



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2007

Connecticut Lottery Corporation (A Component Unit of the State of Connecticut)



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2007



CONNECTICUT LOTTERY CORPORATION
(A Component Unit of the State of Connecticut)

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COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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MISSION STATEMENT

The mission of the Connecticut Lottery Corporation is to raise revenue in support of the various programs and services of the State of Connecticut by offering products to our players that are fun and entertaining and by ensuring the public's trust through integrity and honesty.

VISION STATEMENT

The Connecticut Lottery Corporation will be recognized throughout the State of Connecticut and in the gaming industry as a leader committed to helping the State achieve its revenue raising objectives. The CLC will do so by offering fun and entertaining games while maintaining a solid reputation for adhering to the highest standards of operation, integrity and honesty. Furthermore, it is the CLC's charge to address issues related to problem and underage gambling by taking proactive steps to establish responsible gambling programs and support existing efforts.



INTRODUCTORY SECTION

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December 28, 2007

The Honorable M. Jodi Rell, Governor of Connecticut,
The Connecticut Lottery Corporation Board of Directors, and
The Citizens of Connecticut

We are pleased to transmit to you the Comprehensive Annual Financial Report of the Connecticut Lottery Corporation (CLC or Lottery) for the fiscal year ended June 30, 2007. Responsibility for the accuracy of the financial data, as well as the completeness and fairness of the presentation, including all disclosures, rests with management of the CLC. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations, and cash flows of the CLC. We have included all disclosures necessary to enable the reader to gain an understanding of the CLC's financial activities.

We present this report in four sections: the introductory section, the financial section, the statistical section and the compliance section. The introductory section includes this transmittal letter, a list of principal officials, an organizational chart, our current lottery games, and significant events of the past fiscal year. The financial section begins with the report of independent auditors, followed by management's discussion and analysis of fiscal 2007, the comparative financial statements of the CLC, the related notes to the financial statements and supplementary schedules. The statistical section, which is unaudited, provides additional information concerning the Lottery's sales and expenses. The compliance section contains the independent auditors report on internal control over financial reporting and on compliance with Connecticut General Statutes.

Accounting principles generally accepted in the United States (GAAP) for governmental enterprise funds require that we 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 Connecticut Lottery Corporation's MD&A can be found immediately following the report of the independent auditors in the financial section.

[PROFILE OF THE CONNECTICUT LOTTERY CORPORATION](#)

[Historical Overview of the Lottery Industry and Connecticut's Lottery](#)

In 1964, New Hampshire established a state-run lottery to raise money for education, becoming the first state in the United States to enter the lottery business. New York followed in 1967, and in 1971, New Jersey introduced a computer-based \$.50 weekly game, which offered frequent drawings, inexpensive tickets, convenience of sale, and a weekly prize of \$50,000. New Jersey grossed \$142.5 million in its first year. Seeing the success of this approach, New York and New Hampshire revamped their systems, and other states, including Connecticut, introduced lotteries using New Jersey as a model. Today, forty-two states plus the District of Columbia operate lotteries within the United States using computer-based on-line games and instant "scratch" games.

In 1971 the Connecticut Legislature created the Commission on Special Revenue to operate the lottery and regulate pari-mutuel wagering. On February 15, 1972, tickets for the state's first lottery game featuring weekly drawings went on sale. The \$.50 tickets were available at approximately 3,000 retail establishments throughout the state. Top prizes of \$5,000 were awarded to those who matched all five digits in the exact order. The first drawing was held on Thursday, February 24, 1972 at Bushnell Memorial Auditorium (now the Bushnell Center for the Performing Arts) in Hartford. Twenty-one people claimed top prizes and were then entered in the "Super 75" drawing to be held one week later. This second drawing featured a \$75,000 grand prize, the highest weekly drawing in the United States at that time.

Other noteworthy developments in our Lottery's history include:

- The first instant (scratch) tickets went on sale on September 9, 1975.
- The first daily game was introduced on March 16, 1977, with "Daily Numbers" drawings held Monday through Saturday.
- The first "million-dollar" game, Lotto, was introduced on November 7, 1983, featuring a 6-of-36 matrix, weekly drawings and a guaranteed \$1 million jackpot prize.
- The first multi-state game was introduced in Connecticut with the Lottery's membership in the Multi-State Lottery Association and the Connecticut launch of the Powerball game on November 29, 1995.

The Connecticut Lottery Corporation was created with the passage of Public Act 96-212 as a public instrumentality and political subdivision of the State of Connecticut for the purpose of generating revenues for the state's General Fund through the operation of a lottery. Effective July 1, 1996, the CLC assumed operation of the Connecticut Lottery from the Division of Special Revenue, which had operated the Lottery since its inception in 1972.

A thirteen-member board of directors governs the CLC, eleven of whom are appointed by the Governor and legislative leadership and two, the State Treasurer and the Secretary of the Office of Policy and Management, serve in an ex-officio capacity. For financial reporting purposes, the CLC is considered a component unit of the State of Connecticut.

The passage of Public Act 96-212 marked the first time a lottery operated by a state agency had been transferred to a quasi-public corporation to be operated as an enterprise fund. With more than 35 years of continuous operation, Connecticut's Lottery is one of the oldest lotteries in the United States. From its inception to June 30, 2007, the Lottery has generated total sales of approximately \$17.4 billion and has paid approximately \$6.1 billion to the state's General Fund. The General Fund is used to fund a wide variety of state services that benefit Connecticut residents including health and hospitals, education, road maintenance and public safety.

HIGHLIGHTS OF THE PAST YEAR

The CLC operates one of the most successful lotteries in the United States. Fiscal 2007 included solid financial results with sales of \$957.0 million, a decrease of \$13.3 million from the record sales of fiscal 2006. Payments to the state's General Fund totaled \$279.0 million, \$5.9 million lower than the record set in fiscal 2006. (For a more complete overview of the financial highlights of fiscal 2007, including

comparisons with the results of the prior fiscal year, please read Management's Discussion and Analysis included in the financial section of this report.) The total sales decrease was caused by a \$29.2 million, or 23.9%, decrease in Powerball game sales offset by increases in sales of scratch games and other games, including the numbers games (Play3, Play4, Mid-Day3, and Mid-Day4) and Cash5. Powerball game sales in fiscal 2006 included two record jackpot runs, in excess of \$300 million each, which was highly unusual and cannot be expected to occur in most fiscal years.

A number of other significant events occurred during the year ended June 30, 2007 that may not be apparent from the financial results noted above. Some of these are highlighted below:

- February 2007 marked the 35th anniversary of the Lottery. Governor M. Jodi Rell provided an official statement that declared February 15, 2007 to be Connecticut Lottery Day. To heighten awareness of the Lottery's history and contributions to the state, a display incorporating the timeline of key Lottery milestones was placed in the Legislative Office Building and an anniversary banner was placed on the exterior of the State Office Building.
- February 2007 also included the launch of a new style scratch game in Connecticut, referred to as a "Spotlight" game. By producing a large volume of tickets, this style allows for a larger prize pool, larger top prizes, and more frequent wins. The first game launched in this style, "\$50 Million Payout Spectacular," has been selling well since the initial launch date.
- A search for a single building to house both the headquarter operations and the CLC's warehouse facilities was successfully concluded during fiscal 2007. Combining operations in a single facility will improve operating efficiency and the new building will also provide expansion space for continued growth of the business. The building is located in the Town of Rocky Hill.
- During fiscal 2007 management completed a comprehensive review of current gaming technology. An evaluation of proposals submitted by the industry's leading vendors resulted in the selection of a vendor for the next generation of central gaming systems for the CLC. Planning has started for the future conversion of the central gaming systems.
- Toward the end of fiscal 2007, James J. Vance, the President & CEO of the CLC for the last seven years announced his retirement. During the term of Mr. Vance's presidency, CLC revenues exceeded \$6.4 billion, and over \$1.9 billion was transferred to the state's General Fund. The Board of Directors acknowledged Mr. Vance's valuable contributions to the CLC and the State of Connecticut. An Executive Search Committee was formed to recruit a suitable replacement for this key position.
- The CLC continued its active role in promoting responsible play by its patrons. A two-day training event was held for all CLC employees to increase awareness of problem gambling issues and related treatment programs. New public service announcements were produced to further increase the public's awareness of these issues and to continue to maintain the public's confidence in the integrity of the Lottery's products. The CLC also maintained its involvement in the Connecticut Partnership for Responsible Gambling, the Connecticut Committee for Problem Gambling, and the Connecticut Women's Project for Problem Gambling.

FUTURE PROJECTS

The next fiscal year (ending June 30, 2008) will be one of the busiest and most challenging for the management and staff of the Lottery. Most of the unique activities of fiscal 2008 will be a continuation of the projects started over the past several years. These projects will position the CLC for growth over the next decade. Key among these is:

- The search for a new President & CEO to fill the vacancy created by the retirement of James J. Vance. As noted above, the Board of Directors established a search committee and the search will be completed during fiscal 2008. No delays are anticipated to the other key projects while the search is being conducted.
- Renovation of the new Lottery headquarters in Rocky Hill. A new site has been located and a lease executed. Planning with the landlord and the construction team has commenced and a move is anticipated in late winter or early spring of fiscal 2008.
- The conversion of the Lottery's central gaming systems in May 2008. The new systems will provide a satellite communications network to replace the slower telephone lines, will provide state-of-the-art terminals to all retailers to speed transaction processing, and will significantly upgrade the computer systems that process all transactions. Plans for the conversion also include comprehensive training programs for all retailers and CLC employees.
- The continuation of CLC's program to highlight the positive contributions the Lottery makes to the State of Connecticut. The program will also expand the focus on responsible play by our patrons. New public service announcements will be produced to complement those produced in prior years and responsible play information will be integrated into the retailer training for the new central gaming systems. A good example of this effort is a bi-lingual (English and Spanish) educational publication recently produced by the CLC titled "The Right Way to Play", which includes basic rules of play, age restrictions, protection measures to avoid fraudulent activities of third parties, and helpline information for anyone with a gambling problem.
- Expanded research of new game concepts and examination of industry developments across the globe. Nationally and internationally, lotteries and lottery vendors are examining current product offerings and inviting players to contribute ideas to keep products fresh and fun to play. The CLC will continue to study these concepts and select those that best fit the Connecticut marketplace and contribute to the future growth of the Lottery.

FINANCIAL OPERATIONS

ENTERPRISE OPERATION: The CLC operates as an enterprise activity: sales of lottery tickets to the general public sustain the prize and retailer commission structure, all lottery-related support operations, and contributions to the Connecticut General Fund. The accrual basis of accounting, in accordance with generally accepted accounting principles, is used. No general government functions or fiduciary operations are managed by the CLC.

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

To enhance controls over accounting procedures, the CLC has segregated the following functions: personnel and payroll; purchasing and accounts payable; and general ledger and accounts receivable accounting. Data input and processing are separate from system programming, and management provides approval and oversight.

The CLC ensures that its operations remain secure with a commitment to the following protocol:

- Specialized security staff;
- Limited access to facilities;
- Background checks on retailers, CLC employees, and in-house contractors;
- Lottery tickets printed with special inks, dyes, and security codes;
- Detailed written procedures for all game drawings;
- Access controls to our information systems.

