Rhode Island Lottery

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

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2013

Prepared by the Finance Department

Rhode Island Lottery

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2013

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Introductory Section

THE RHODE ISLAND LOTTERY

October 31, 2013

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, 2013. This report has been prepared by the Finance Department of the Lottery. The Lottery is responsible for the accuracy of the financial data and the completeness and fairness of the presentation, including all disclosures.

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

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

The Lottery was created by Constitutional Amendment passed on November 6, 1973. The legislation to create the Lottery was passed in March of 1974, and the Lottery began in May of 1974. The Lottery is operated 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.

THE LOT

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

History of the Lottery Industry

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

History of the Rhode Island Lottery

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

On November 6, 1973, more than a three to one margin passed a Constitutional Amendment to create a lottery in Rhode Island. The amendment mandated that the General Assembly 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 779 instant ticket games have been introduced.

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

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

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

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

Instant Tickets

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

Video Lottery

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

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

Several years later, when the South Dakota Lottery was searching for new sources of revenue, it took up the idea of video lottery. In March of 1989, legislation allowing the establishment of the first server-connected video lottery was approved. In the fall of 1990, South Dakota offered the first operational video lottery in all of the United States. 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 well established in both Europe and the United States by the turn of the 20th Century. Today, Keno is a very popular lottery offering because of its flexibility in the number of spots that can be played, which in effect means there are actually several games going on at the same time all with different odds of winning a prize. Daily Keno drawings have proven more successful than those held two or three times a week. Rhode Island is one of only a handful of lotteries offering a new Keno draw every 4 minutes.

Rhode Island Lottery Product Offerings

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

Instant Tickets

Instant (or scratch) tickets are played by scratching the latex covering off the play area on the ticket. In order to win, the player must match two or three of a kind, get like symbols or wild features. Instant ticket offerings in Rhode Island include card games, as well as whimsical, sports, money, and holiday themes. Also offered are extended play games with second chance drawings for additional prizes, including Patriots prize packs and season tickets and a trip to Las Vegas to play The Price is Right.

Daily Numbers

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

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

Keno

Keno was introduced in September of 1992 and quickly proved to be a very popular game. Rhode Island Keno has a 10 of 20 of 80 matrix, with a $100,000 top prize. Players can wager on 1 to 10 numbers (spots) utilizing their own number selection or a computer "quick pick." In January of 2000, Keno drawings increased from every 5 minutes to every 4 minutes. These Keno drawings occur from 5:00 a.m. to 12:45 a.m., Monday through Saturday and 7:00 a.m. to 12:45 a.m. on Sunday. In April of 2001, Keno Plus was introduced. Players have the option to purchase this feature that could increase their winnings by ten times, thus giving Keno players the potential to win up to $1,000,000. 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 42 states (including Rhode Island), plus the District of Columbia and U.S. Virgin Islands. A new PowerBall® game structure began in January 2012. 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 are shown 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. Beginning in January 2014, the PowerPlay® feature is changing to a random multiplier whereby players will be 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 56" numbers and a Mega Ball "1 out of 46". Beginning in October 2013, 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 $12 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 4 times. In October 2013, the multiplier increased winnings up to five times; however, the multiplier does not apply to a jackpot win.

Wild Money

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

Raffle

Raffle was a product offering in which sales ran for a limited period of time, with a set number of tickets and guaranteed prizes. The fifth run of this game began September 1, 2012 with sales grossing $2.3 million. Tickets cost $20 and the drawing was held on December 31, 2012. For this run, the top prize was $1.0 million with subsidiary grand prizes totaling $200,000. This was the fifth and final Raffle run.

Lucky for Life

The Rhode Island Lottery, along with the five other New England states introduced the Lucky for Life regional game in March 2012. Players select "5 out of 40" numbers and a Lucky ball "1 out of 21" and have a chance to win $1,000 a day for life. Drawing 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 5,635 video lottery terminals (VLTs) located in the State's two pari-mutuel facilities, Twin River and Newport Grand. As of June 30, 2013, Twin River has 4,538 VLTs and Newport Grand has 1,097 VLTs. 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 66 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, 2012. As of June 2013, the unemployment rate was 8.9%; which was above the national rate of 7.6%.

Lottery Industry Economic Outlook

Despite current economic conditions, the United States Lottery Industry experienced growth in fiscal year 2013. Based on unaudited figures from the North American Association of State & Provincial Lotteries (NASPL), sales increased from $68.8 billion in fiscal year 2012 to $73.9 billion in fiscal year 2013, up 7.42%.

Highlights of Fiscal Year 2013

- For fiscal year 2013, $379,224,717 was transferred to the State's General Fund.

- Fiscal year 2013 produced record video lottery cash-in sales of $3.4 billion with a resulting net terminal income (sales less prize awards) of $520.7 million. Additional State of Rhode Island promotional and marketing funds were provided with the objective of increasing the net revenues.

- Fiscal year 2013 resulted in the introduction of table games at Twin River Casino starting in mid-June 2013. There are a total of 66 tables available offering traditional card and dice games including blackjack, craps, roulette, and various card games.

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, 2012. This was the sixteenth consecutive year that the Lottery has achieved this prestigious award (1997 through 2012). 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 CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Accounting Systems and Procedures

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

Budgetary Controls

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

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

Internal Control Environment

Management of the Lottery is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft, or misuse and to ensure that the accounting system allows 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 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 the computer system.
- Implementing a Video Lottery System Monitoring Plan to ensure the integrity of video lottery games and to ensure that control procedures are operating as designed.
- Monitoring video lottery terminals on a daily and weekly basis and reconciling to a cash management system.
- Processing daily transaction data of all retailer activity by Lottery personnel using the Lottery's internal control system programs and reconciling transactions to reports generated by the on-line system.
- Implementation of comprehensive information security objectives for the Lottery's on-line and video lottery systems as provided by its central system provider.
- Monitoring casino computation and controls over net table game revenue.
- Assignment of compliance inspectors and investigators to asses potential violations of 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 requirements for casino management.

The Lottery currently has 82 employees, 50 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. There are three additional positions budgeted for but vacant at Lottery headquarters in Cranston.

Future Initiatives

The Rhode Island Lottery will be celebrating its 40th Anniversary during 2014. Many activities and promotions are being planned to mark the event.

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.

Security controls are being enhanced for the retailer website. 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, allowing 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 also worked on the development of a Request for Proposals (RFP) from Treatment Providers. To ensure availability of treatment during this RFP process, the Lottery has contracted with CODAC in Rhode Island to provide interim treatment services for uninsured or under-insured problem gamblers for the duration of the process. 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 Lucky for Life® game, which began in March of 2012, is a game offered only in Rhode Island, Connecticut, Maine, Massachusetts, New Hampshire, and Vermont. This game changed in September of 2013, and is now the only game in the country that offers two lifetime prizes. Players still have a chance to win the top prize of $1,000 a day for life, with a new second prize of $25,000 a year for life. These prizes are guaranteed to be paid to winners for a minimum of 20 years, and players now have the option of taking a one-time lump sum payment. The price of a ticket remains at $2.

The multi-state game Mega Millions®, changed in October of 2013. The game changed to a 5/75 + 1/15 Mega ball matrix. In addition to larger starting, faster growing jackpots, there will be a $1 million second prize and better overall odds of winning any prize. The price of a basic Mega Millions® ticket will remain at $1 with the add-on Megaplier feature also remaining at $1.

In January of 2014, the multi-state game PowerBall® will also be undergoing some changes. The price for a basic ticket will remain at $2, and the add-on PowerPlay® feature will remain at $1. The change will be in the current set prize PowerPlay® feature changing to a random multiplier option using 2X, 3X, 4X, and 5X.

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.

The Rhode Island Lottery was selected as the host of the 2013 North American Association of State and Provincial Lotteries (NASPL) Annual Convention. NASPL is the trade association for 52 Lotteries from the United States, Canada, and Mexico, as well as delegates representing International Lotteries. Rhode Island Lottery hosted the Conference at the Rhode Island Convention Center October 1st - 4th, 2013.

Independent Audit

The Rhode Island General Laws require an annual audit to be performed by the State Auditor General. The fiscal year 2013 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 Richardson, 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

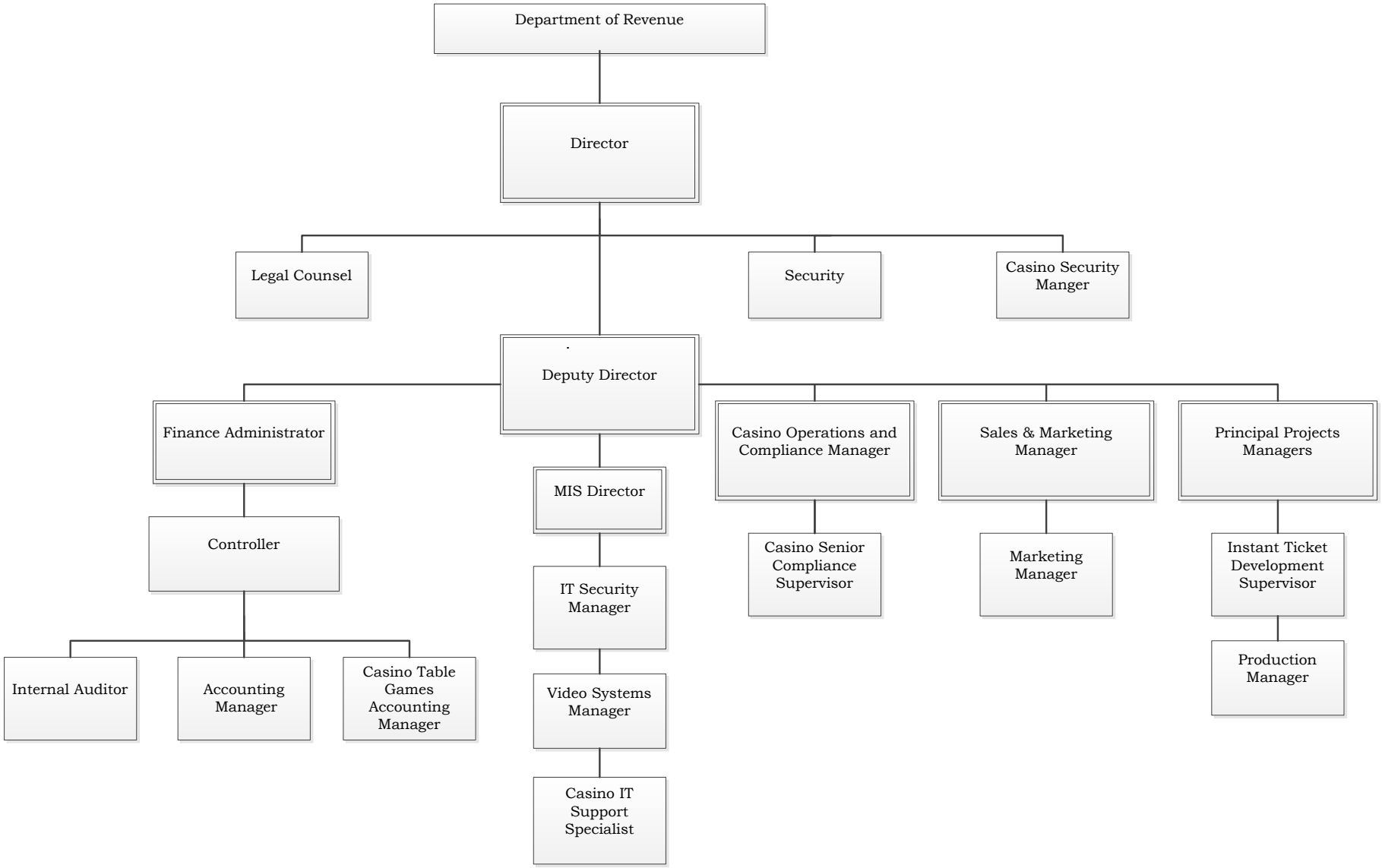
Rhode Island Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

