1,067.38	1,081.50
6	Ohio	803.13	1,004.34
7	Massachusetts	955.80	974.56
8	New Jersey	965.01	965.01
9	Georgia	927.48	945.10
10	Maryland	868.72	891.87
11	Illinois	793.52	815.41
12	Michigain	735.62	744.10
13	West Virginia	522.99	553.13
14	Viginia	486.53	538.55
15	Oregon	530.59	516.67
16	North Carolina	479.51	504.13
17	***Rhode Island***	***379.22***	***376.33***
18	Tennessee	339.71	337.27
19	South Carolina	305.21	330.70
20	Connecticut	314.00	321.80
21	Missouri	280.01	277.54
22	Indiana	224.66	250.71
23	Kentucky	223.81	226.13
24	Delaware	237.23	216.29
25	Arizona	176.52	175.62
26	Louisiana	160.21	170.66
27	Wisconsin	156.30	168.77
28	Washington	139.23	147.67
29	Colorado	135.63	130.11
30	Minnesota	135.24	128.21
31	South Dakota	107.70	106.22
32	Arkansas	90.26	81.69
33	Kansas	74.52	74.29
34	Iowa	84.89	73.97
35	New Hampshire	74.33	72.38
36	Oklahoma	70.61	67.68
37	District of Columbia	70.00	54.97
38	Maine	53.52	52.38
39	Idaho	48.28	49.00
40	New Mexico	43.68	40.94
41	Nebraska	40.02	38.00
42	Vermont	22.93	22.56
43	Montana	13.08	12.09
44	North Dakota	7.93	7.82
	TOTAL	**20,113.56**	**20,784.87**

Results are unofficial and unaudited

U.S. LOTTERIES RANKED BY PROFIT % CHANGE

RANK	LOTTERY	% CHANGE
1	Ohio	25.1%
2	Indiana	11.6%
3	Viginia	10.7%
4	South Carolina	8.4%
5	Wisconsin	8.0%
6	Louisiana	6.5%
7	Washington	6.1%
8	West Virginia	5.8%
9	North Carolina	5.1%
10	California	5.1%
11	Florida	5.0%
12	New York	4.2%
13	Illinois	2.8%
14	Maryland	2.7%
15	Connecticut	2.5%
16	Massachusetts	2.0%
17	Georgia	1.9%
18	Idaho	1.5%
19	Pennsylvania	1.3%
20	Michigain	1.2%
21	Kentucky	1.0%
22	Texas	0.5%
23	New Jersey	0.0%
24	Kansas	-0.3%
25	Arizona	-0.5%
26	Tennessee	-0.7%
27	***Rhode Island***	***-0.8%***
28	Missouri	-0.9%
29	North Dakota	-1.4%
30	South Dakota	-1.4%
31	Vermont	-1.6%
32	Maine	-2.1%
33	New Hampshire	-2.6%
34	Oregon	-2.6%
35	Colorado	-4.1%
36	Oklahoma	-4.1%
37	Nebraska	-5.0%
38	Minnesota	-5.2%
39	New Mexico	-6.3%
40	Montana	-7.6%
41	Delaware	-8.8%
42	Arkansas	-9.5%
43	Iowa	-12.9%
44	District of Columbia	-21.5%
		3.34%

Source: North American Association of State & Provincial Lotteries