DEBT ADMINISTRATION: The CLC’s long-term liabilities are limited to payments owed to prizewinners in the form of weekly, monthly and annual payments. The payments are fully funded by annuities purchased from life insurance companies with at least \$50 million in policyholder surplus. These insurance companies must be licensed to do business in Connecticut and must also have credit ratings at the date of award equal to or better than the following levels from at least two of the three credit rating services listed below:

<u>Credit Rating Service</u>	<u>Minimum Acceptable</u>
Moody’s Service Credit Opinion	“Aa2”
Standard and Poors Insurance Rating Service Diges	“AA”
A. M. Best	“A and Contingent A”

CASH MANAGEMENT: The CLC collects cash from sales of lottery games from approximately 2,800 retailers on a weekly basis. Funds are electronically swept from the retailers’ designated bank accounts, and weekly transfers of net income (sales revenue less prizes, commissions, and expenses) are made to the Connecticut General Fund.

The Treasurer of the State of Connecticut invests excess cash in a short-term investment fund. This fund is an investment pool of high quality, short-term money market instruments for state and local governments. The CLC participates in short-term investments in this fund.

RISK MANAGEMENT: The CLC is exposed to various risks of loss related to thefts, damage or destruction of assets, injuries and natural disasters, for which it carries adequate insurance through individual policies.

INDEPENDENT AUDIT: Connecticut statutes require an annual audit of the CLC by independent auditors. The audits of the CLC’s financial statements for fiscal years 2006 and 2007 have been completed in conformity with generally accepted auditing standards. The unqualified opinion of the independent auditors on the CLC financial statements is included in the financial section of this report.

ECONOMIC CONDITIONS

The national economy showed signs of a slowing growth rate during fiscal 2007. Significant losses in the financial markets caused by defaults on sub-prime mortgage instruments resulted in a general tightening of credit markets. Inflation remained a concern with a 2.5% increase in the consumer price index between June 2006 and June 2007. In addition, higher energy costs and a slumping housing market continued concerns about higher inflation and the possibility of recession. Consumer confidence surveys recorded similar decreases based on these trends. To ease credit markets and assist the growth rate, the Federal Reserve reduced the Federal Funds Rate and indicated a willingness to further reduce rates in the next fiscal period.

Connecticut was impacted by the same economic pressures noted in the national economy and had mixed results compared to national statistics. Total employment in Connecticut increased 1.8% in fiscal 2007 compared to the 1.2% increase recorded at the national level for the same year. However, Connecticut's unemployment rate increased from 4.2% to 4.3% during fiscal 2007, while the national unemployment rate for the same period decreased from 4.6% to 4.5%.

As stated in past reports, it is difficult to demonstrate a direct relationship between general economic indicators and sales trends within the lottery industry. The rapid rise in energy costs over the past two years has been cited by numerous lotteries as having a negative impact on sales of scratch tickets at gasoline stations and convenience stores during the same period. This appears logical, but the numerous variables that affect ticket sales make it difficult to isolate a single factor's impact. Management monitors economic trends on a continuous basis and re-evaluates its business plans accordingly. New game concepts and revisions to existing games are considered to increase sales revenues while operating systems and processes are constantly reviewed to control expenses and maximize the payments to the state's General Fund.

AWARDS

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the Connecticut Lottery Corporation for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006. This was the ninth consecutive year that the Connecticut Lottery Corporation has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a reporting entity must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current report 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.

ACKNOWLEDGEMENTS

Preparation of this report could not have been accomplished without the efficient and dedicated efforts of the CLC's entire Finance Department staff. A special note of thanks is given to the Public Relations Department for their assistance in the production of this report.

This Comprehensive Annual Financial Report reflects our commitment to improve the Connecticut Lottery's financial statements and record keeping systems to meet the highest standards of accountability. Management also acknowledges and thanks its Board of Directors for their commitment to ensuring that the Connecticut Lottery Corporation is operated in a responsible and progressive manner.

Respectfully Submitted,

A handwritten signature in black ink, reading "John A. Ramadei". The signature is written in a cursive, flowing style.

John A. Ramadei
Interim President & CEO
and Chief Financial Officer



STATE OF CONNECTICUT

List of Principal State Officers, as of June 30, 2007

M. JODI RELL, Governor

SUSAN BYSIEWICZ	Secretary of the State
DENISE L. NAPPIER	State Treasurer
NANCY S. WYMAN	Comptroller
RICHARD BLUMENTHAL	Attorney General



CONNECTICUT LOTTERY CORPORATION

Board of Directors, as of June 30, 2007

JOHN PAUL, Chairman

ROBERT L. GENUARIO	Secretary, Office of Policy and Management
GALE A. MATTISON	Vice Chairman, Designee of Office and Policy Management Secretary
DENISE L. NAPPIER	State Treasurer
ROBERT MORGAN	Designee of State Treasurer
STEVEN A. BAFUNDO	
JOSEPH DINATALE	
WENDY KINGSBURY	
MARGARET L. MORTON	
PATRICIA RACZ	
KENNETH J. SACCENTE	
MARTIN E. STAUFFER	



CONNECTICUT LOTTERY CORPORATION
Organizational Chart, as of June 30, 2007

EXECUTIVE

JOHN A. RAMADEI
HELEN DUFFY

Interim President & Chief Executive Officer
Executive Secretary

OPERATIONS & ADMINISTRATION

BARBARA A. PORTO
MICHAEL J. HUNTER
JOHN J. GASPARINI
JOEL M. BLOOM

Vice President, Operations & Administration
Director, Information Technology
Manager, Application and Internet Development
Manager, Vendor Compliance

MARKETING & SALES

DENNIS D. CHAPMAN
GLORIA G. DONNELLY
JOSEPH C. BEVIVINO
DIANE PATTERSON
PETER DONAHUE

Vice President, Marketing & Sales
Director, Sales
Director, Marketing Research
Director, Communications & Public Relations
Lottery Games Manager

FINANCE

JOHN A. RAMADEI
ELIZABETH COLBY

Chief Financial Officer
Lottery Financial Manager

LEGAL

JAMES F. MCCORMACK

Corporate Counsel & Director of Government Affairs

HUMAN RESOURCES

KAREN M. MEHIGEN
SANDRA A. CADY
MARIA N. BARONE

Director, Human Resources
Human Resource Specialist
Human Resource Specialist

SECURITY

ALFRED W. DUPUIS, JR.

Director, Security

SCRATCH GAMES



Fiscal Year 2007 Statistics:

\$131.7 million in General Fund payment

- 67 scratch games launched
- 62.2% of total net sales
- 47.2% of General Fund payments

Scratch games are easy to play and provide instant entertainment for players. By scratching the thin latex coating on the face of a cardboard scratch ticket, players can visually discover in an instant if they've won, and the amount of the prize.

There's a play style for everyone – from the crossword action of Ca\$hword to the arcade flair of Pinball Wizard; the excitement of Bingo to the real card action of Stud Poker. Depending upon the game, players may need to match numbers, symbols or dollar amounts, spell words, beat the dealer's card, or reveal a Bonus Prize. Scratch games offer popular themes and color combinations to add to the fun. With a variety of ways to win in this category, it's easy to see why scratch games are the play of choice for many consumers. Ticket prices range from \$1 to \$30, with set prizes from a FREE \$1 scratch ticket up to \$1 million. In addition, winners of the Win for Life scratch game receive \$5,000 a month for life with a minimum guarantee of \$1,000,000.

DAILY GAMES

Fiscal Year 2007 Statistics:

\$76.9 million for this category in General Fund payments



Mid-Day3: **3.1%** of total net sales
4.9% of General Fund payments



Mid-Day4: **2.4%** of total net sales
3.4% of General Fund payments



Play3: **8.6%** of total net sales
10.7% of General Fund payments



Play4: **6.5%** of total net sales
8.6% of General Fund payments

Four times each weekday, and twice each weekend night, players have an opportunity to win with the Lottery's "Daily Games." Four games in all – Mid-Day3, Mid-Day4, Play3 and Play4 – help us make sure that we've got your numbers! Drawings for the Mid-Day games were increased from five to seven days a week, beginning July 1, 2007.

To win, players select three or four digits from 1 through 9, choose a wager style, and pick a wager between \$.50 and \$5.00 per play. Prize amounts are based on the wager style and amount, and range from a modest \$25 up to an exciting \$25,000 per ticket.

CASH5



Fiscal Year 2007 Statistics:

\$15.0 million in General Fund payments

4.3% of total net sales

5.4% of General Fund payments

Cash5 is Connecticut's daily game with a chance to win up to \$100,000. For \$1, players get one set of five numbers. By adding the "Kicker" feature for just \$.50, players kick up their chance to win more often, and win more prize levels. Prizes can be won by matching three, four, or five numbers, and range from \$2 up to \$100,000 per ticket.

With more than 100,000 winning tickets sold in this game each year, Cash5 is a proven favorite with Connecticut's players.

Advance Action play of up to 26 draws makes sure that players can stay in the game.

CLASSIC LOTTO



Fiscal Year 2007 Statistics:

\$12.9 million in General Fund payments

3.2% of total net sales

4.6% of General Fund payments

Twice each week, players can feel like a million dollars (or more) with Classic Lotto. Drawn on Tuesday and Friday nights, Lotto has been a part of Connecticut's play of choice since November 1983. For \$1, players can win prizes from \$2 up to the "million-dollar plus" jackpots.

Lotto began with a 6-of-36 matrix, and today sports a 6-of-44 mix. Although the game has gone through several enhancements, it's still the game that is most associated with the Lottery. Jackpot winners may choose to receive their prize money in either twenty-one equal annual installments or in a cash lump sum. Advance Action play of up to 26 draws makes sure that players are always in the game.

POWERBALL



Fiscal Year 2007 Statistics:

\$42.4 million in General Fund payments

9.7% of total net sales

15.2% of General Fund payments

With jackpots that have reached as high as \$365 million, it's easy to see why Powerball remains so popular. Played in 31 lottery jurisdictions, Powerball drawings are held twice weekly, on Wednesday and Saturday nights.

Beginning in August 2005, for each \$1 play, five numbers between 1 and 55 and an additional Powerball number between 1 and 42 are selected. When players opt to activate the PowerPlay feature for an added \$1, they will have any prize they win (except the jackpot) multiplied up to five times.

CONNECTICUT LOTTERY WINNERS



NANCY BOURGOIN, Bethany

*Nancy won \$1,000,000 in
\$50 Million Payout Spectacular!*



ALEX WILLIAMS, Windsor Locks

*Alex won the Win For Life top prize of
\$5,000 a month for life!*



JULIA GAINES, Stafford Springs

*Julia won \$1,000,000 and was the first
winner of \$50 Million Payout Spectacular!*



GINA MURPHY, Bristol

*Gina won the Holiday Cash
\$100,000 2nd Chance drawing.*

POINT-OF-SALE (POS) ADVERTISING

Marketing support at retailer locations includes a variety of items: posters, brochures, payout cards, and custom designed signage.

Stop & Shop Holiday POS

Since 1972, the CT Lottery has contributed over \$5.8 billion to meet the needs of Connecticut.

Since 1972, the CT Lottery has contributed over \$5.8 billion to meet the needs of Connecticut. Odds vary by game. Ask your CT Lottery Retailer for details. Purchasers must be 18 or older. Please play responsibly. \$1 million prize paid over a 20 year annuity. Average chance of winning 1 in 3.87.