Rhode Island Lottery
Organizational Chart
June 30, 2013



PRINCIPAL OFFICIALS

GERALD S. AUBIN
DIRECTOR

MARGARET D. ROSE
DEPUTY DIRECTOR

DANIEL R. SARRO
FINANCE ADMINISTRATOR

SANDRA M. LEE
CONTROLLER

DONALD J. CATALDI
SALES AND MARKETING MANAGER

JOSEPH R. SANTURRI
DIRECTOR OF MANAGEMENT INFORMATION SYSTEMS

KEITH J. TUCKER
CASINO OPERATIONS AND COMPLAINCE MANAGER

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Financial Section

Office of the Auditor General
State of Rhode Island and Providence Plantations - General Assembly
Dennis E. Hoyle, CPA - Auditor General
oag.ri.gov
86 Weybosset Street • Providence, RI • 02903-2800
tel: 401.222.2435 • fax: 401.222.2111

INDEPENDENT AUDITOR'S REPORT

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

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, 2013, 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 of 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, 2013, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

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, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 27 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.

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

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

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 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 September 27, 2013 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

September 27, 2013

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, 2013. This analysis is to be considered in conjunction with the financial statements to provide an objective analysis of the Lottery's financial activities based on facts, decisions, and conditions currently facing management.

Understanding the Lottery's Financial Statements

The Lottery, a division of the Department of Revenue of the State of Rhode Island and Providence Plantations (State), is accounted for as an enterprise fund that reports all assets and liabilities using the accrual basis of accounting, much like a private business entity. In accordance with accounting principles generally accepted in the United States of America, this report consists of a series of financial statements, along with notes to the financial statements and a supplementary schedule detailing 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, the amount paid to the State's General Fund also increases. Similarly, increases in revenue for a particular lottery game result in direct increases to the related prize awards and commissions expense.

Most assets included on the Statement of Net 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 position of $6.3 million reported at June 30, 2013 relates entirely to the Lottery's sale of its exclusive rights to operate its gaming systems. The Lottery sold this exclusive right to its current gaming systems provider for a 20-year period at a cost of $12.5 million and immediately paid the proceeds to the State's General Fund. According to the terms of the agreement, if for any reason, this contract is voided prior to its completed term; the Lottery will be required to refund a pro-rata share of the sales price to the gaming system provider. In accordance with generally accepted accounting principles, the Lottery will recognize the revenue related to this transaction over the 20 year life of the contract.

Financial Highlights

- The Lottery transferred $379.2 million to the State's General Fund for the fiscal year ended June 30, 2013, an increase of $1.5 million in net income transfers over the prior fiscal year.

- Due largely to two record breaking jackpots of $587.5 million in November 2012 and $590.5 million in May 2013, Powerball sales increased by $8.1 million or 24.63% in fiscal 2013.

- The Lottery implemented casino-style table gaming at Twin River, its largest video lottery facility, in June 2013. The Lottery successfully developed and implemented comprehensive policies and procedures to ensure the integrity of these games and trained a new regulatory division to oversee table game operations and ensure compliance with these adopted policies and procedures.

Assets and Liabilities

	June 30, 2013	June 30, 2012
Assets:		
Current assets		
Cash and cash equivalents	$ 18,914,619	$ 21,027,311
Accounts receivable, net	7,325,858	7,569,217
Other	740,426	818,932
Total current assets	26,980,903	29,415,460
Long-term assets		
Capital assets, net	402,288	266,828
Total assets	27,383,191	29,682,288
Liabilities:		
Current liabilities		
Due to State's General Fund - net income from operations	$ 847,359	$ 2,533,343
Due to State's General Fund - operating expenses	353,432	341,713
Accounts payable	13,941,559	14,063,264
Prize obligations	7,178,210	8,128,698
Compensated absences	166,774	171,770
Other liabilities	5,297,629	4,840,845
Total current liabilities	27,784,963	30,079,633
Long-term liabilities		
Compensated absences	223,228	227,655
Unearned contract revenue	5,625,000	6,250,000
Total long-term liabilities	5,848,228	6,477,655
Total liabilities	33,633,191	36,557,288
Net Position:		
Net investment in capital assets	402,288	266,828
Unrestricted	(6,652,288)	(7,141,828)
Total net position (deficit)	$ (6,250,000)	$ (6,875,000)

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, 2013, the Lottery's assets included $18.9 million in cash and cash equivalents as compared with $21 million at June

30, 2012. The Lottery's accounts receivable approximated $7.3 and $7.6 million, respectively, at June 30, 2013 and 2012.

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 $0.8 million at June 30, 2013 and $2.5 million at June 30, 2012. At June 30, 2013, vendor payables, made up largely of commissions due to video lottery participants, and prize obligations, attributable mostly to instant ticket games were $13.9 million and $7.2 million, respectively. In comparison, vendor payables and prize obligations at June 30, 2012 were $14.1 million and $8.1 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, 2013, 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.

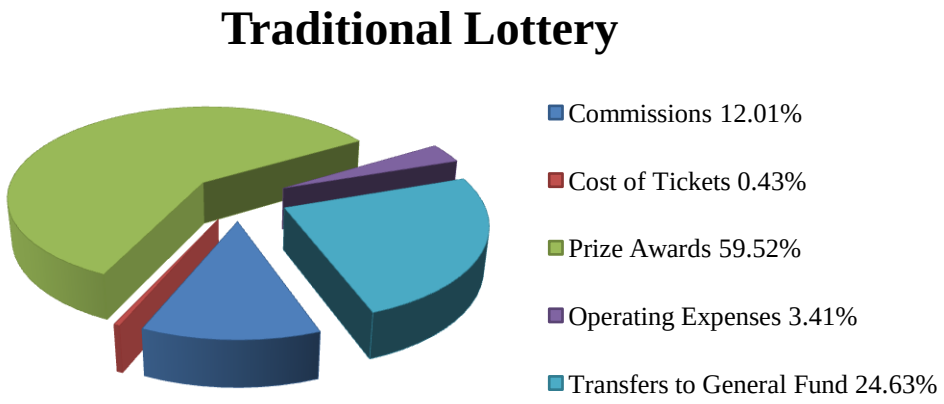
Lottery Operations

	June 30, 2013	June 30, 2012
Revenue:		
On-line games	$ 168,360,807	$ 165,531,966
Instant games	85,003,754	83,950,804
Video lottery	520,747,106	527,323,124
Table games	1,881,238	-
Other income	1,209,985	945,775
Total revenue	777,202,890	777,751,669
Expenses:		
Cost of gaming operations	(390,103,599)	(393,214,425)
Operating expenses	(7,521,824)	(6,205,849)
Total expenses	(397,625,423)	(399,420,274)
Income before transfers	379,577,467	378,331,395
Transfers to State's General Fund	(379,224,717)	(377,706,395)
Transfers from RI Capital Plan Fund	272,250	-
Increase in net position	625,000	625,000
Total net position (deficit), beginning of year	(6,875,000)	(7,500,000)
Total net position (deficit), end of year	$ (6,250,000)	$ (6,875,000)

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, Raffle, Wild Money and Lucky for Life at June 30, 2013. In total, on-line revenue increased by $2.8 million. Significant changes in on-line game revenue from the prior year included:

    - Revenue from Powerball increased $8.1 million for fiscal 2013 over the prior year mostly due to the two large jackpots previously described.

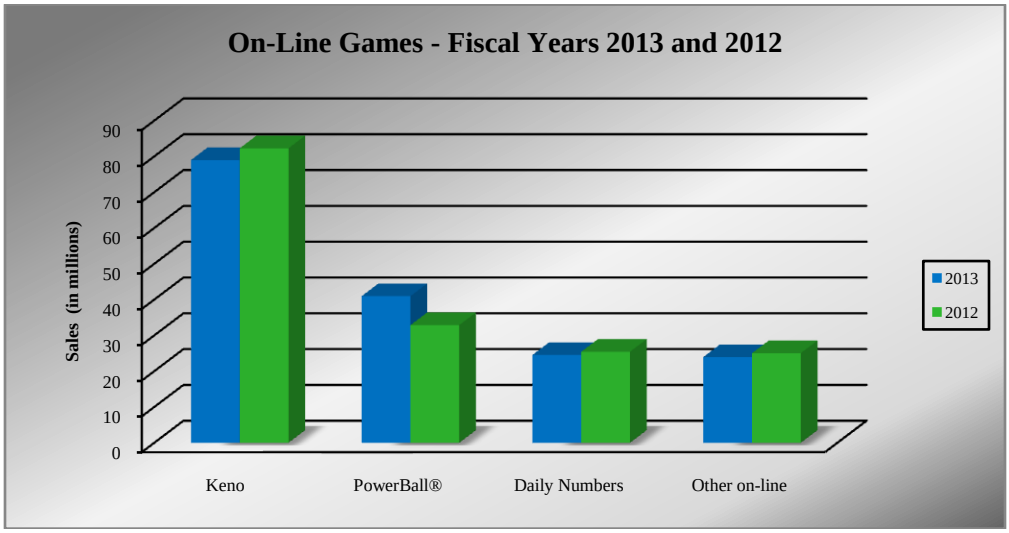
    - Revenue from Mega Millions decreased $6.0 million for fiscal 2013 over the prior year in large part to competition from the record Powerball jackpots during the year.

    - Revenue from Lucky for Life totaled $8.7 million in its first full year of sales, an increase of $5.0 million over the prior fiscal year which included less than four months of ticket sales.

    - Revenue from Keno decreased by 4% ($3.3 million) for fiscal 2013 over the prior fiscal year.

- Instant ticket revenue for the fiscal year ended June 30, 2013 increased $1.1 million or 1.25% from the preceding fiscal year.

The following graph depicts the Lottery's on-line sales for the fiscal years ended June 30, 2013 and 2012.



Video Lottery

- Video lottery net revenue decreased $6.6 million over the prior fiscal year. During fiscal year 2013, video terminal inputs (cash and credits transferred) increased by $162 million; however, patrons cashed out (terminal outputs) $6.6 million more ($169 million) as compared to the prior year.

  The higher prizes are partly attributable to the increased promotional play credits awarded to patrons enrolled in player reward programs. The free play credits, which approximated $37.6 million in fiscal 2013 (an increase of $15.9 million over fiscal 2012), are part of continued marketing efforts to increase video lottery revenues. Bonus play credits are designed to entice more frequent visits by patrons to the facility. Although the amount of bonus play redeemed at each video lottery facility is known, the exact impact of redeemed bonus play on video lottery net revenue is unknown because patrons often combine bonus credits and purchased credits during their period of play.

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

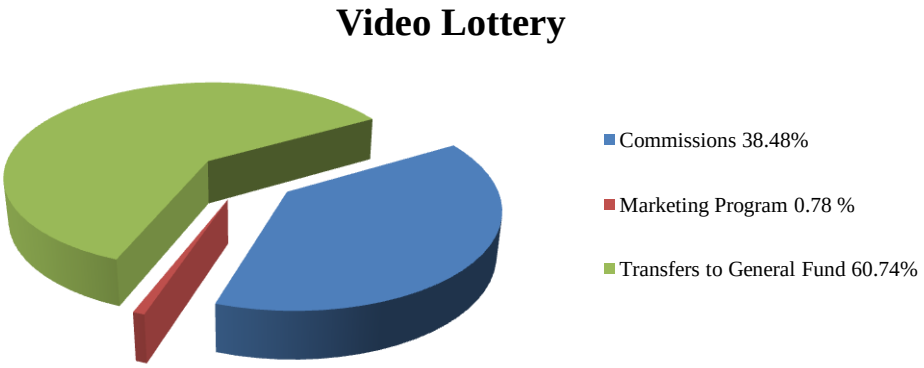
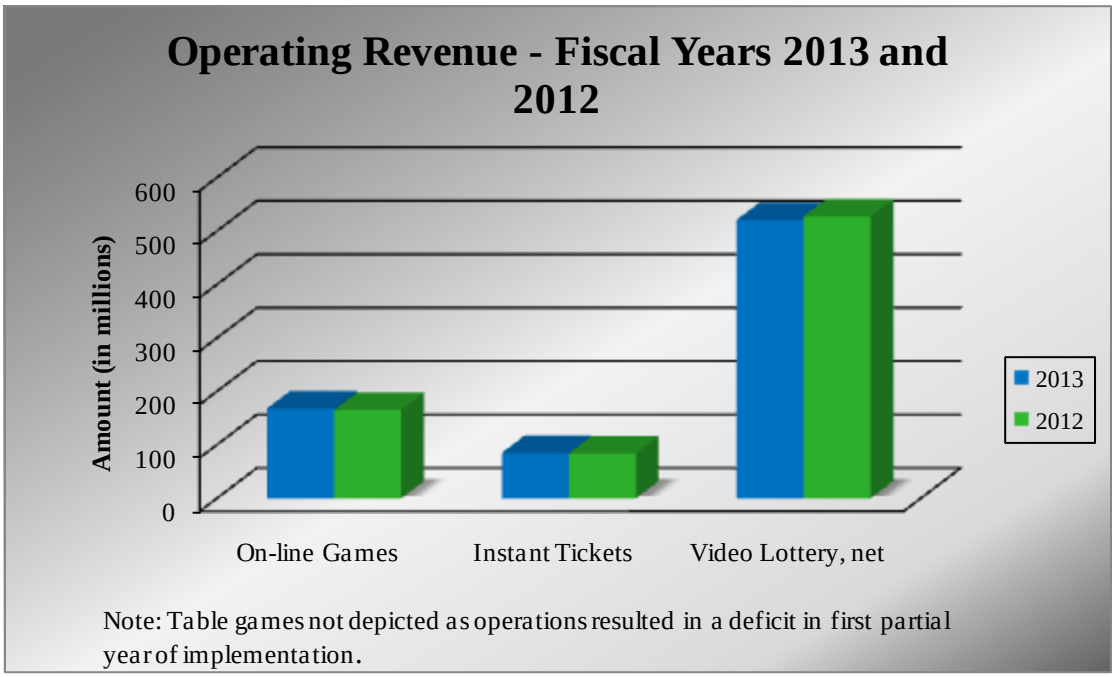


Table Games

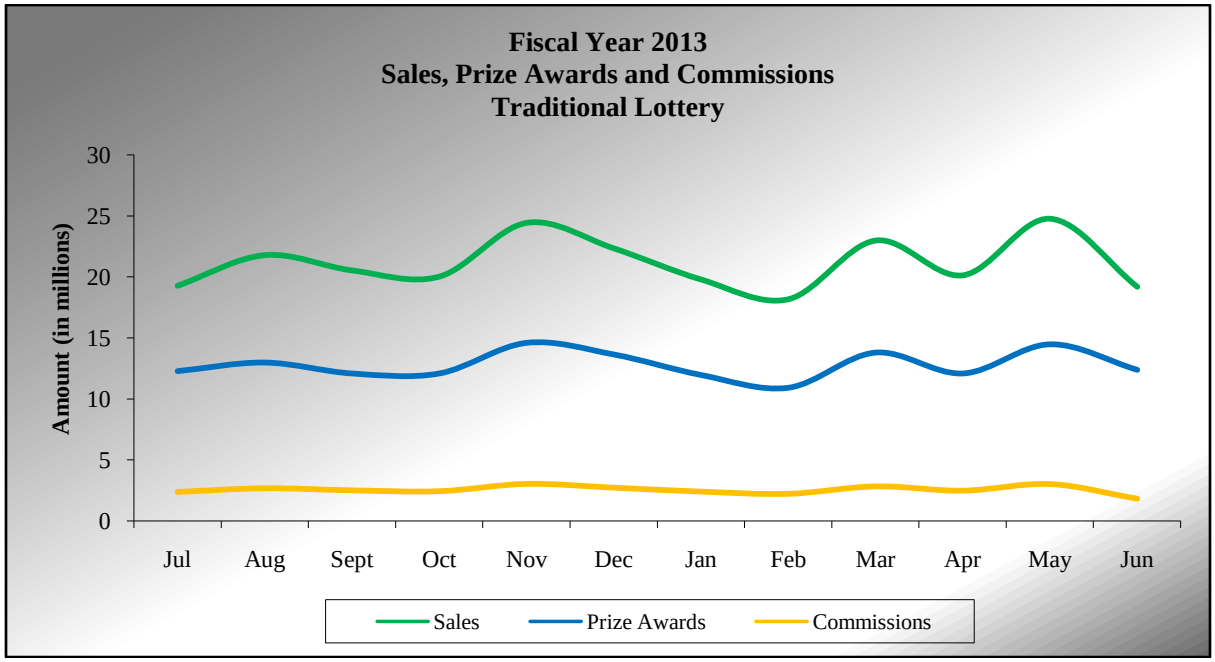
- Table games were introduced at Twin River in Lincoln, Rhode Island in mid-June 2013. For the fiscal year ending June 30, 2013, net table game revenue was $1.88 million. Commissions paid were $1.54 million. The Lottery incurred administrative and operating expenses during the fiscal year to establish the rules, regulations, and minimum internal controls necessary to operate table games. Total administrative and operating expenses were $.91 million. Commissions and administrative and operating expenses reduced the State's share of net table games revenue of $.34 million, which resulted in a net loss of $.57 million for 2013, the first year of implementation.

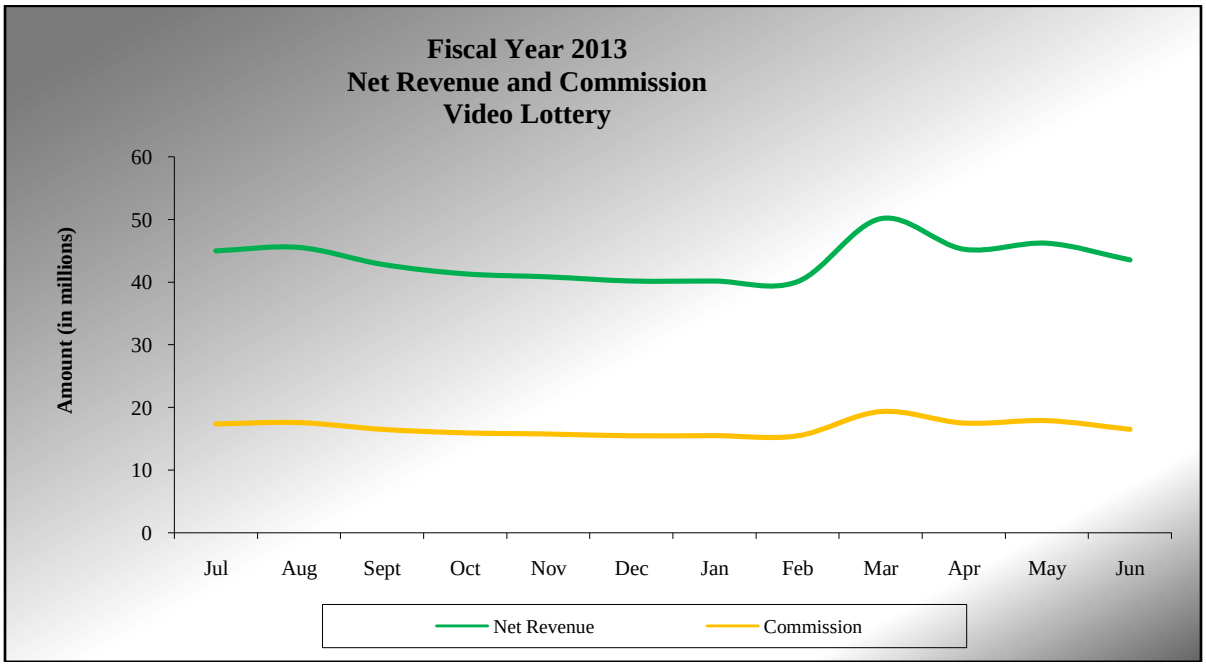
The following graph depicts the Lottery's on-line, instant, and video lottery operating revenue for the fiscal year ended June 30, 2013 in comparison to fiscal year ended June 30, 2012.