3/2007

\$50 Million Payout Spectacular POS

Since 1972, the CT Lottery has contributed over \$5.8 billion to meet the needs of Connecticut. Odds vary by game. Ask your CT Lottery Retailer for details. Purchasers must be 18 or older. Please play responsibly.

Holiday POS

Mid-Day3 and Mid-Day4 drawings 7 days a week starting in July.

POS used when Mid-Days drawings increased to 7 days.

NEW LOTTERY GAMING SYSTEMS



Key benefits of the new Wave Terminal include touch screen technology and digital advertising capabilities.



Self-serve ticket checkers will allow customers to check their own drawing tickets through the Connecticut Lottery's central gaming system.

In February of 2007, CLC awarded Scientific Games its lottery gaming systems contract to supply a new range of lottery equipment and management services to the Connecticut Lottery. The new terminal, called The Wave, has touch-screen technology, digital advertising capabilities, as well as self-serve ticket checkers. The gaming systems will communicate through a state-of-the-art satellite-based network.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Connecticut Lottery Corporation

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "Ronald J. Klein".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director



FINANCIAL SECTION

REPORT OF INDEPENDENT AUDITORS

To the Directors
Connecticut Lottery Corporation

We have audited the statements of net assets of Connecticut Lottery Corporation (a component unit of the State of Connecticut) as of June 30, 2007 and 2006 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Connecticut Lottery Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements referred to above present fairly, in all material respects, the financial position of the Connecticut Lottery Corporation as of June 30, 2007 and 2006, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming opinions on the Connecticut Lottery Corporation's financial statements. The Schedules of Profit Margin by Game Type are presented for purposes of additional analysis and are not a required part of the financial statements. These schedules are also the responsibility of the management of the Connecticut Lottery Corporation. Such additional information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2007 on our consideration of the Connecticut Lottery Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The accompanying Management's Discussion and Analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The logo for UHY LLP is written in a stylized, cursive script. The letters 'UHY' are larger and more prominent, with 'LLP' following in a smaller, similar font.

Hartford, Connecticut
September 14, 2007

CONNECTICUT LOTTERY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007 and 2006

The following Management's Discussion and Analysis (MD&A) provides an overview of the Connecticut Lottery Corporation's (CLC) financial performance for the fiscal year ended June 30, 2007. The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements, notes to financial statements and Report on Internal Control over Financial Reporting and on Compliance included in the "Financial Statements" section, and the other information included in the "Supplemental Information" section of this report.

Financial Statements Presented in this Report

The CLC is a quasi-public corporation of the State of Connecticut (the State) created to generate revenues for the State's General Fund through the operation of a lottery. CLC activities are accounted for as an enterprise fund using the accrual basis of accounting, similar to a private business entity.

The financial statements include: Statements of Net Assets; Statements of Revenues, Expenses and Changes in Net Assets; and Statements of Cash Flows. The Statements of Net Assets provide a measure of the CLC's economic resources. The Statements of Revenues, Expenses and Changes in Net Assets measure the transactions for the periods presented and the impact of those transactions on the resources of the CLC. The Statements of Cash Flows reconcile the changes in cash and cash equivalents with the activities of the CLC for the periods presented. The activities are classified as to operating, investing, capital financing and non-capital financing.

Notes to the financial statements provide additional detailed information to supplement the basis for reporting and nature of key assets and liabilities.

Financial Highlights of Fiscal 2007

- Total sales were \$957.0 million, a decrease of \$13.3 million, or 1.4%, from fiscal 2006 primarily due to a decrease in Powerball game sales of \$29.2 million, or 23.9%.
- Transfers to the State's General Fund were \$279.0 million, a decrease of \$5.9 million, or 2.1% from the prior fiscal year.
- Annuities payable and related investments for prizes decreased due to fewer winners selecting long-term installment payment options and continued amortization of older annuities. Long-term annuities payable and long-term investments for prizes decreased \$33.0 million, or 12.9%.

CONNECTICUT LOTTERY CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007 and 2006

Condensed Financial Information

Net Assets and Changes in Net Assets

Net assets represent the assets of the CLC less the liabilities owed to third parties. The net assets are reserved for promotional purposes, augmenting prizes or increasing payments to the State's General Fund. Net assets increased \$928,000, or 29.2%, for fiscal 2007 and decreased \$54,000, or 1.7%, for fiscal 2006. Listed in Table 1 below is a summary of the key components of net assets. The CLC transfers unrestricted net assets to the State's General Fund; therefore the change in net assets does not reflect the results of the CLC's operating activities. Listed in Table 2 below is a summary of the key components of revenues, expenses and changes in net assets.

TABLE 1
Net Assets
(in thousands)

	2007	Increase/ (Decrease)	2006	Increase/ (Decrease)	2005
Current assets	\$ 83,352	\$ (8,824)	\$ 92,176	\$ (40,119)	\$ 132,295
Investments and other noncurrent assets	228,674	(33,128)	261,802	(31,928)	293,730
Capital assets (net of accumulated depreciation)	1,478	(446)	1,924	(318)	2,242
Total assets	313,504	(42,398)	355,902	(72,365)	428,267
Current liabilities	85,689	(10,324)	96,013	(40,129)	136,142
Long-term annuities payable	223,710	(33,002)	256,712	(32,182)	288,894
Total liabilities	309,399	(43,326)	352,725	(72,311)	425,036
Net assets					
Invested in capital assets	1,478	(446)	1,924	(318)	2,242
Restricted net assets	4,105	928	3,177	(54)	3,231
Unrestricted net assets	(1,478)	446	(1,924)	318	(2,242)
Total net assets	\$ 4,105	\$ 928	\$ 3,177	\$ (54)	\$ 3,231

CONNECTICUT LOTTERY CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007 and 2006

TABLE 2
Changes in Net Assets
(in thousands)

	2007	Increase/ (Decrease)	2006	Increase/ (Decrease)	2005
Total game sales	\$ 957,026	\$ (13,301)	\$ 970,327	\$ 37,393	\$ 932,934
Other operating income	178	(58)	236	78	158
Nonoperating revenues:					
Interest income	21,341	(2,493)	23,834	(2,774)	26,608
Other	11	6	5	(1)	6
<i>Total revenues</i>	978,556	(15,846)	994,402	34,696	959,706
Total cost of sales	659,273	(8,379)	667,652	19,335	648,317
Total operating expenses	19,603	52	19,551	2,607	16,944
Nonoperating expenses:					
Interest expense	19,752	(2,636)	22,388	(3,513)	25,901
<i>Total costs and expenses</i>	698,628	(10,963)	709,591	18,429	691,162
Change in net assets before					
Payments to General Fund	279,928	(4,883)	284,811	16,267	268,544
Payments to General Fund	279,000	(5,865)	284,865	16,350	268,515
<i>Change in net assets</i>	928		(54)		29
Total net assets - beginning	3,177		3,231		3,202
Total net assets - ending	\$ 4,105		\$ 3,177		\$ 3,231

CONNECTICUT LOTTERY CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS June 30, 2007 and 2006

Overview of Financial Position

The CLC's financial position remained strong during fiscal 2007. Total assets declined in both of the last two fiscal years, but the decreases were principally caused by reductions of long-term liabilities and the related investments to fund the prize payments. Total assets declined by \$42.4 million, or 11.9%, in fiscal 2007 and \$72.4 million, or 16.9%, in fiscal 2006. The decline in total assets in fiscal 2006 was increased by a reduction in accounts receivable of \$35.1 million due from the Multi-State Lottery Association for the Powerball drawing of June 25, 2005. The top prize was won on June 25, 2005 but payment from MUSL was received in July 2005 (fiscal 2006). Long-term liabilities consist of annuities payable to lottery winners with prizes payable over several years. Beginning in 1997, winners could elect a lump sum payment instead of a long-term annuity. Since the lump sum option was offered, the trend among winners has been to elect the lump sum payment. The end result has been fewer additions to long-term annuities and a reduction in the long-term liability as older annuities are paid off. The reduction in long-term annuities payable and in the long-term asset: Investments for prize payments at present value totaled \$33.0 million, or 12.9%, in fiscal 2007 and \$32.2 million, or 11.1%, in fiscal 2006.

The CLC purchases annuity contracts from qualified life insurance companies in equal amounts and with the same maturities as the prizes payable to the lottery winners. As the annuity contracts mature, the insurance companies pay the CLC, which in-turn pays the winners.

CONNECTICUT LOTTERY CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007 and 2006

Results of Operations

TABLE 3
Sales and Related Expenses
(in thousands)

	2007	Increase/ (Decrease)	2006	Increase/ (Decrease)	2005
Sales					
Scratch games	\$ 594,933	\$ 7,374	\$ 587,559	\$ (4,707)	\$ 592,266
Powerball	92,752	(29,181)	121,933	42,373	79,560
Classic Lotto	30,386	(1,875)	32,261	(3,353)	35,614
All other games	238,955	10,381	228,574	3,080	225,494
<i>Total sales</i>	\$ 957,026	\$ (13,301)	\$ 970,327	\$ 37,393	\$ 932,934

Related Expenses

Prize expense	\$ 579,854	\$ (7,534)	\$ 587,388	\$ 14,388	\$ 573,000
Retailer commissions	\$ 53,597	\$ (454)	\$ 54,051	\$ 2,360	\$ 51,691
On-line systems	\$ 12,188	\$ (60)	\$ 12,248	\$ 847	\$ 11,401
Production expenses	\$ 7,428	\$ (68)	\$ 7,496	\$ 740	\$ 6,756

Percentage Increase/(Decrease)

Sales

Scratch games	1.3%	(0.8%)
Powerball	(23.9%)	53.3%
Classic Lotto	(5.8%)	(9.4%)
All other games	4.5%	1.4%
<i>Total sales</i>	(1.4%)	4.0%

Related Expenses

Prize expense	(1.3%)	2.5%
Retailer commissions	(0.8%)	4.6%
On-line systems	(0.5%)	7.4%
Production expenses	(0.9%)	11.0%

CONNECTICUT LOTTERY CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS June 30, 2007 and 2006

Total sales for fiscal 2007 decreased by \$13.3 million, or 1.4%, from the prior fiscal year. The decrease was primarily caused by a decrease in Powerball game sales of \$29.2 million, or 23.9%. Powerball game sales are dependent upon large jackpot prize levels, which reached record levels during fiscal 2006 but returned to average levels during fiscal 2007. The decrease in Powerball game sales in fiscal 2007 were partially offset by increases in other draw games sales of \$10.4 million, or 4.5%, and increases in Scratch games sales of \$7.4 million, or 1.3%. Other draw games sales include the Daily Games (Mid-Day3, Mid-Day4, Play3 and Play4) and Cash5. The record sales levels achieved in fiscal 2006 totaled \$970.3 million, which was an increase of \$37.4 million, or 4.0% over fiscal 2005 due to an increase in Powerball game sales of \$42.4 million, or 53.3%.

Most costs and expenses that comprise total cost of sales vary proportionally with the change in total sales. However, some variability does occur in certain periods due to the nature of these costs and expenses. Prize expense, retailer commissions, on-line systems, and production expenses are included in this classification.