Commissions and Prize Awards Expense

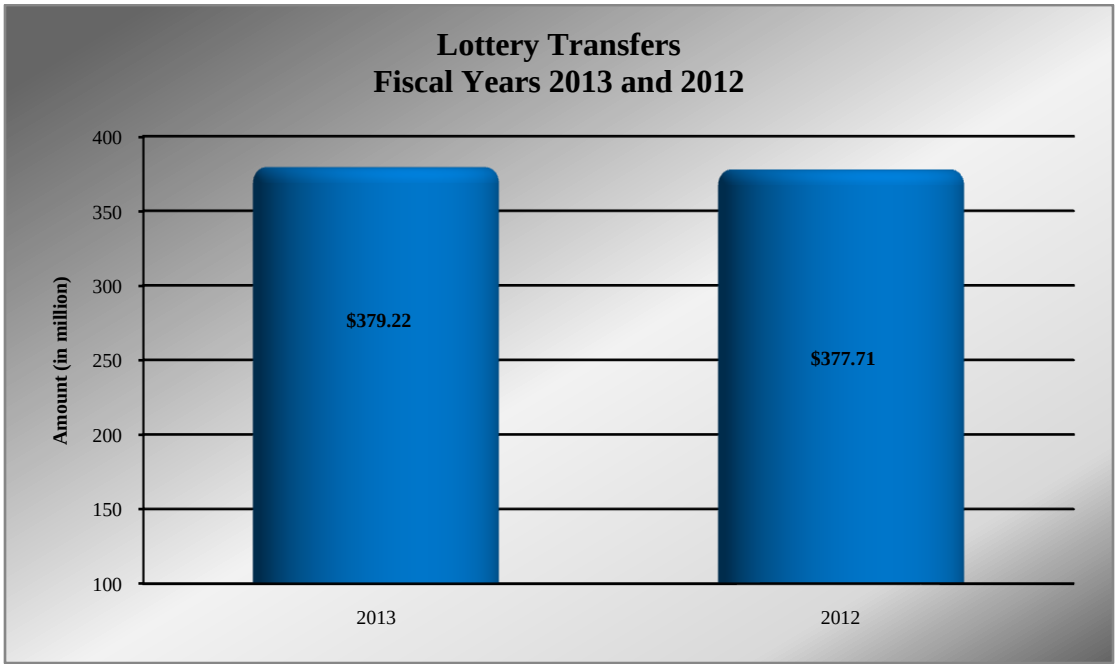
As the following graphs depict, the Lottery's most significant expenses (commissions and prize awards) are predictable because they have a direct correlation to sales. As lottery revenues increase, so do the related prizes and commissions paid by the Lottery. While each Lottery game has a designed prize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





Lottery Transfers

Net income transferred by the Lottery for the fiscal years ended June 30, 2013 and June 30, 2012 was $379.2 million and $377.7 million, respectively. The increase in transfers to the General Fund is mostly attributable to an increase in revenue from on-line games. All fiscal 2013 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.

The Lucky for Life regional game requires each selling lottery to purchase an insurance annuity to fully fund the top prize won in that state. All participating lotteries share in the cost of the insurance annuity, however, the selling lottery is responsible for settling the top prize liability. 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 purchases its annuities for any future top prize winners through MUSL with an insurance company with an AM Best rating of A or better.

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 video lottery operations currently compete with casinos in nearby Connecticut. In addition, Massachusetts lawmakers have passed a bill to allow three casinos and one slot parlor in that State. Massachusetts has developed a two-phase application process for potential operators and developers. The process is anticipated to be completed and operators selected during spring 2014. It is anticipated that there could be an adverse effect on the amount of revenue derived from video lottery facilities in Rhode Island. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.

- The General Laws delineate the allocation of net table game revenue between Twin River and the State. The statute includes provisions to modify the commission percentage for Twin River and the Town of Lincoln in the event video lottery net terminal income decreases upon the implementation of table games. This provision could reduce the Lottery's share of net table game revenue from 18% currently to 16% in future years if the aforementioned condition exists.

- Legislation was recently enacted to increase commissions to Newport Grand, one of the Lottery's video lottery facilities, by an additional 2.25% of Net Terminal Income beginning in fiscal 2014. This legislation is designed to provide additional compensation to this facility which has struggled financially in recent years. This legislation authorizes the increase through fiscal 2015.

- Revenue from table games operations in fiscal 2014, the first full year of operations, coupled with the addition of more tables at Twin River, is expected to approximate $60 million. The State's share in fiscal 2014 is expected to approximate $10.8 million with a residual transfer to the General Fund of approximately $6.5 million after related operating expenses.

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, 2013

Assets

Current assets:		
Cash and cash equivalents (note 3)	$	18,914,619
Accounts receivable-less allowance for doubtful accounts of $100,363		7,325,858
Deposits with Multi-State Lottery Association (MUSL) (note 1)		41,828
Ticket inventory		698,598
Total current assets		26,980,903
Capital assets, net (note 4)		402,288
Total assets		27,383,191

Liabilities

Current liabilities:		
Due to State's General Fund - net income from operations (note 5)	$	847,359
Due to State's General Fund - operating expenses (note 5)		353,432
Accounts payable		13,941,559
Obligation for unpaid prize awards		7,178,210
Accrued expenses		4,408,358
Compensated absences (note 7)		166,774
Advances for future drawings		217,939
Unearned contract revenue (note 8)		625,000
Other current liabilities		46,332
Total current liabilities		27,784,963
Long-term liabilities:		
Compensated absences (note 7)		223,228
Unearned contract revenue (note 8)		5,625,000
Total long-term liabilities		5,848,228
Total liabilities		33,633,191

Net Position

Net investment in capital assets (note 8)		402,288
Unrestricted (note 8)		(6,652,288)
Total net position (deficit)	$	(6,250,000)

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Statement of Revenue, Expenses, and Changes in Net Position

Year Ended June 30, 2013

Operating Revenue (schedule 1):	
On-line games	$ 168,360,807
Instant games	85,003,754
Video lottery (note 2)	520,747,106
Table games (note 2)	1,881,238
Total revenue	775,992,905
Cost of gaming operations (schedule 1):	
Commissions (note 6)	232,891,499
Prize awards, online and instant games	153,205,932
Incentive programs, video lottery	4,076,294
Advertising	2,159,542
Unclaimed prize recovery	(3,328,183)
Cost of tickets	1,098,515
Total cost of gaming operations	390,103,599
Gross profit	385,889,306
Operating expenses:	
Personal services	6,212,132
Contract services	61,413
Depreciation and amortization	151,218
Other	1,097,061
Total operating expenses	7,521,824
Operating income	378,367,482
Non-operating income (expenses):	
Investment income	114,980
Other income (expenses)	1,095,005
Income before transfers	379,577,467
Transfers to State's General Fund (note 5)	(379,224,717)
Transfers from RI Capital Plan Fund	272,250
Increase in net position	625,000
Total net position (deficit), beginning of year	(6,875,000)
Total net position (deficit), end of year (note 8)	$ (6,250,000)

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Statement of Cash Flows

Year Ended June 30, 2013

Cash flows from operating activities:		
Receipts from lottery sales, online and instant games	$	253,639,499
Receipts from video lottery operations		520,747,106
Receipts from table games		1,881,238
Receipts from MUSL for grand prize winners		2,333,000
Receipts from sale of other tickets		92,835
Other receipts		409,444
Payments for on-line and instant ticket prizes		(150,828,237)
Payments to MUSL grand prize winners		(2,333,000)
Payments for commissions - retailers		(9,035,425)
Payments for commissions - video lottery		(202,426,041)
Payments to facilities - video lottery incentive program		(4,007,075)
Payments for commissions - on-line games contractor		(21,883,748)
Payments to suppliers for goods and services		(3,670,584)
Payments to employees for services		(6,221,555)
Net cash provided by operating activities		378,697,457
Cash flows from noncapital financing activities:		
Transfers to State's General Fund		(380,910,701)
Transfers from RI Capital Plan Fund		272,250
Net cash used for noncapital financing activities		(380,638,451)
Cash flows from capital and related financing activities:		
Purchase of capital assets		(294,330)
Proceeds from sale of capital assets		7,652
Net cash used for capital and related financing activities		(286,678)
Cash flows from investing activities:		
Interest income		114,980
Net cash provided by investing activities		114,980
Net decrease in cash and cash equivalents		(2,112,692)
Cash and cash equivalents at July 1, 2012		21,027,311
Cash and cash equivalents at June 30, 2013	$	18,914,619

See accompanying notes to financial statements.

Continued.

RHODE ISLAND LOTTERY

Statement of Cash Flows (continued)

Year Ended June 30, 2013

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 378,367,482
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation and amortization	151,218
Miscellaneous receipts classified as operating activities	69,172
Rental income and other receipts	400,833
(Increase) decrease in assets:	
Accounts receivable	243,359
Inventory	116,229
Deposits with MUSL	(37,721)
Increase (decrease) in liabilities:	
Obligation for unpaid prize awards	(950,488)
Accounts payable	(121,706)
Due to State's General Fund - operating expenses	11,719
Accrued expenses and other	421,631
Advances for future drawings	25,729
Total adjustments	329,975
Net cash provided by operating activities	$ 378,697,457

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, Keno, Bingo, Wild Money, and Raffle. 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 has placed 2% of each drawing period's ticket sales for PowerBall®, included as part of each member's prize liability, in prize reserve funds. The maximum balance on the prize reserve funds for PowerBall® is $100 million. Once the prize reserve funds exceed this designated cap, the excess becomes part of the prize pool. The prize reserve funds serve as a contingency reserve to protect MUSL from unforeseen prize liabilities, and these reserve funds are to be used at the discretion of the MUSL Board of Directors. The prize reserve funds are refundable to MUSL members if the MUSL disbands or if a member leaves MUSL. Members leaving MUSL must wait one year before receiving their remaining share, if any, of prize reserve funds. At June 30, 2013, the prize reserve funds for the PowerBall® game reported a balance of $78.9 million of which the Lottery's share was $1.2 million. The Lottery has charged amounts placed into the prize reserve funds to prize awards expense as the related sales have occurred.

(1) *Organization* - (Continued)

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 and operating expenses related to its unreserved account and has reported the balance of $41,828 at June 30, 2013 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. 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 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.

All top prizes are funded through the purchase of insurance annuities. 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 with a minimum value of $500 per week. If more than 14 winners, the top prize will be split equally and paid in one lump sum. 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:

(1) *Organization* - (Continued)

- 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.

Second and third level prizes are set at $25,000 and $2,000 respectively. If there are more than a specified number of winners at each level, the total prize liability is set and split equally among the winners. All low-tier prizes (all levels except the top prize) 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 retailers include 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 5,635 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 are operated 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 2013), and the balance being remitted to the General Fund.

(1) *Organization* - (Continued)

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.

Game	Prize Payout	Mandated Payments to the State
Daily Numbers Raffle 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 - not less than 25% of ticket sales
Keno	Not less than 45% or more than 72% of sales	Payments to the General Fund - not less than 15% of ticket sales
Video Lottery	Prize payout not established by law	Payments to the General Fund - net terminal income (video lottery credits purchased less credits redeemed or redeemable, including prize contributions to multi-state video lottery progressive jackpots) minus commission payments 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 of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the related liabilities are incurred. The Governmental Accounting Standards Board (GASB) has the responsibility for establishing generally accepted accounting principles for governmental proprietary fund type activities.

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

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

(b) *Reporting Entity*

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

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

(c) *Revenues and Expenses*

The Lottery defines all revenues and expenses deriving from on-line, instant ticket, 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. 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 2013 and reported video lottery net revenue are detailed in the following schedule:

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

Schedule of Video Lottery Net Revenue
For the Fiscal Year Ended June 30, 2013

Video Terminal Cash-In (Gross Terminal Inputs):	
Cash collected from video lottery terminals	$ 1,522,994,600
Plus: Credit vouchers redeemed for play in video lottery terminals	1,922,321,733
Total cash in reported by video lottery terminals	3,445,316,333
Less:	
Video Terminal Cash-out (Gross Terminal Outputs):	
Video lottery credit vouchers issued by video lottery terminals	2,924,295,816
Plus: Contributions to progressive video jackpots from patron play	273,411
Total cash-out amounts reported by video lottery terminals	2,924,569,227
Video lottery revenue, net	$ 520,747,106

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 beginning chip inventory, and plus ending chip inventory.

   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), video facility contributions for the Lottery’s problem gaming program, rental income, and refunds from the Multi-state Lottery Association. Non-operating expenses include the costs of operating the Lottery’s problem gambling program.

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

(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.

(e) *Cash Equivalents*

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

(f) *Ticket Inventory*

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

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

(i) *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) *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported

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

amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those amounts.

(k) *Changes in Accounting Estimate and Presentation*

In fiscal year 2013, the Lottery changed its asset capitalization policy to mirror the policies adopted by the State. This change resulted in higher capitalization thresholds for most capital asset categories and increased the useful lives for buildings from 20 to 50 years. This change did not have a material effect on the Lottery's financial statements for fiscal 2013 and is not expected to materially impact future periods.

The Lottery implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in fiscal 2013. While the Lottery did not have any deferred inflows or outflows of resources, as defined by GASB 63, the implementation did result in certain changes in terminology utilized within the Lottery's financial statements.

(3) *Deposits and Investment Risk*

(a) *Deposits*

The Lottery's cash deposit balances at June 30, 2013 totaled $11,138,467, with corresponding bank balances totaling $11,190,668. The bank balances consisted of $327,090 in demand deposit accounts and $10,863,578 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, 2013 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 $11,190,668 at year end, the entire amount was either covered by federal depository insurance or collateralized by securities held by an independent third party custodian.

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

(b) *Investments*

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

At June 30, 2013, the Lottery had investments consisting of $7,776,152 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The Lottery's investment accounted for 3% of the total investment in OSIP at June 30, 2013. 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 pool 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	$ 11,138,467
Investments classified as cash equivalents	7,776,152
Cash and cash equivalents	$ 18,914,619

(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, 2012	2013 Additions	2013 Disposals	Balance at June 30, 2013
Cost					
Building	50	$ 1,468,983	$ -	$ (31,071)	$ 1,437,912
Building improvements	20	1,913,530	32,936	(1,865)	1,944,601
Ticket production equipment	5	11,486	-	-	11,486
Office equipment	5	101,548	-	(311)	101,237
Furniture and fixtures	5	91,212	-	(356)	90,856
Lottery drawing equipment	5	99,402	-	-	99,402
Automobiles	5	274,839	100,245	(59,411)	315,673
Computer equipment	5	190,540	16,796	(27,644)	179,692
Trucks	5	22,445	-	-	22,445
Intangible Assets	7	-	175,424	-	175,424
Total		$ 4,173,985	$ 325,401	$ (120,658)	$ 4,378,728
Less: Accumulated Depreciation and Amortization					
Building		$ 1,454,563	$ 1,423	$ (18,074)	$ 1,437,912
Building improvements		1,747,542	91,253	-	1,838,795
Ticket production equipment		11,486	-	-	11,486
Office equipment		43,973	12,725	(311)	56,387
Furniture and fixtures		86,258	4,954	(356)	90,856
Lottery drawing equipment		93,614	4,030	-	97,644
Automobiles		257,664	36,150	(59,411)	234,403
Computer equipment		189,612	4,138	(21,857)	171,893
Trucks		22,445	-	-	22,445
Intangible Assets		-	14,619	-	14,619
Total		$ 3,907,157	$ 169,292	$ (100,009)	$ 3,976,440
Capital assets, net		$ 266,828	$ 156,109	$ (20,649)	$ 402,288

(5) *Transfers to the State*

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

(a) Transfers to the State's General Fund for fiscal 2013 are reported as follows in the Lottery's financial statements:

Due to State's General Fund, beginning of year	$ 2,533,343
Transfers to State's General Fund	379,224,717
Cash paid during fiscal year	(380,910,701)
Due to State's General Fund, end of year	$ 847,359

(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 the General Fund at year-end for operating expenses totaled $353,432. This amount is reported on the Statement of Net Position separate 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 $390,002 as of June 30, 2013 and is recorded as a liability in the Statement of Net Position. The current portion of $166,774 as reported was estimated based on a three year average of employee utilization experience.

(7) *Compensated Absences* - (Continued)

Changes in the reported liability for compensated absences for fiscal 2013 are as follows:

	Balance at July 1, 2012	Increase	Decrease	Balance at June 30, 2013
Liability for Compensated Absences	$399,425	$246,469	$255,892	$ 390,002

(8) *Net Position - (Deficit)*

On May 12, 2003, the Lottery entered into a 20-year contract, effective July 1, 2003, with its current gaming system provider. The contract granted the provider the right to be the Lottery's exclusive vendor of hardware and software, together with the related services necessary for the operation of the Lottery's computerized games, through June 30, 2023. In return, the provider made a one-time payment of $12.5 million to the Lottery as consideration for this exclusive contract right. The Lottery recorded unearned contract revenue in the amount of $12.5 million and transferred the cash to the State's General Fund on June 30, 2003. This prior year transfer of unearned contract revenue resulted in a deficit in net position at June 30, 2013 of $6.25 million. As the contract revenue is recognized over the twenty-year life of the contract, the deficit in 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, 2013.

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, 2013.

(9) *Retirement Plan*

Effective July 1, 2012, the State administered retirement system was modified to include both 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.

Funding Policy:

The funding policy, as set forth in the General Laws, Section 36-10-2, provides for actuarially determined periodic contributions to the plan. Lottery employees are required to contribute 3.75% of their annual covered salary. The Lottery is required to contribute at an actuarially determined rate; the rate was 21.18% of annual covered payroll for the fiscal year ended June 30, 2013. The Lottery contributed $730,252, $728,878, and $595,558 for the fiscal years ended June 30, 2013, 2012 and 2011, respectively, equal to 100% of the required contributions for each year.

(9) *Retirement Plan* - (Continued)

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 and employers 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 employer are established 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 $34,479 for the fiscal year ended June 30, 2013 (which was the first year of the defined contribution plan), equal to 100% of the required contributions for that year.

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) *Postemployment Healthcare Plan*

Plan Description:

The Lottery contributes to the State's 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, publicly available financial report. A copy of the report can be obtained from the State Controller's Office, 1 Capitol Hill, Providence, RI 02903.

(10) *Postemployment Healthcare Plan* - (Continued)

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.

All participating employers are required by law to fund the actuarially determined annual required contribution (ARC), which for fiscal year 2013 was 6.86% of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The Lottery's contribution to the plan for the years ended June 30, 2013, June 30, 2012 and June 30, 2011 were $236,522, $218,485, and $193,447 respectively, which represents 100% of the ARC.

(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 of Lottomatica Group S.p.A.)

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

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

(12) *Commitments* - (Continued)

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 and the square footage leased is 5,101 square feet. The annual lease amount for the first year approximated $87,000 and the four (4) remaining years will increase by four percent (4%) per annum, effective October 19. The tenant has 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.

(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 2013, Twin River was authorized and issued approximately $31.8 million in promotional points to facility patrons. Recently enacted legislation has authorized an additional expansion of Twin River's promotional play program effective July 1, 2013.

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 (61.12% and 61.16% for fiscal years 2013 and 2012, 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).

(12) *Commitments* - (Continued)

(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.

The Master Contract has been amended in recent years to reflect the statutory authorization of a promotional points program at Newport Grand. In fiscal 2013, Newport Grand was authorized and issued approximately $5.8 million in promotional points to facility patrons. Recently enacted legislation has authorized an additional expansion of Newport Grand's promotional play program effective July 1, 2013.

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 (61.67% and 61.76% for fiscal years 2013 and 2012, 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 2013, a subsequent loan amendment required continued deposits and a new loan covenant requirement.

(c) The Lottery's video lottery operations could be adversely impacted by enacted legislation in Massachusetts allowing three casinos and one slot parlor in that State. Massachusetts has developed a two-phase application process for potential operators and developers. The Massachusetts Gaming Commission could award casino licenses during fiscal 2014 based on

(13) *Contingencies* - (Continued)

their current timeline. Depending on the resulting location of the facilities within Massachusetts, lottery revenues in Rhode Island could decrease.

(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. 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.

(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 activities and worker compensation claims. The Lottery manages these risks through the purchase of commercial insurance. During fiscal 2013, the Lottery maintained its amount of purchased insurance coverage. Claims and settlements incurred for fiscal years 2013, 2012 and 2011 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 September 27, 2013, the date for which the financial statements were available for issuance.

Subsequent to June 30, 2013, legislation was enacted in the State of Rhode Island that increased the percentage of net terminal income payable to Newport Grand LLC under the Newport Grand Master Contract discussed in Note 12(c). The commission payable to Newport Grand was increased by 2.25% for the period July 1, 2013 through June 30, 2015.