Prize expense has the greatest impact on gross margin for the various games and has demonstrated the variability noted above over the last two fiscal years. For fiscal 2007, prize expense decreased \$7.5 million, or 1.3%, compared to the total decrease in sales percentage of 1.4%. During fiscal 2006, prize expense increased \$14.4 million, or 2.5%, compared to the increase in sales percentage of 4.0%. The net change in percentage for prize expense appears similar to the net change in percentage of sales for fiscal 2007 but dissimilar for fiscal 2006. The two years provide a good example of the deviation that prize expense can have from average expectations in the short-term. This deviation can be more dramatic in individual game results. For example, during fiscal 2007, Play3 sales increased \$3.4 million, or 4.3%, while Play3 prize expense increased \$8.7 million, or 23.6%. In the same fiscal year, Mid-Day4 sales increased \$1.8 million, or 8.7%, while Mid-Day4 prize expense decreased by \$5.0 million, or 31.7%. The random selection of winning numbers causes the deviation from expected results in the short-term.

Retailer commissions decreased \$454,000, or 0.8%, in fiscal 2007 and increased \$2.4 million, or 4.6%, in fiscal 2006. These results follow sales trends more closely than prize expense. Percentage changes in retailer commissions vary slightly from sales percentage changes, due to incremental incentive compensation earned by retailers for promotions offered by the CLC to promote selected games.

On-line system expenses decreased by \$60,000, or 0.5% in fiscal 2007 and increased \$847,000, or 7.4%, in fiscal 2006. The percentage change in fiscal 2006 was increased due to credits in fiscal 2005 exceeding \$600,000 for system downtime and vendor damages, which caused the variance in comparability between the two years.

Production expenses decreased by \$68,000, or 0.9%, in fiscal 2007 and increased by \$740,000, or 11.0%, in fiscal 2006. Production expenses include: the production costs of Scratch tickets, royalty fees associated with licensed games, and courier costs to deliver the tickets to the retailers.

CONNECTICUT LOTTERY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007 and 2006

Other costs and expenses do not vary directly with total sales. These include marketing, advertising and promotions expenses and operating expenses. Management budgets these items based upon current business plans and economic conditions and continuously monitors actual results to determine whether adjustments are required to meet overall business objectives. Marketing, advertising and promotions expenses decreased \$264,000, or 4.1%, in fiscal 2007 and increased \$999,000, or 18.3%, in fiscal 2006.

Total operating expenses increased \$52,000, or 0.3%, in fiscal 2007 and increased \$2.6 million, or 15.4%, in fiscal 2006. The fiscal 2007 increase included increased regulatory expenses partially offset by a reduction in legislatively directed funding. The fiscal 2006 increase was due to increased salary and fringe benefits, increased legislatively directed funding (Department of Education Fund) and increased regulatory expenses.

Non-operating revenues and expenses are primarily interest income and expense related to the investment annuity contracts purchased to fund long-term prize payments, and the long-term prize payments.

Interest income from short-term investments of surplus cash increased \$143,000, or 9.9%, in fiscal 2007 and \$739,000, or 104.5%, in fiscal 2006 due to changes in average balances invested and changes in interest rates over the course of the two years. The changes in rate of return to CLC were consistent with the changes in the general market rates for this period.

The payments to the State's General Fund decreased by \$5.9 million, or 2.1%, for fiscal 2007 and increased \$16.4 million, or 6.1%, for fiscal 2006. Payments to the General Fund reflect the net earnings of the CLC that are transferred to the State's General Fund.

Budgetary Comparisons

CLC's management prepares an annual budget that is reviewed and approved by its Board of Directors. The budget reflects management's expectation for results of operations based upon market trends and business strategies employed by the CLC to maximize the payments to the State's General Fund. As a quasi-public corporation, the CLC's annual budget does not require legislative approval and is not part of the State's legislatively enacted budget. Therefore, no budgetary statement is included in the audited financial statements.

Capital Assets and Long-Term Debt

The CLC leases office and warehouse facilities under long-term operating leases. Capital assets consist of leasehold improvements to facilities, computer equipment and office furniture and equipment. Capital assets are not a significant portion of CLC's total assets.

The CLC has financed capital asset acquisitions with proceeds from operations and has not used financing from long-term debt. The CLC has no long-term liabilities other than the long-term annuities payable to lottery winners. For more detailed information on capital asset activity and long-term annuities payable, please read the disclosures included in the notes to the financial statements.

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CONNECTICUT LOTTERY CORPORATION
STATEMENTS OF NET ASSETS

	June 30	
	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 21,854,156	\$ 23,650,519
Accounts receivable, net of allowance of \$896,000 and \$915,000 as of June 30, 2007 and 2006, respectively	10,103,206	11,932,311
Prepaid annuities for prizes	39,936,111	43,398,371
Accrued interest receivable	9,107,098	10,639,799
Ticket inventory, net of allowance of \$457,735 and \$432,854 as of June 30, 2007 and 2006, respectively	2,209,877	2,110,091
Prepaid expenses	142,044	444,596
<i>Total current assets</i>	83,352,492	92,175,687
NONCURRENT ASSETS		
Investments for prize payments at present value	223,710,396	256,711,694
Prize reserves held by Multi-State Lottery Association	4,813,592	4,940,925
Advances to high-tier claim centers	150,000	150,000
Property, plant and equipment, net	1,477,764	1,923,988
<i>Total noncurrent assets</i>	230,151,752	263,726,607
<i>Total assets</i>	\$ 313,504,244	\$ 355,902,294

	June 30	
	2007	2006
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Annuities payable	\$ 42,063,377	\$ 45,764,611
Prizes payable	24,668,392	31,195,660
Accrued interest payable	9,107,098	10,639,799
Accounts payable and accrued expenses	7,914,326	6,417,274
Due to the Multi-State Lottery Association	1,447,563	1,244,846
Deferred revenue	487,905	751,374
<i>Total current liabilities</i>	85,688,661	96,013,564
LONG-TERM LIABILITIES		
Long-term annuities payable, at present value	223,710,396	256,711,694
<i>Total liabilities</i>	309,399,057	352,725,258
NET ASSETS		
Invested in capital assets	1,477,764	1,923,988
Restricted	4,105,187	3,177,036
Unrestricted	(1,477,764)	(1,923,988)
<i>Total net assets</i>	4,105,187	3,177,036
<i>Total liabilities and net assets</i>	\$ 313,504,244	\$ 355,902,294

See notes to financial statements.

CONNECTICUT LOTTERY CORPORATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Years ended June 30	
	2007	2006
SALES		
Scratch game sales	\$ 594,936,299	\$ 587,560,478
On-line game sales	271,429,316	262,792,526
Powerball game sales	92,783,123	121,958,596
	959,148,738	972,311,600
Less sales returns, cancellations and promotion	(2,122,304)	(1,984,812)
<i>Total sales</i>	957,026,434	970,326,788
COST OF SALES		
Prize expense	579,854,360	587,388,079
Retailer commissions	53,597,244	54,050,697
On-line systems	12,188,445	12,247,683
Marketing, advertising and promotion	6,205,500	6,469,351
Production expenses	7,427,523	7,495,942
<i>Total cost of sales</i>	659,273,072	667,651,752
OPERATING EXPENSES		
Salaries and benefits	12,577,326	12,640,863
Other operating expenses	2,081,141	2,057,001
Depreciation and amortization	705,948	622,691
Bad debt expense	23,781	56,572
Division of Special Revenue, regulatory purposes	2,715,359	2,474,283
Chronic Gamblers' Fund	1,500,000	1,500,000
Department of Education Fund	—	200,000
<i>Total operating expenses</i>	19,603,555	19,551,410
OTHER OPERATING INCOME		
	178,015	236,428
<i>Operating income</i>	278,327,822	283,360,054

	Years ended June 30	
	2007	2006
NONOPERATING REVENUES (EXPENSES)		
Interest income from investments on annuities	\$ 19,751,608	\$ 22,387,623
Interest income	1,589,329	1,446,190
Interest expense on annuity payments	(19,751,608)	(22,387,623)
Annuity assignment	11,000	4,500
<i>Total nonoperating revenues</i>	1,600,329	1,450,690
CHANGE IN NET ASSETS AVAILABLE BEFORE PAYMENTS TO GENERAL FUND		
	279,928,151	284,810,744
NONOPERATING PAYMENTS TO THE STATE OF CONNECTICUT		
	279,000,000	284,865,000
<i>Change in net assets</i>	928,151	(54,256)
TOTAL NET ASSETS, Beginning	3,177,036	3,231,292
TOTAL NET ASSETS, Ending	\$ 4,105,187	\$ 3,177,036

See notes to financial statements.

CONNECTICUT LOTTERY CORPORATION

STATEMENTS OF CASH FLOWS

	Years ended June 30	
	2007	2006
OPERATING ACTIVITIES		
Receipts from sale of game tickets	\$ 958,568,290	\$ 968,685,834
Receipts from other operating income	179,837	236,428
Payments for prizes	(586,254,295)	(579,456,566)
Payments to retailers	(53,597,244)	(54,050,697)
Payments to suppliers	(23,918,934)	(35,607,376)
Payments to employees	(12,577,326)	(12,640,863)
Payments for other expenses	(6,296,500)	(6,231,284)
<i>Net cash provided by operating activities</i>	276,103,828	280,935,476
INVESTING ACTIVITIES		
Receipt of principal from annuities	45,523,324	48,108,601
Receipt of interest from annuities	21,284,309	24,220,903
Receipt of interest from cash equivalents	1,589,329	1,446,190
Purchase of insurance annuities	(7,853,490)	(16,947,832)
<i>Net cash provided by investing activities</i>	60,543,472	56,827,862
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of property, plant and equipment	(261,546)	(304,919)
<i>Net cash used in capital financing activities</i>	(261,546)	(304,919)
NONCAPITAL FINANCING ACTIVITIES		
Additions to long-term annuities payable	7,853,490	16,947,832
Payment of principal on long-term annuities	(45,762,298)	(48,441,500)
Payment of interest on long-term annuities payable	(21,284,309)	(24,220,903)
Annuity assignment	11,000	4,500
Payments to the State of Connecticut	(279,000,000)	(284,865,000)
<i>Net cash used in noncapital financing activities</i>	(338,182,117)	(340,575,071)

	Years ended June 30	
	2007	2006
DECREASE IN CASH AND CASH EQUIVALENTS	\$ (1,796,363)	\$ (3,116,652)
CASH AND CASH EQUIVALENTS, Beginning	23,650,519	26,767,171
CASH AND CASH EQUIVALENTS, Ending	\$ 21,854,156	\$ 23,650,519
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 278,327,822	\$ 283,360,054
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	705,948	622,691
Loss on disposal of assets	1,822	—
Bad debt expense	23,781	56,572
Changes in assets and liabilities:		
Accounts receivable	1,805,324	(1,803,920)
Due from the Multi-State Lottery Association	—	35,129,098
Accounts payable and accrued expenses	1,497,051	(10,416,471)
Inventories	(99,786)	64,240
Prepaid expenses	302,552	(287,015)
Prize reserves	127,333	(254,024)
Prizes payable	(6,527,268)	(26,943,561)
Due to Multi-State Lottery Association	202,717	1,244,846
Deferred revenue	(263,468)	162,966
<i>Net cash provided by operating activities</i>	<i>\$ 276,103,828</i>	<i>\$ 280,935,476</i>

See notes to financial statements.