Supplementary Information

RHODE ISLAND LOTTERY

Operating Revenue and Cost of Gaming Operations

Year Ended June 30, 2013

Schedule 1

	Revenue [3]	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	$ 78,964,759	$ 10,265,306	$ 51,122,847	$ (261,600)	$ -	$ 299,456	$ -	$ 61,426,009	$ 17,538,750
Bingo	1,381,565	179,601	883,833	-	-	12,829	-	1,076,263	305,302
PowerBall®	40,949,997	5,323,441	20,478,826	(424,524)	-	486,780	-	25,864,523	15,085,474
Daily Numbers	24,522,578	3,187,900	12,194,206	(189,477)	-	53,456	-	15,246,085	9,276,493
Mega Millions®	7,930,357	1,030,935	4,069,652	(182,476)	-	212,651	-	5,130,762	2,799,595
Wild Money	3,583,753	465,883	2,010,545	(100,732)	-	6,712	-	2,382,408	1,201,345
Lucky for Life	8,726,218	1,134,396	4,192,093	(836,766)	-	146,478	-	4,636,201	4,090,017
Raffle	2,301,580	299,202	1,200,000	(32,000)	-	353,664	-	1,820,866	480,714
	168,360,807	21,886,664	96,152,002	(2,027,575)	-	1,572,026	-	117,583,117	50,777,690
Instant tickets	85,003,754	9,032,509	57,053,930	(1,133,174)	1,098,515	587,516	-	66,639,296	18,364,458
Video Lottery [1]	520,747,106	200,429,711	-	(167,434)	-	-	4,076,294	204,338,571	316,408,535
Table Games [2]	1,881,238	1,542,615	-	-	-	-	-	1,542,615	338,623
Totals	$ 775,992,905	$ 232,891,499	$ 153,205,932	$ (3,328,183)	$ 1,098,515	$ 2,159,542	$ 4,076,294	$ 390,103,599	$ 385,889,306

Video Lottery Commissions - Detail

Facilities	$ 143,716,420
Technology Providers	35,863,253
Central Communications Provider	12,707,471
City/Town	7,339,102
Narragansett Indian Tribe	803,465
Total	$ 200,429,711

(1) See note 2 (c) (3) for detail of gross video lottery terminal activity.
(2) Table Games commenced June 14, 2013.
(3) See note 2 (c) for details of revenue accounting policy.

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 50

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 55

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 58

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

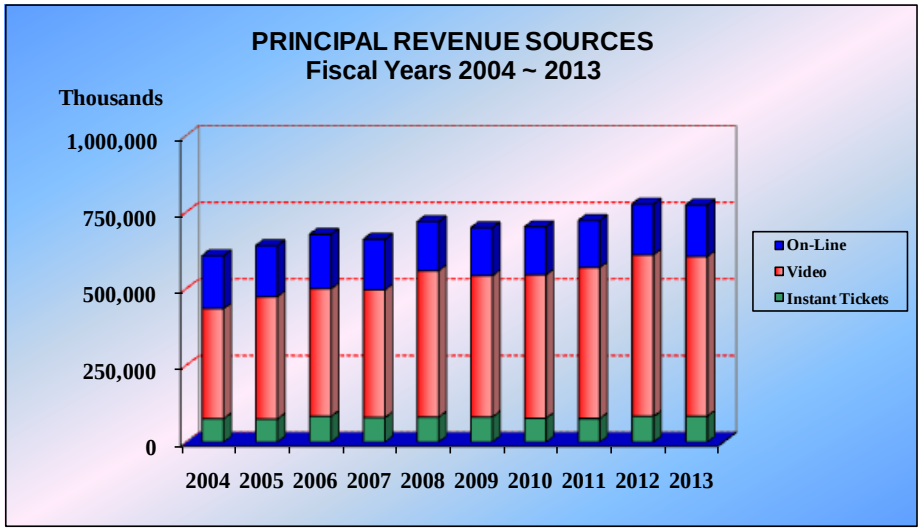
RHODE ISLAND LOTTERY

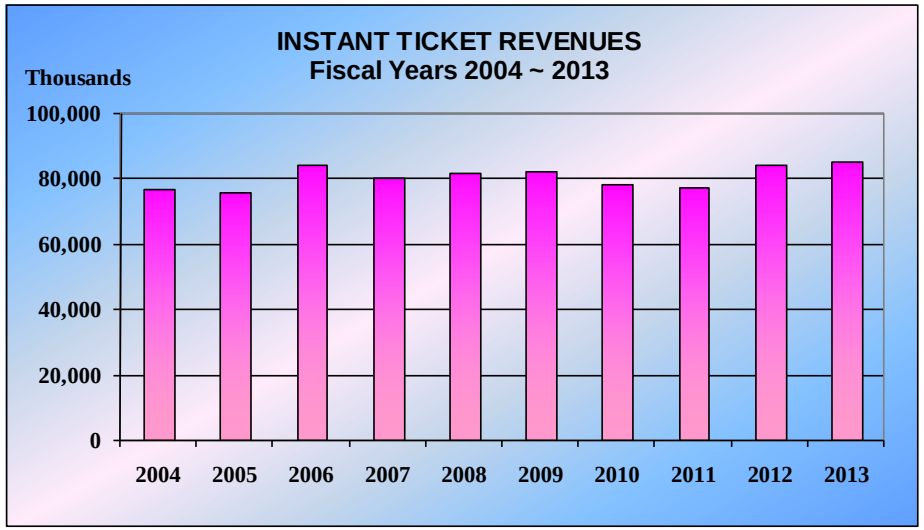
Principal Revenue Sources

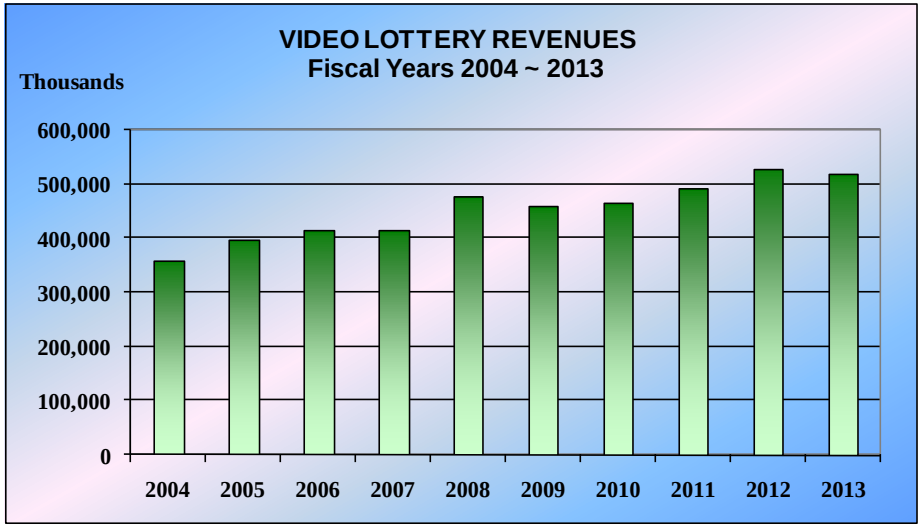
Fiscal Years 2004 through 2013

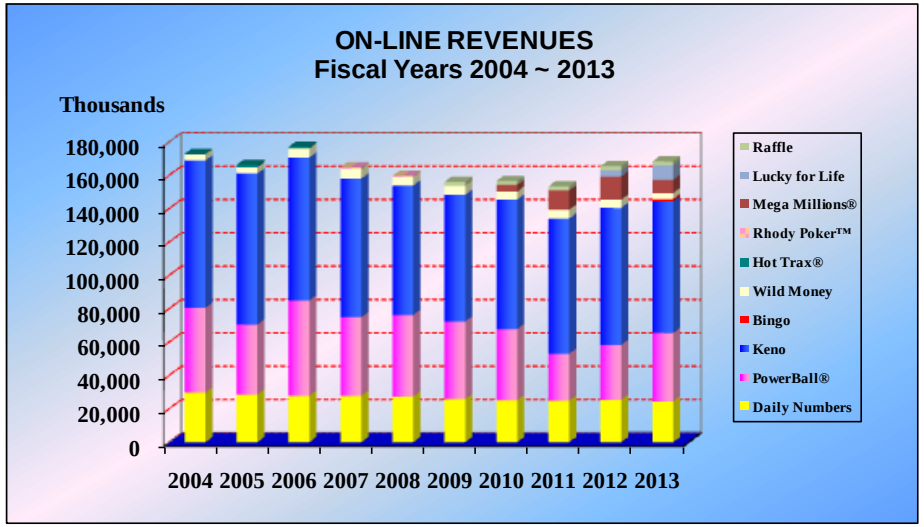
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Operating Revenue										
Instant tickets										
Instant tickets	$ 76,521,924	$ 75,598,569	$ 84,018,698	$ 79,980,026	$ 81,557,881	$ 82,348,042	$ 77,978,026	$ 77,217,452	$ 83,950,804	$ 85,003,754
Percentage of total revenues	12.6%	11.8%	12.4%	12.0%	11.3%	11.7%	11.1%	10.7%	10.8%	10.9%
Video										
Video lottery	358,869,802	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
Percentage of total revenues	58.9%	62.1%	61.3%	62.7%	66.2%	65.8%	66.5%	68.0%	67.8%	67.0%
Table games										
Table games	-	-	-	-	-	-	-	-	-	1,881,238
Percentage of total revenues	-	-	-	-	-	-	-	-	-	0.2%
On-line										
Daily Numbers	29,681,795	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
PowerBall®	50,869,394	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
Mega Millions®	-	-	-	-	-	-	4,067,206	11,543,667	13,943,638	7,930,357
Keno	88,327,994	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
Bingo	-	-	-	-	-	-	-	-	-	1,381,565
Wild Money	3,762,342	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
Lucky for Life	-	-	-	-	-	-	-	-	3,774,422	8,726,218
Hot Trax®	235,570	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	172,877,095	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
Percentage of total revenues	28.4%	25.9%	26.0%	24.8%	22.1%	22.3%	22.3%	21.2%	21.3%	21.7%
Total revenue	**608,268,821**	**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**
Non-operating income										
Investment income	251,175	605,983	1,216,873	1,412,256	1,404,108	445,149	98,194	76,759	92,061	114,980
Net pull tab sales	220,180	201,848	161,363	155,177	130,736	116,311	98,594	70,582	65,891	63,322
Contract revenue	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000
Miscellaneous	217,966	402,146	339,382	443,289	354,257	402,289	206,708	396,278	162,823	406,683
Total non-operating revenues	**1,314,321**	**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**
Percentage of total revenues	0.2%	0.3%	0.3%	0.4%	0.3%	0.2%	0.1%	0.1%	0.1%	0.1%
Total revenues	**$ 609,583,142**	**$ 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**