CONNECTICUT LOTTERY CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Connecticut Lottery Corporation (the Lottery), a body politic and corporate, constituting a public instrumentality and political subdivision of the State of Connecticut (the State), was created by Public Act 96-212 on July 1, 1996 for the purpose of generating revenues for the State of Connecticut's General Fund through the operation of a lottery. The Lottery is governed by a thirteen member board with eleven directors appointed by the Governor and Legislature plus two ex-officio members, the State Treasurer and the Secretary of the Office of Policy and Management. The Lottery is administered by a President appointed by the Board of Directors.

For financial reporting purposes, the Lottery is considered a component unit of the State of Connecticut. Additional disclosures related to Connecticut's self insurance funds, unemployment insurance compensation, state pension plans, post employment benefits, and workers' compensation benefits are included in the State of Connecticut's Comprehensive Annual Financial Report.

These financial statements include all Lottery activity and do not include any activity related to any other state agency or fund.

B. Measurement Focus and Basis of Accounting

The accounting methods and procedures adopted by the Lottery conform to accounting principles generally accepted in the United States of America (GAAP) for governmental enterprise funds. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed primarily through user charges (sales).

The Lottery is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of the Lottery are included on the statement of net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net assets.

The Lottery utilizes the accrual basis of accounting. Under this basis, revenues are recognized when earned and expenses are recognized when the related liability is incurred. The Lottery applies applicable pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict the pronouncements of the Governmental Accounting Standards Board (GASB).

CONNECTICUT LOTTERY CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1 — OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Significant Accounting Policies

Cash and Cash Equivalents—The balance in the cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities. Short-term investments of surplus cash are recorded at cost plus accrued interest, which approximate fair value. For purposes of reporting cash flows, cash and cash equivalents include all cash accounts, deposits with the State Treasurer’s Short-Term Investment Fund (STIF), and investments with an original maturity of three months or less.

Investments—Short-term and long-term investments for prize payments are annuity contracts with insurance companies, purchased in the name of the Lottery, and are stated at maturity value less unamortized discounts.

Accounts Receivable—Accounts receivable are reported at their gross amount, reduced by the estimated portion that is expected to be uncollectible. The allowance for uncollectible accounts is based on an analysis of delinquent accounts which considers the age of the accounts and current economic conditions.

Ticket Inventory—Ticket inventory is valued at the lower of cost or market using the specific identification method. Inventories are reported at their gross amount, reduced by the estimated portion that is provided for scrapped instant inventory tickets.

Property, Plant and Equipment—Property, plant and equipment are reported at cost and are depreciated using the straight-line method over the following estimated useful lives:

Leasehold Improvements	5 years or remaining lease term
Computer Equipment	5 years
Furniture and Equipment	10 years

The Lottery capitalizes equipment purchases and improvements greater than \$500.

Prizes Payable—The prizes payable account represents the difference between the prize liability and the actual prizes redeemed. State law requires the Lottery to honor winning Lottery tickets for up to one year after the drawing in which the prizes are won for on-line prizes or the official end of game for instant game prizes. After one year, the liability is extinguished and the related income is added to net assets restricted for certain statutorily designated purposes.

Compensated Absences—Under the terms of its various union contracts, the Lottery employees are granted vacation in varying amounts based on the length of service. Certain employees may carry over a limited number of unused vacation days to subsequent years and, in the event of termination, these employees are reimbursed for accumulated vacation.

Under the terms of its various union contracts, Lottery employees are granted sick leave in varying amounts. Laid off employees may retain accrued sick leave provided they return to service on a permanent basis. An employee who has resigned from service in good standing and is re-employed within one year from resignation shall also retain sick leave accrued to their credit as of the effective date of their resignation.

CONNECTICUT LOTTERY CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1 — OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating and Nonoperating Revenues and Expenses—Operating revenues are primarily derived from sales of Lottery tickets. Operating expenses include the costs and expenses incurred in the sale of the Lottery's game offerings. Nonoperating revenues are generally derived from interest earned on annuity contracts and operating cash balances. Nonoperating expenses are primarily derived from interest expense from long-term annuity payments.

Prize Expense—Prize expense for scratch games is recognized at the time of sale based on the predetermined prize structure for each game and is periodically adjusted to actual as known. Prize expense for on-line games is recognized at the time of actual drawings. Prizes may be claimed up to one year after the close of the game for instant games and up to one year after the draw for on-line games. Because winning tickets may be lost, destroyed or not redeemed for other reasons, there will be differences between amounts accrued and the amounts actually paid. Those differences, called unclaimed prizes, are recognized as a reduction of expense one year and a day after the end of the game or drawing, as appropriate (see Unclaimed Prizes below). Powerball prize expense is recognized in accordance with the Multi-State Lottery Association agreement (see Note 8).

Unclaimed Prizes—As noted above, prizes must be claimed within one year from the date of the game close for scratch games and date of the drawing for on-line games. Any prizes not claimed within this period are classified as unclaimed. In accordance with Public Act 96-212, the Lottery may retain unclaimed prize funds as additional revenue for the State, for promotions used to increase sales, or to return to the participants in a manner designed to increase sales.

Prize Payments—Public Act 96-212 states a minimum of 45 percent of gross annual revenue must be paid as prizes. For the fiscal years ended June 30, 2007 and 2006, the prize expense amounted to 60.6 and 60.5 percent of Lottery sales, respectively.

Marketing, Advertising and Promotion—The Lottery expenses the costs of marketing, advertising and promotion as they are incurred.

Payments to State of Connecticut—The Lottery transfers funds to the State of Connecticut to pay for regulation, provide for the Chronic Gamblers' Fund, the Department of Education Fund and to contribute to the general revenues of the State.

Retailer Commissions—Commissions are generally computed as 5 percent of ticket sales plus 1 percent of tickets cashed. Retailers may earn additional compensation through product promotions offered by the Lottery.

Net Assets—Restricted net assets represent amounts set aside by statute for future use to return to participants as increased prize pools, promotional programs or payment to the General Fund. Unrestricted net assets represent the net assets available for future operations, capital asset purchases or distribution to the State's General Fund. Net assets invested in capital assets represent resources net of debt and accumulated depreciation invested in capital assets. The Lottery transfers restricted net assets as of the fiscal year end to unrestricted net assets in the next fiscal year for payment to the State's General Fund.

CONNECTICUT LOTTERY CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

General Budgetary Policies and Procedures—The enabling legislation of the Lottery provides that it should operate in an entrepreneurial and business-like manner free from State budgetary constraints. For management purposes, management proposes and the Board of Directors approves a budget that encompasses revenues and expenses along with reasonable reserves for working capital, capital expenditures, debt retirement and other anticipated expenses, as well as estimated transfers to the General Fund in a manner and at levels considered by the Board of Directors as appropriate and prudent.

NOTE 3 – CASH, CASH EQUIVALENTS AND CREDIT RISK

Cash and cash equivalents are as follows:

	June 30	
	2007	2006
Cash in bank	\$ 2,205,488	\$ 992,259
Cash held in trust by retailers	12,243,344	9,301,875
STIF	7,085,387	13,086,110
Retailer-Security deposits	314,437	264,775
Petty Cash	5,500	5,500
Total cash and cash equivalents	\$ 21,854,156	\$ 23,650,519

Cash held in trust by retailers is cash held in multiple segregated accounts from which the Lottery makes systematic transfers to the Lottery’s accounts.

In accordance with Public Act 96-212 and Connecticut General Statutes (C.G.S.) Sections 3-20 and 3-27a, excess funds of the Lottery may be deposited with the treasurer in such fund or funds of the State as appropriate or at the direction of the treasurer in a commercial bank or trust company with or without security to the credit of such fund or funds, or may be invested by, or at the discretion of the treasurer in bonds or obligations of, or guaranteed by, the State or the United States, or paper, savings accounts and bank acceptances, in the obligations of any state of the United States or any political subdivision, authority or agency thereof, provided that at the time of investment such obligations are rated within one of the top two rating categories of any nationally recognized rating service or of any rating service recognized by the State Commissioner of Banking, and applicable to such obligations, in the obligations of any regional school district in this State or any metropolitan district in this State, provided that at the time of investment such obligations of such government entity are rated within one of the top three rating categories of any nationally recognized rating service or any rating service recognized by the State Commissioner of Banking, and applicable to such obligations, or in any fund in which a trustee may invest pursuant to C.G.S. Section 36-9w.

At June 30, 2007 and 2006, the carrying amounts of the Lottery’s deposits were \$2,205,488 and \$992,259, respectively. The bank balances at June 30, 2007 and 2006 were \$3,433,769 and \$3,255,736, respectively, of which \$100,000 was covered by the Federal Deposit Insurance Corporation (FDIC) at June 30, 2007 and 2006, respectively. The balances of these funds, \$3,333,769 and \$3,155,736, respectively, were uninsured and uncollateralized.

CONNECTICUT LOTTERY CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 3 – CASH, CASH EQUIVALENTS AND CREDIT RISK (continued)

The Lottery’s policy to control custodial credit risk related to uninsured deposits is to maintain accounts only with large, financially stable commercial banks.

At June 30, 2007 and 2006, the Lottery also had uninsured and uncollateralized investments of \$7,399,824 and \$13,350,885, respectively, in the State Treasurer’s Short-Term Investment Fund. Cash invested in STIF is classified as pooled investments and therefore not categorized by risk type. Standard & Poor’s rated the STIF as AAAM for the last two fiscal years.

The Lottery’s daily bank investments and short-term STIF investments are invested in highly liquid, short-term assets that create no interest rate risk for the Lottery. The average maturity of the underlying assets within the STIF investments is 15 days. The Lottery’s stated policy is to invest in highly liquid, short-term assets.

NOTE 4 – INVESTMENTS AND CREDIT RISK

Investments—The Lottery had the following investments as of:

June 30, 2007		
	Carrying Amount	Fair Value
Annuity contracts (at present value, discounted at approximately 7%)	\$ 263,646,507	\$ 263,646,507

June 30, 2006		
	Carrying Amount	Fair Value
Annuity contracts (at present value, discounted at approximately 7%)	\$ 300,110,065	\$ 300,110,065

Credit Risk—The Lottery has uncollateralized annuities with the following institutions that represent more than five percent of the total as follows:

June 30		
Institution	2007	2006
John Hancock Mutual	\$ 72,623,488	\$ 82,021,676
New York Life	56,781,388	62,628,995
Canada Life	41,271,370	49,061,178
Sun Life Assurance	38,181,219	53,124,330
Ohio National Life	28,070,090	24,198,959
Prudential	24,864,214	28,416,245
Protective Life	22,105,225	19,797,304
Jefferson Pilot	7,917,854	19,177,734

CONNECTICUT LOTTERY CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 4 – INVESTMENTS AND CREDIT RISK (continued)

As of June 30, 2007 and 2006, the Lottery's investments with the above institutions had ratings by A.M. Best Company ranging between B+ and A++.

All annuity contracts are purchased through a formal proposal process administered by the Lottery. Insurance company qualifications are reviewed by the Office of the State Insurance Commission.

Due to the matching of the terms of the annuity prize liabilities and the related long-term investments, no interest rate risk results from these long-term investments, and therefore, the Lottery maintains no stated policy regarding interest rate risk on long-term investments.

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment is presented below:

	Leasehold Improvements	Computer Equipment	Furniture and Equipment	Total
Asset Cost				
Balance, June 30, 2005	\$ 2,357,827	\$ 2,690,609	\$ 2,962,845	\$ 8,011,281
Capital Additions	91,332	172,587	41,000	304,919
Balance, June 30, 2006	2,449,159	2,863,196	3,003,845	8,316,200
Capital Additions	108,324	120,339	32,883	261,546
Disposals	–	(34,671)	(3,101)	(37,772)
Balance, June 30, 2007	2,557,483	2,948,864	3,033,627	8,539,974
Accumulated Depreciation				
Balance, June 30, 2005	(2,297,361)	(2,243,590)	(1,228,570)	(5,769,521)
Depreciation	(26,158)	(172,858)	(423,675)	(622,691)
Balance, June 30, 2006	(2,323,519)	(2,416,448)	(1,652,245)	(6,392,212)
Depreciation	(111,194)	(170,348)	(424,406)	(705,948)
Disposals	–	34,671	1,279	35,950
Balance, June 30, 2007	(2,434,713)	(2,552,125)	(2,075,372)	(7,062,210)
Net Book Value	\$ 122,770	\$ 396,739	\$ 958,255	\$ 1,477,764

CONNECTICUT LOTTERY CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 6 – LONG-TERM OBLIGATIONS

Long-term payment requirements for annuities payable represent the single class of long-term liabilities for the Lottery. Activity for the last two fiscal years is presented below.

Annuities Payable	Beginning Balance	Additions	Reductions	Ending Balance	Amounts due within one year
Activity for fiscal 2006	\$ 337,001,390	\$ 16,947,832	\$ 51,472,917	\$ 302,476,305	\$ 45,764,611
Activity for fiscal 2007	\$ 302,476,305	\$ 7,853,490	\$ 44,556,022	\$ 265,773,773	\$ 42,063,377

Presented below is a summary of long-term payment requirements for annuities payable to maturity:

Fiscal Years Ending June 30	Principal	Interest
2008	\$ 42,063,377	\$ 18,507,947
2009	36,497,185	15,591,648
2010	33,283,118	12,966,870
2011	29,457,947	10,575,112
2012	24,853,630	8,460,603
2013 - 2017	62,570,497	21,886,757
2018 - 2022	14,795,816	8,912,391
2023 - 2027	6,543,488	5,501,344
2028 - 2032	4,425,081	3,914,919
2033 - 2037	4,389,037	2,595,963
2038 - 2042	4,150,739	1,360,928
After 2042	2,743,858	604,163
	\$ 265,773,773	\$ 110,878,645

This debt represents periodic payments owed to lottery top prize winners and is fully funded by investments in annuity contracts. Amounts due after 2027 represent estimates of long-term liabilities related to prizes payable over the recipients' natural lives.

As noted in Note 4 regarding investments, the annuity contracts used to fund periodic payments to top prize winners match the amounts and terms of the annuity prize liabilities. Therefore, no interest rate risk results from the long-term debt and the Lottery maintains no stated policy regarding interest rate risk on debt.

CONNECTICUT LOTTERY CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 7 – NET ASSETS

A portion of net assets resulting from net income generated by the expiration of unclaimed prizes is restricted by State statute for promotional purposes, augmenting the prizes of subsequent games or increasing payments to the General Fund of the State of Connecticut. The following summarizes the transfers between categories of net assets:

	Two Years Ended June 30, 2007			
	Restricted	Invested in Capital Assets	Unrestricted	Total
Net Assets, June 30, 2005	\$ 3,231,292	\$ 2,241,760	\$ (2,241,760)	\$ 3,231,292
Change in net assets before				
payments to State of Connecticut	–	–	284,810,744	284,810,744
Payments to State of Connecticut	–	–	(284,865,000)	(284,865,000)
Transferred from Restricted Net				
Assets to fund increased prizes	(489,374)	–	489,374	–
Purchases of capital assets	–	304,919	(304,919)	–
Depreciation	–	(622,691)	622,691	–
Unclaimed prizes transferred to				
Restricted Net Assets	13,246,772	–	(13,246,772)	–
Transferred from Restricted Net				
Assets for promotional purposes	(10,464)	–	10,464	–
Transferred to Unrestricted				
Net Assets	(12,801,190)	–	12,801,190	–
Net Assets, June 30, 2006	3,177,036	1,923,988	(1,923,988)	3,177,036
Change in net assets before				
payments to State of Connecticut	–	–	279,928,151	279,928,151
Payments to State of Connecticut	–	–	(279,000,000)	\$ (279,000,000)
Transferred from Restricted Net				
Assets to fund increased prizes	(642,286)	–	642,286	–
Purchase of capital assets				
net of disposals				
totaling \$1,822	–	259,724	(259,724)	–
Depreciation	–	(705,948)	705,948	–
Unclaimed prizes transferred to				
Restricted Net Assets	16,735,548	–	(16,735,548)	–
Transferred from Restricted Net				
Assets for promotional purposes	(11,038)	–	11,038	–
Transferred to Unrestricted				
Net Assets	(15,154,073)	–	15,154,073	–
Net Assets, June 30, 2007	\$ 4,105,187	\$ 1,477,764	\$ (1,477,764)	\$ 4,105,187

CONNECTICUT LOTTERY CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 8 – PARTICIPATION IN MULTI-STATE LOTTERY ASSOCIATION

The Lottery is a member of the Multi-State Lottery Association (MUSL) which operates games on behalf of participating state lotteries. MUSL operates the Powerball game in addition to several other games. The Lottery participates in the Powerball game.

Each participating Powerball game member sells on-line game tickets through its retailers and makes weekly wire transfers to MUSL in an amount equivalent to the member lottery's share of the estimated grand prize liability. Lesser prizes are paid directly to the winners by each member lottery. The prize pool for Powerball is 50 percent of each drawing period's sales. MUSL has placed 2 percent of each drawing period's sales included as part of each MUSL member's prize liability in prize reserve funds. The MUSL has placed a \$100,000,000 cap on the prize reserve funds and 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 the money in this reserve fund is to be used at the discretion of the MUSL Board of Directors. The prize reserve fund monies are refundable to MUSL members if MUSL disbands or if a member leaves MUSL. Members leaving MUSL must wait one year before receiving their remaining share, if any, of the prize reserve funds.

When winning grand prize tickets are drawn, the winner has the option of selecting a discounted lump sum cash payment or the full prize payment over thirty installments. If the winner selects the installment payments, MUSL purchases securities to fund the prize annuities. The annuity installments are paid to the Lottery, which in turn pays the winners their annual installments. All such prizes are paid annually in thirty payments with the initial payment being made in cash, to be followed by twenty-nine payments funded by the securities.

For the years ended June 30, 2007 and 2006, there were no Powerball grand prize winners in the State of Connecticut.

As part of the agreement with MUSL, the Lottery is also required to deposit with MUSL additional amounts in the event the prize payout experience becomes greater than budgeted. These amounts are the property of the Lottery and would be returned in full in the event the Lottery exited the association. These amounts earn investment income at market rates, which is used to offset the Lottery's share of MUSL operating expenses for the year. Balances held by MUSL at June 30, 2007 and 2006 amounted to \$4,813,592 and \$4,940,925, respectively. Investment income earned was \$375,394 and \$351,851, for the years ended June 30, 2007 and 2006, respectively. Balances due to MUSL at June 30, 2007 and 2006 amounted to \$1,447,563 and \$1,244,846, respectively.

CONNECTICUT LOTTERY CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 9 – PENSION PLAN

All employees of the Lottery participate in the State Employees' Retirement System (SERS), which is administered by the State Employees' Retirement Commission. The Lottery has no liability for pension costs other than the annual contribution. In addition, an actuarial study was performed on the plan as a whole and does not separate information for employees of the Lottery. Therefore, certain pension disclosures otherwise required pursuant to accounting principles generally accepted in the United States of America are omitted. Information on the total plan funding status and progress, contribution required and trend information can be found in the State of Connecticut's Comprehensive Annual Financial Report.

Plan Description—SERS is a cost sharing multiple employer defined benefit Public Employees' Retirement System (PERS) established in 1939 and governed by sections 5-152 to 5-192 of the Connecticut General Statutes. Employees are covered under one of two tiers. Tier I and Tier IIA are contributory plans and Tier II is a noncontributory plan. Tier I Plan B and Plan C participants contribute 2 percent and 5 percent of their pay, respectively. Tier II Plan A participants contribute 2 percent of their pay. Members who joined the retirement system prior to July 1, 1984 are enrolled in Tier I. Tier I employees who retire at or after age 65 with 10 years of credited service, or at or after age 55 with 25 years of service or at age 55 with 10 years of credited service with reduced benefits are entitled to an annual retirement benefit payable monthly for life, in the amount of 2 percent of the annual average earnings (which are based on the three highest years of service) over \$4,800 plus 1 percent of \$4,800 for each year of credited service. Tier II employees who retire at or after age 60 with 25 years of service, or at age 62 with 10 years of service, or at age 70 with 5 years of service, or at age 55 with 10 years of service with reduced benefits are entitled to one and one-third percent of the average annual earnings in excess of the salary breakpoint in the year of retirement, for each year of credited service.

All Tier I and Tier II members are vested after ten years of service, and both plans provide for death and disability benefits. The total payroll for employees of the Lottery covered by SERS for the years ended June 30, 2007, 2006, and 2005 was \$7,903,000, \$7,151,903 and \$7,128,926, respectively.

Contributions Made—The Lottery's contribution is determined by applying a State mandated percentage to eligible salaries and wages. This rate was 34.32 percent, 35.76 percent and 31.26 percent, during fiscal years 2007, 2006, and 2005, respectively. The contributions made compared to covered payroll follows:

	Years ended June 30		
	2007	2006	2005
Contributions made:			
By employees	\$ 100,139	\$ 89,006	\$ 83,785
Percent of current year covered payroll	1.27%	1.24%	1.18%
By the Lottery	\$ 2,712,152	\$ 2,557,609	\$ 2,228,502
Percent of current year covered payroll	34.32%	35.76%	31.26%

CONNECTICUT LOTTERY CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 10 – POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 9, the State provides post employment health care and life insurance benefits in accordance with State statutes, Sections 5-257(d) and 5-259(a), to all eligible employees who retire from the State, including employees of the Lottery.

Currently, 26 retirees meet those eligibility requirements. When employees retire, the State pays 100 percent of their health care insurance premium cost (including dependent's coverage). In addition, the State pays 100 percent of the premium cost for a portion of the employees' life insurance continued after retirement. The amount of life insurance, continued at no cost to the retiree, is determined based on the number of years of service that the retiree had with the State at time of retirement as follows: a) if the retiree had 25 years or more of service, the amount of insurance will be one-half of the amount of insurance for which the retiree was insured immediately prior to retirement, but the reduced amount cannot be less than \$7,500; (b) if the retiree had less than 25 years of service, the amount of insurance will be the proportionate amount that such years of service is to 25, rounded to the nearest \$100. The State finances the cost of post employment health care and life insurance benefits on a pay-as-you-go basis through an appropriation in the General Fund. The Lottery makes no contributions to the State for these benefits.