Source: Rhode Island Lottery









Source: Rhode Island Lottery

RHODE ISLAND LOTTERY

Change in Net Position

Fiscal Years 2004 through 2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Operating revenues										
Instant tickets	$ 76,521,924	$ 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
Video lottery	358,869,802	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
Table games	-	-	-	-	-	-	-	-	-	1,881,238
On-line	172,877,095	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
Total operating revenue	608,268,821	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
Cost of gaming operations										
Prizes	$ 151,332,611	$ 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
Retailer/vendor commissions	30,544,726	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
Video commissions	141,385,014	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
Table games commissions	-	-	-	-	-	-	-	-	-	1,542,615
Incentive programs, video	-	-	-	-	-	-	-	2,212,253	4,003,153	4,076,294
Advertising and promotion	1,606,350	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
Cost of tickets	997,689	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
Unclaimed prize recovery	(3,006,492)	(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)
Total cost of gaming operations	322,859,898	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
Gross Profit	**285,408,923**	**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**
Operating Expenses										
Personal services	3,740,101	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
Contract services	86,182	208,100	95,493	136,973	159,549	58,480	57,509	80,732	133,469	61,413
Equipment leasing	51,295	-	-	-	-	-	-	-	-	-
Depreciation and amortization	330,088	312,825	292,694	261,956	245,940	240,281	246,683	234,375	220,856	151,218
Other	748,934	972,485	615,256	967,257	974,820	898,064	926,177	749,718	672,676	1,097,061
Total operating expenses	4,956,600	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
Operating Income	**280,452,323**	**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**
Non-operating income (expenses)										
Interest income	251,175	605,983	1,216,873	1,412,256	1,404,108	445,149	98,194	76,759	92,061	114,980
Contract revenue	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000
Other	438,146	603,994	500,745	598,466	484,993	518,600	305,302	466,860	228,714	470,005
Total non-operating income (expenses)	1,314,321	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
Income Before Transfers	**281,766,644**	**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**
Transfers from (to) State's General Fund	(281,141,644)	(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)
Transfers from (to) RI Capital Plan Fund	-	-	-	-	-	-	-	-	-	272,250
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, 2004 through 2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Net Position at Year-End										
Net investment in capital assets	$ 1,707,113	$ 1,549,770	$ 1,314,290	$ 1,138,619	$ 908,218	$ 808,117	$ 690,870	$ 469,496	$ 266,828	$ 402,288
Unrestricted	(13,582,113)	(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)
Total Net Position (Deficit)	$ (11,875,000)	$ (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)

Source: Rhode Island Lottery

RHODE ISLAND LOTTERY

Changes in Cash and Cash Equivalents

Fiscal Years 2004 through 2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Cash Flows from Operating Activities										
Receipts from lottery sales, online and instant games	$ 249,242,726	$ 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
Receipts from video lottery operations	358,869,802	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
Receipts from table games	-	-	-	-	-	-	-	-	-	1,881,238
Receipts from MUSL for grand prize winners	6,272,538	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
Receipts from sale of other tickets	220,179	294,516	238,707	228,582	191,079	171,072	143,942	103,042	96,476	92,835
Other receipts	228,469	410,740	258,364	219,906	414,776	390,203	452,624	489,956	204,397	409,444
Payments for on-line and instant ticket prizes	(148,142,302)	(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)
Payments to MUSL grand prize winners	(6,272,538)	(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)
Payments for commissions - retailers	(18,124,635)	(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)
Payments for commissions - video lottery	(143,889,867)	(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)
Payments to facilities - vido lottery marketing program	-	-	-	-	-	-	-	-	(2,199,328)	(4,007,075)
Payments for commissions - on-line games contractor	(12,858,316)	(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)
Payments to suppliers for goods and services	(3,846,370)	(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)
Payments to employees for services	(3,582,394)	(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)
Net cash provided by operating activities	278,117,292	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
Cash Flows from Noncapital Financing Activities										
Transfers from (to) State's General Fund	(280,940,052)	(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)
Transfers from (to) RI Capital Plan Fund	-	-	-	-	-	-	-	-	-	272,250
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	(280,940,052)	(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)
Cash Flows from Capital and Related Financing Activities										
Purchase of capital assets	(183,260)	(155,534)	(57,214)	(86,285)	(15,539)	(146,153)	(131,578)	(13,000)	(18,188)	(294,330)
Proceeds from sale of capital assets	-	-	-	-	16,500	-	-	-	-	7,652
Net cash provided by (used for) capital and related financing activities	(183,260)	(155,534)	(57,214)	(86,285)	961	(146,153)	(131,578)	(13,000)	(18,188)	(286,678)
Cash Flows from investing Activities										
Proceeds from maturity of investments for jackpot awards	294,800	-	-	-	-	-	-	-	-	-
Interest income	251,175	605,983	1,216,872	1,412,256	1,404,109	445,149	98,194	76,759	92,061	114,980
Net cash provided by investing activities	545,975	605,983	1,216,872	1,412,256	1,404,109	445,149	98,194	76,759	92,061	114,980
Net increase (decrease) in cash	(2,460,045)	(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)
Cash and cash equivalents, beginning of year	10,416,724	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
Cash and cash equivalents, end 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**

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	49,144
Kent County	171,083	171,153	170,551	169,416	168,658	168,635	168,752	166,158	165,535	164,843
Newport County	85,255	84,513	82,794	83,367	81,305	80,699	80,300	82,888	82,695	82,036
Providence County	636,454	636,721	633,405	630,186	628,280	627,437	627,690	626,667	626,709	628,323
Washington County	127,798	128,146	127,665	127,089	126,787	126,853	126,925	126,979	126,563	125,946
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	1,050,292
Percent Increase/(Decrease)	0.75%	-0.01%	-0.60%	-0.45%	-0.49%	-0.14%	-0.03%	-0.06%	-0.12%	-0.10%

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	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

2012

Rank	Employer	Employed	% of Total Employment
1	Lifespan	9,984	1.79%
2	CVS Corporation	6,200	0.92%
3	Citizens Financial Group (Royal Bank of Scotland)	5,350	1.11%
4	Care New England	5,150	0.96%
5	Brown University	4,525	0.81%
6	Roman Catholic Diocese of Providence	3,600	0.65%
7	CharterCare Health Partners	3,091	0.54%
8	Bank of America	3,000	0.55%
9	Fidelity Investments	3,000	0.54%
10	Naval Undersea Warfare Center	2,752	0.49%

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: *Rhode Island Economic Development Corporation.*
Some employers are not listed because they did not wish to participate.
Source: *Effective in 2011, information is provided by Providence Business News Book of Lists.*

RHODE ISLAND LOTTERY

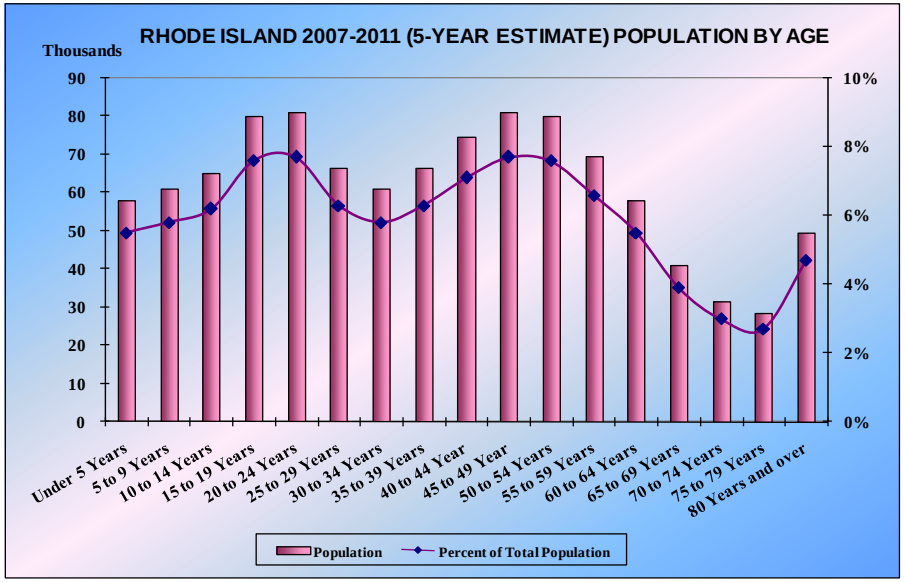
Rhode Island Lottery Employees by Function

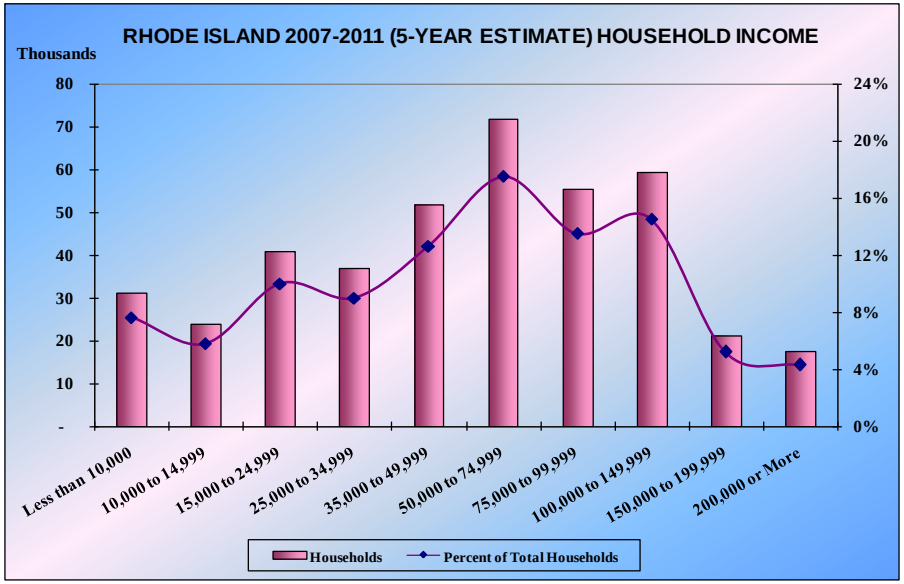
	Total Employees									
Categories	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Officials/Managers/Administrators	6	6	5	6	6	6	5	5	6	8
Professionals	11	15	14	13	13	12	11	12	12	19
Technicians	3	3	4	5	5	5	4	4	5	6
Protective Services	2	3	2	2	2	2	2	2	2	10
Para Professionals	20	16	16	17	17	16	17	17	16	28
Administrative Support	11	12	12	12	11	7	8	8	8	9
Maintenance	2	2	3	2	2	2	2	2	2	2
Total	55	57	56	57	56	50	49	50	51	82