Statement No. 47 of the Government Accounting Standards Board, Accounting for Termination Benefits, was issued in June 2005, effective for periods beginning after June 15, 2005. At the time of issuance, the Lottery had existing obligations to four employees who selected early retirement under a 2003 Early Retirement Incentive Program offered by the State of Connecticut. The early retirement plan allowed for payment of accrued sick and vacation pay on a deferred basis that would be treated as additional state service for retirement purposes. The deferred payments were payable by the CLC in equal annual installments of \$21,880 on July 1, 2005, 2006 and 2007. The CLC accrued the total obligation upon election by the employees and has complied with the required installments to date.

NOTE 11 – LEASE COMMITMENTS

The Lottery leases office and warehouse facilities under long-term operating leases with annual rates of \$325,450. The office and warehouse leases allow for two renewal options of two years each; and a third renewal option of five years for a total of nine years at the Lottery's option. The Lottery exercised the first renewal options for the office and warehouse leases in fiscal year 2003, the second renewal options in 2005, and the third renewal option for the warehouse only in 2007. The second renewal for the office extended the lease through August 31, 2007 and the third renewal for the warehouse extended the lease through July 31, 2012.

In 2007, the Lottery entered into a new office lease commencing on November 1, 2007 and extending through January 31, 2018. The lease provides for free rent from November 1, 2007 through January 31, 2008. Monthly rents will be approximately \$56,000 through January 31, 2012 and \$66,000 through the end of the term. The Lottery will recognize the lease expense using the straight-line method over the term of the lease arrangement.

The Lottery leases equipment under noncancellable operating leases expiring on various dates through June 2009. The obligations are payable in monthly installments and are immaterial.

CONNECTICUT LOTTERY CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 11 – LEASE COMMITMENTS (continued)

Total rent expense for facilities and equipment was \$350,015 and \$348,672 for the fiscal years ended June 30, 2007 and 2006, respectively.

Future payments for the aforementioned leases are summarized as follows:

Fiscal Years Ending June 30	Amount
2008	\$ 453,895
2009	763,585
2010	741,375
2011	741,375
2012	741,375
Thereafter	4,328,344
	<u>\$ 7,769,949</u>

NOTE 12 – RISK MANAGEMENT

The Lottery is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption due to disruption of data processing; unfaithful performance; errors and omissions; injuries to employees; and natural disasters. The Lottery purchases commercial insurance for property losses in excess of \$100,000; losses due to employee dishonesty in excess of \$1,000; errors and omissions, injuries to employees, and business interruption due to disruptions of data processing.

Lottery employees participate in three State of Connecticut health plans. For one of these plans, the State is self-insured. This plan is administered by an outside vendor which is responsible for the processing and payment of claims. No separate measurement is made of claims incurred and paid for the Lottery employees. Information regarding the excess of claims incurred over the claims paid for the State as a whole may be found in the Comprehensive Annual Financial Report of the State of Connecticut.

Claims expenses and liabilities above amounts covered by insurance are reported when it is probable that a liability has been incurred at the date of the financial statements and the amount of that loss can be reasonably estimated, including an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount.

During each of the three years ended June 30, 2007, 2006 and 2005, there were no claims or settlements that have exceeded insurance coverage.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Lottery is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the Lottery.

CONNECTICUT LOTTERY CORPORATION
SCHEDULE OF PROFIT MARGINS BY GAME TYPE
Year ended June 30, 2007

PROFIT CONTRIBUTIONS (\$000's)

	Scratch	Play3	Play4	Mid-Day3
NET SALES	\$ 594,933	\$ 82,408	\$ 62,642	\$ 29,758
DIRECT COSTS				
Gross prize expense	405,759	46,374	33,915	13,350
Unclaimed prize credit	(7,466)	(601)	(659)	(183)
Use of unclaimed prize reserve	7	—	3	—
<i>Net prize expense</i>	398,300	45,773	33,259	13,167
Retailer commissions	34,019	4,591	3,391	1,627
On-line systems	6,377	857	670	318
Telephone costs	1,221	170	129	61
Marketing, advertising and promotion	4,539	199	141	78
Production expenses	7,285	35	35	31
<i>Total direct costs</i>	451,741	51,625	37,625	15,282
GROSS PROFIT	\$ 143,192	\$ 30,783	\$ 25,017	\$ 14,476

PROFIT MARGIN (% OF NET SALES)

	100.0%	100.0%	100.0%	100.0%
NET SALES	100.0%	100.0%	100.0%	100.0%
DIRECT COSTS				
Gross prize expense	68.2%	56.3%	54.1%	44.9%
Unclaimed prize credit	(1.3%)	(0.7%)	(1.1%)	(0.6%)
Use of unclaimed prize reserve	0.0%	0.0%	0.0%	0.0%
<i>Net prize expense</i>	66.9%	55.6%	53.0%	44.3%
Retailer commissions	5.7%	5.6%	5.4%	5.4%
On-line systems	1.1%	1.0%	1.1%	1.1%
Telephone costs	0.2%	0.2%	0.2%	0.2%
Marketing, advertising and promotion	0.8%	0.2%	0.2%	0.3%
Production expenses	1.2%	0.0%	0.1%	0.1%
<i>Total direct costs</i>	75.9%	62.6%	60.0%	51.4%
GROSS PROFIT	24.1%	37.4%	40.0%	48.6%

Mid-Day 4	Classic Lotto	Cash5	Powerball	Total
\$ 22,776	\$ 30,386	\$ 41,371	\$ 92,752	\$ 957,026
11,065	16,068	23,014	46,392	595,937
(183)	(2,801)	(707)	(4,136)	(16,736)
–	642	–	1	653
10,882	13,909	22,307	42,257	579,854
1,225	1,638	2,303	4,803	53,597
244	325	443	989	10,223
47	62	86	190	1,966
62	389	111	686	6,205
31	11	35	(35)	7,428
12,491	16,334	25,285	48,890	659,273
\$ 10,285	\$ 14,052	\$ 16,086	\$ 43,862	\$ 297,753
100.0%	100.0%	100.0%	100.0%	100.0%
48.6%	52.9%	55.6%	50.0%	62.3%
(0.8%)	(9.2%)	(1.7%)	(4.5%)	(1.8%)
0.0%	2.1%	0.0%	0.0%	0.1%
47.8%	45.8%	53.9%	45.5%	60.6%
5.4%	5.4%	5.6%	5.2%	5.6%
1.1%	1.1%	1.1%	1.1%	1.1%
0.2%	0.2%	0.2%	0.2%	0.2%
0.3%	1.3%	0.2%	0.7%	0.6%
0.1%	0.0%	0.1%	0.0%	0.8%
54.9%	53.8%	61.1%	52.7%	68.9%
45.1%	46.2%	38.9%	47.3%	31.1%

CONNECTICUT LOTTERY CORPORATION
SCHEDULE OF PROFIT MARGINS BY GAME TYPE
Year ended June 30, 2006

PROFIT CONTRIBUTIONS (\$000's)

	Scratch	Play3	Play4	Mid-Day3
NET SALES	\$ 587,559	\$ 79,040	\$ 59,335	\$ 27,901
DIRECT COSTS				
Gross prize expense	399,591	37,721	29,719	14,462
Unclaimed prize credit	(7,514)	(674)	(610)	(206)
Use of unclaimed prize reserve	1	–	8	–
<i>Net prize expense</i>	392,078	37,047	29,117	14,256
Retailer commissions	33,469	4,342	3,198	1,544
On-line systems	6,191	746	616	306
Telephone costs	1,285	173	130	61
Marketing, advertising and promotion	4,407	215	163	78
Production expenses	7,269	29	29	27
<i>Total direct costs</i>	444,699	42,552	33,253	16,272
GROSS PROFIT	\$ 142,860	\$ 36,488	\$ 26,082	\$ 11,629

PROFIT MARGIN (% OF NET SALES)

NET SALES	100.0%	100.0%	100.0%	100.0%
DIRECT COSTS				
Gross prize expense	68.0%	47.7%	50.1%	51.8%
Unclaimed prize credit	(1.3%)	(0.9%)	(1.0%)	(0.7%)
Use of unclaimed prize reserve	0.0%	0.0%	0.0%	0.0%
<i>Net prize expense</i>	66.7%	46.8%	49.1%	51.1%
Retailer commissions	5.7%	5.5%	5.4%	5.5%
On-line systems	1.1%	0.9%	1.0%	1.1%
Telephone costs	0.2%	0.2%	0.2%	0.2%
Marketing, advertising and promotion	0.8%	0.3%	0.3%	0.3%
Production expenses	1.2%	0.0%	0.0%	0.1%
<i>Total direct costs</i>	75.7%	53.7%	56.0%	58.3%
GROSS PROFIT	24.3%	46.3%	44.0%	41.7%

Mid-Day 4	Classic Lotto	Cash5	Powerball	Total
\$ 20,947	\$ 32,261	\$ 41,351	\$ 121,933	\$ 970,327
16,078 (153) 1	17,075 (576) 490	24,426 (847) -	61,063 (2,667) -	600,135 (13,247) 500
15,926	16,989	23,579	58,396	587,388
1,160 221 46 59 27	1,709 348 70 753 9	2,311 429 90 113 29	6,318 1,282 254 681 77	54,051 10,139 2,109 6,469 7,496
17,439	19,878	26,551	67,008	667,652
\$ 3,508	\$ 12,383	\$ 14,800	\$ 54,925	\$ 302,675
100.0%	100.0%	100.0%	100.0%	100.0%
76.8% (0.7%) 0.0%	52.9% (1.8%) 1.5%	59.1% (2.0%) 0.0%	50.1% (2.2%) 0.0%	61.8% (1.4%) 0.1%
76.1% 5.5% 1.1% 0.2% 0.3% 0.1%	52.6% 5.3% 1.1% 0.2% 2.3% 0.0%	57.1% 5.6% 1.0% 0.2% 0.3% 0.1%	47.9% 5.2% 1.1% 0.2% 0.6% 0.1%	60.5% 5.6% 1.0% 0.2% 0.7% 0.8%
83.3%	61.5%	64.3%	55.1%	68.8%
16.7%	38.5%	35.7%	44.9%	31.2%

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STATISTICAL SECTION

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CONNECTICUT LOTTERY CORPORATION
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
ACTUAL VS. BUDGET (\$'000'S) YEAR ENDED JUNE 30, 2007