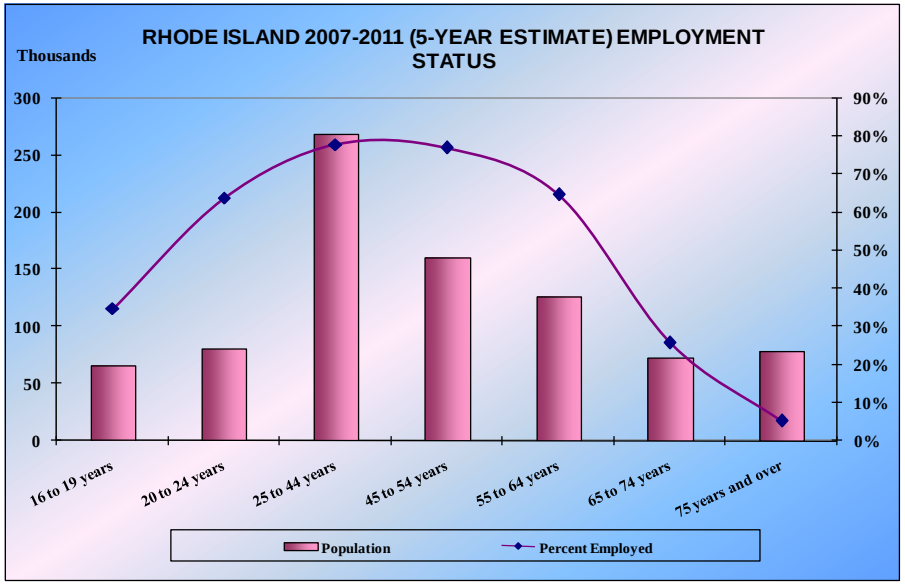
Source: Rhode Island Lottery

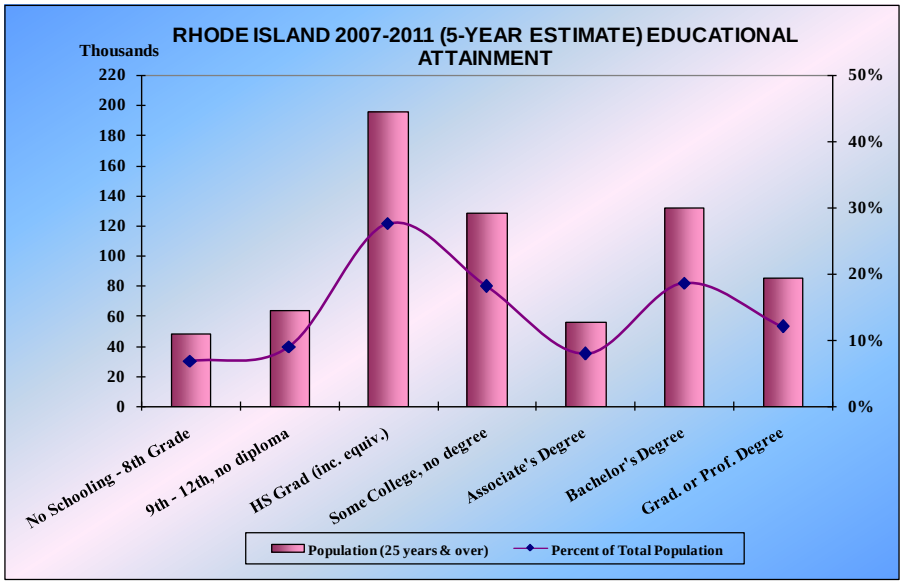
RHODE ISLAND LOTTERY

Rhode Island Demographics









Source: U.S. Census Bureau

Lottery Statistics – National

U.S. LOTTERIES RANKED BY FISCAL YEAR 2013 SALES

RANK	LOTTERY	FY '12 SALES ($M)	FY '13 SALES ($M)
1	New York	8,439.47	8,934.29
2	Florida	4,449.90	5,013.00
3	Massachusetts	4,741.40	4,839.27
4	California	4,371.49	4,445.87
5	Texas	4,190.82	4,376.29
6	Georgia	3,834.70	3,912.16
7	***Rhode Island***	***3,532.18***	***3,700.56***
8	Pennsylvania	3,480.90	3,699.67
9	Oregon	1,051.50	2,951.89
10	Ohio	2,750.00	2,863.45
11	Illinois	2,680.14	2,832.58
12	New Jersey	2,758.80	2,821.40
13	Michigain	2,413.46	2,476.40
14	Maryland	1,989.91	2,364.47
15	North Carolina	1,596.69	1,689.80
16	Viginia	1,616.00	1,689.24
17	Tennessee	1,311.00	1,367.54
18	West Virginia	1,457.53	1,328.38
19	South Carolina	1,135.65	1,199.21
20	Missouri	1,097.40	1,140.83
21	Connecticut	1,081.70	1,122.69
22	Indiana	855.59	934.03
23	Kentucky	823.55	846.67
24	Arizona	646.68	692.93
25	South Dakota	603.19	637.44
26	Delaware	686.76	631.89
27	Washington	535.20	569.59
28	Colorado	545.30	566.28
29	Wisconsin	547.00	566.10
30	Minnesota	520.03	560.40
31	Louisiana	429.60	447.42
32	Arkansas	473.10	439.55
33	Iowa	310.85	339.25
34	New Hampshire	254.92	279.34
35	Kansas	246.14	244.81
36	District of Columbia	252.15	242.71
37	Maine	228.30	227.72
38	Oklahoma	199.97	200.21
39	Idaho	175.84	197.45
40	Nebraska	150.61	160.75
41	New Mexico	133.79	141.76
42	Vermont	100.93	102.09
43	Montana	52.60	56.98
44	North Dakota	26.00	27.84
	TOTAL	**68,778.74**	**73,882.20**

Results are unofficial and unaudited

U.S. LOTTERIES RANKED BY SALES % CHANGE

RANK	LOTTERY	% CHANGE
1	Oregon	180.7%
2	Maryland	18.8%
3	Florida	12.7%
4	Idaho	12.3%
5	New Hampshire	9.6%
6	Indiana	9.2%
7	Iowa	9.1%
8	Montana	8.3%
9	Minnesota	7.8%
10	Arizona	7.2%
11	North Dakota	7.1%
12	Nebraska	6.7%
13	Washington	6.4%
14	Pennsylvania	6.3%
15	New Mexico	6.0%
16	New York	5.9%
17	North Carolina	5.8%
18	Illinois	5.7%
19	South Dakota	5.7%
20	South Carolina	5.6%
21	***Rhode Island***	***4.8%***
22	Viginia	4.5%
23	Texas	4.4%
24	Tennessee	4.3%
25	Louisiana	4.1%
26	Ohio	4.1%
27	Missouri	4.0%
28	Colorado	3.8%
29	Connecticut	3.8%
30	Wisconsin	3.5%
31	Kentucky	2.8%
32	Michigain	2.6%
33	New Jersey	2.3%
34	Massachusetts	2.1%
35	Georgia	2.0%
36	California	1.7%
37	Vermont	1.1%
38	Oklahoma	0.1%
39	Maine	-0.3%
40	Kansas	-0.5%
41	District of Columbia	-3.7%
42	Arkansas	-7.1%
43	Delaware	-8.0%
44	West Virginia	-8.9%
		7.42%

Source: North American Association of State & Provincial Lotteries

U.S. LOTTERIES RANKED BY FISCAL YEAR 2013 PROFIT

RANK	LOTTERY	FY '12 PROFIT ($M)	FY '13 PROFIT ($M)
1	New York	2,887.99	3,045.77
2	Florida	1,321.60	1,424.31
3	California	1,320.00	1,284.37
4	Texas	1,156.56	1,214.10
5	Pennsylvania	1,060.89	1,067.38
6	New Jersey	950.00	965.01
7	Massachusetts	833.90	955.80
8	Georgia	901.30	927.48
9	Maryland	683.07	868.72
10	Ohio	771.03	803.13
11	Illinois	708.50	793.52
12	Michigain	770.00	735.62
13	Oregon	526.60	530.59
14	West Virginia	662.98	522.99
15	Viginia	487.06	486.53
16	North Carolina	456.76	479.51
17	***Rhode Island***	***377.70***	***379.22***
18	Tennessee	323.40	339.71
19	Connecticut	310.00	314.00
20	South Carolina	297.74	305.21
21	Missouri	280.00	280.01
22	Delaware	271.33	237.23
23	Indiana	210.84	224.66
24	Kentucky	216.40	223.81
25	Arizona	164.70	176.52
26	Louisiana	156.90	160.21
27	Wisconsin	149.90	156.30
28	Washington	138.00	139.23
29	Colorado	123.20	135.63
30	Minnesota	123.65	135.24
31	South Dakota	100.40	107.70
32	Arkansas	97.50	90.26
33	Iowa	78.73	84.89
34	Kansas	72.00	74.52
35	New Hampshire	66.77	74.33
36	Oklahoma	69.99	70.61
37	District of Columbia	65.50	70.00
38	Maine	54.30	53.52
39	Idaho	41.50	48.28
40	New Mexico	41.30	43.68
41	Nebraska	36.08	40.02
42	Vermont	22.30	22.93
43	Montana	13.10	13.08
44	North Dakota	7.62	7.93
	TOTAL	**19,409.09**	**20,113.56**

Results are unofficial and unaudited

U.S. LOTTERIES RANKED BY PROFIT % CHANGE

RANK	LOTTERY	% CHANGE
1	Maryland	27.2%
2	Idaho	16.3%
3	Massachusetts	14.6%
4	Illinois	12.0%
5	New Hampshire	11.3%
6	Nebraska	10.9%
7	Colorado	10.1%
8	Minnesota	9.4%
9	Iowa	7.8%
10	Florida	7.8%
11	South Dakota	7.3%
12	Arizona	7.2%
13	District of Columbia	6.9%
14	Indiana	6.6%
15	New Mexico	5.8%
16	New York	5.5%
17	Texas	5.0%
18	Tennessee	5.0%
19	North Carolina	5.0%
20	Wisconsin	4.3%
21	Ohio	4.2%
22	North Dakota	4.1%
23	Kansas	3.5%
24	Kentucky	3.4%
25	Georgia	2.9%
26	Vermont	2.8%
27	South Carolina	2.5%
28	Louisiana	2.1%
29	New Jersey	1.6%
30	Connecticut	1.3%
31	Washington	0.9%
32	Oklahoma	0.9%
33	Oregon	0.8%
34	Pennsylvania	0.6%
35	***Rhode Island***	***0.4%***
36	Missouri	0.0%
37	Viginia	-0.1%
38	Montana	-0.2%
39	Maine	-1.4%
40	California	-2.7%
41	Michigain	-4.5%
42	Arkansas	-7.4%
43	Delaware	-12.6%
44	West Virginia	-21.1%
		3.63%

Source: North American Association of State & Provincial Lotteries