	Actual	Budget	Over/ (Under) Budget	% Change
SALES	\$ 959,149	\$ 962,000	\$ (2,851)	(0.3%)
Less sales returns, cancellations and promotion	(2,123)	–	(2,123)	–
<i>Total sales</i>	957,026	962,000	(4,974)	(0.5%)
COST OF SALES				
Prize expense	579,854	581,475	(1,621)	(0.3%)
Retailer commissions	53,597	54,292	(695)	(1.3%)
On-line systems	12,189	12,446	(257)	(2.1%)
Marketing, advertising and promotion	6,205	6,999	(794)	(11.3%)
Production expenses	7,428	7,191	237	3.3%
<i>Total cost of sales</i>	659,273	662,403	(3,130)	(0.5%)
OPERATING EXPENSES				
Salaries and benefits	12,577	13,634	(1,057)	(7.8%)
Other operating expenses	2,081	2,443	(362)	(14.8%)
Depreciation and amortization	706	646	60	9.3%
Bad debt expense	24	150	(126)	(84.0%)
Division of Special Revenue, regulatory purposes	2,715	2,501	214	8.6%
Chronic Gamblers' Fund	1,500	1,500	–	–
<i>Total operating expenses</i>	19,603	20,874	(1,271)	(6.1%)
OTHER OPERATING INCOME	178	112	66	58.9%
<i>Operating income</i>	278,328	278,835	(507)	(0.2%)
NONOPERATING REVENUES (EXPENSES)				
Interest income from investments on annuities	19,752	–	19,752	
Interest income	1,589	1,135	454	40.0%
Interest expense on annuity payments	(19,752)	–	(19,752)	
Annuity assignment	11	–	11	
<i>Total nonoperating revenues</i>	1,600	1,135	465	41.0%
CHANGE IN NET ASSETS AVAILABLE BEFORE PAYMENTS TO GENERAL FUND	279,928	279,970	(42)	0.0%
NONOPERATING PAYMENTS TO THE STATE OF CONNECTICUT	279,000	279,970	(970)	(0.3%)
<i>Change in net assets</i>	\$ 928	\$ –	\$ 928	–

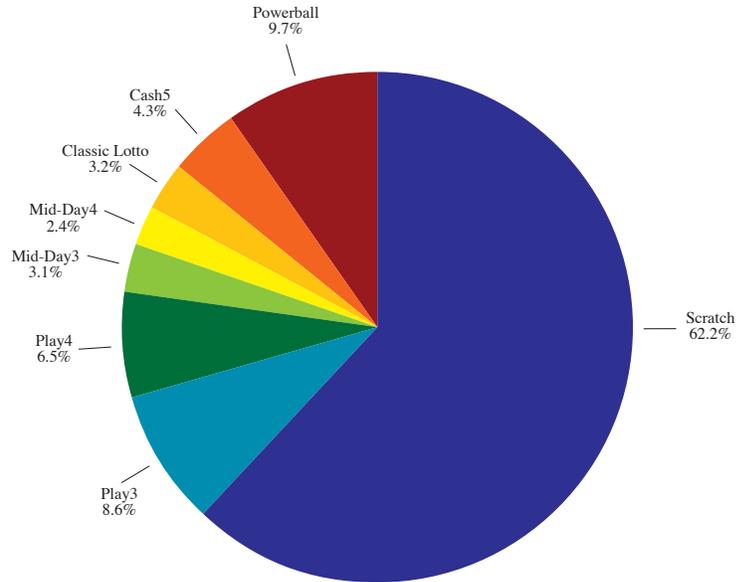
CONNECTICUT LOTTERY CORPORATION
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BY GAME TYPE (\$000'S) YEAR ENDED JUNE 30, 2007

	Scratch	Play3	Play4
SALES	\$ 594,936	\$ 83,220	\$ 63,302
Less sales returns, cancellations and promotion	(3)	(812)	(660)
<i>Total sales</i>	594,933	82,408	62,642
COST OF SALES			
Prize expense	398,300	45,773	33,259
Retailer commissions	34,019	4,591	3,391
On-line systems	7,598	1,027	799
Marketing, advertising and promotion	4,539	199	141
Production expenses	7,285	35	35
<i>Total cost of sales</i>	451,741	51,625	37,625
OPERATING EXPENSES			
Salaries and benefits	7,609	566	660
Other operating expenses	1,263	100	111
Depreciation and amortization	427	32	37
Bad debt expense	15	2	1
Division of Special Revenue, regulatory purposes	1,688	233	178
Chronic Gamblers' Fund	919	129	97
<i>Total operating expenses</i>	11,921	1,062	1,084
OTHER OPERATING INCOME	105	13	10
<i>Operating income</i>	131,376	29,734	23,943
NONOPERATING REVENUES (EXPENSES)			
Interest income from investments on annuities	593	—	—
Interest income	755	104	79
Interest expense on annuity payments	(593)	—	—
Annuity assignment	2	—	—
<i>Total nonoperating revenues</i>	757	104	79
CHANGE IN NET ASSETS AVAILABLE BEFORE PAYMENTS TO GENERAL FUND	132,133	29,838	24,022
NONOPERATING PAYMENTS TO THE STATE OF CONNECTICUT	131,696	29,739	23,942
<i>Change in net assets</i>	\$ 437	\$ 99	\$ 80

Mid-Day3	Mid-Day4	Classic Lotto	Cash5	Powerball	Total
\$ 30,073 (315)	\$ 23,029 (253)	\$ 30,406 (20)	\$ 41,400 (29)	\$ 92,783 (31)	\$ 959,149 (2,123)
29,758	22,776	30,386	41,371	92,752	957,026
13,167	10,882	13,909	22,307	42,257	579,854
1,627	1,225	1,638	2,303	4,803	53,597
379	291	387	529	1,179	12,189
78	62	389	111	686	6,205
31	31	11	35	(35)	7,428
15,282	12,491	16,334	25,285	48,890	659,273
472	566	849	723	1,132	12,577
77	90	135	117	188	2,081
26	32	47	41	64	706
1	–	1	1	3	24
84	65	87	117	263	2,715
46	35	50	65	159	1,500
706	788	1,169	1,064	1,809	19,603
4	3	23	6	14	178
13,774	9,500	12,906	15,028	42,067	278,328
–	–	19,159	–	–	19,752
38	29	39	52	493	1,589
–	–	(19,159)	–	–	(19,752)
–	–	8	–	1	11
38	29	47	52	494	1,600
13,812	9,529	12,953	15,080	42,561	279,928
13,765	9,498	12,909	15,032	42,419	279,000
\$ 47	\$ 31	\$ 44	\$ 48	\$ 142	\$ 928

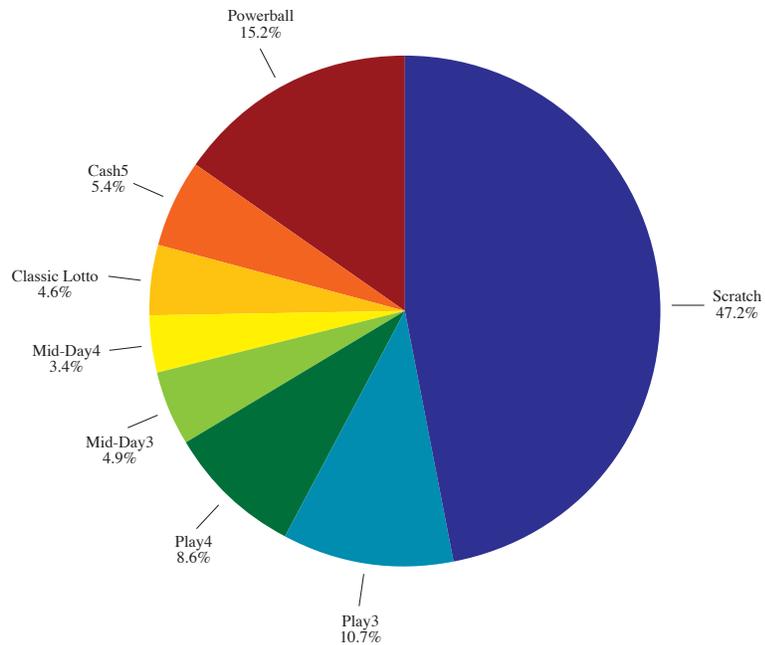
SALES BY GAME

Fiscal Year 2007 Total Sales: \$957,026,434

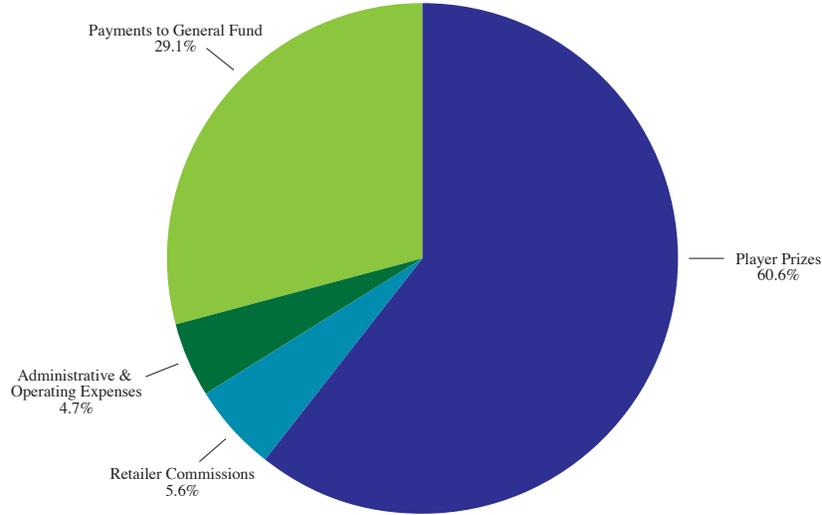


GENERAL FUND PAYMENTS BY GAME

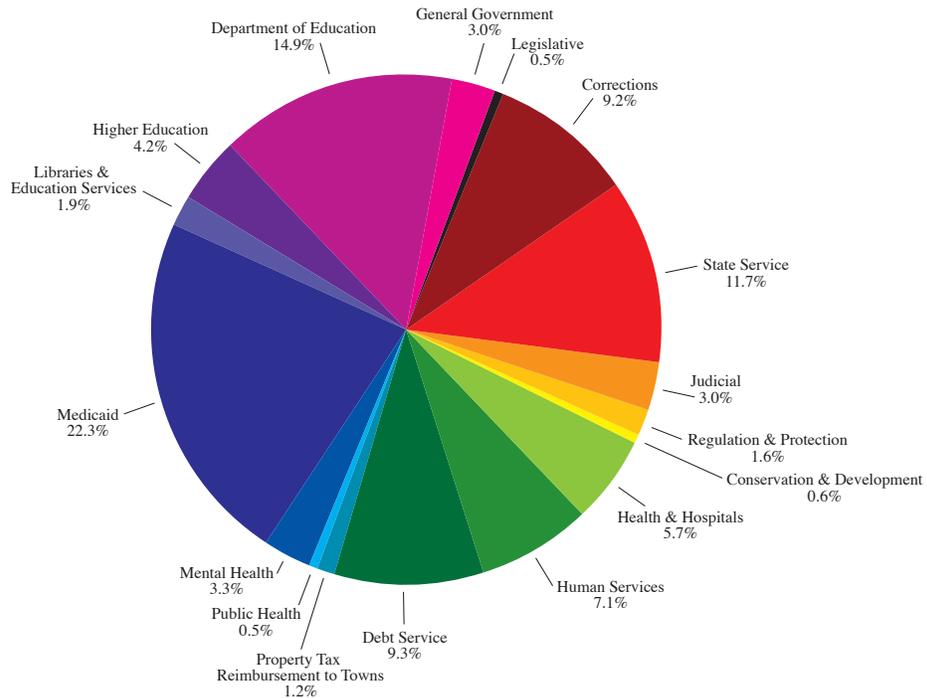
Fiscal Year 2007 Total Payments: \$279,000,000



DISTRIBUTION OF EXPENSES AND PAYMENTS AS A PERCENTAGE OF TOTAL SALES
Fiscal Year 2007 Total Sales: \$957,026,434

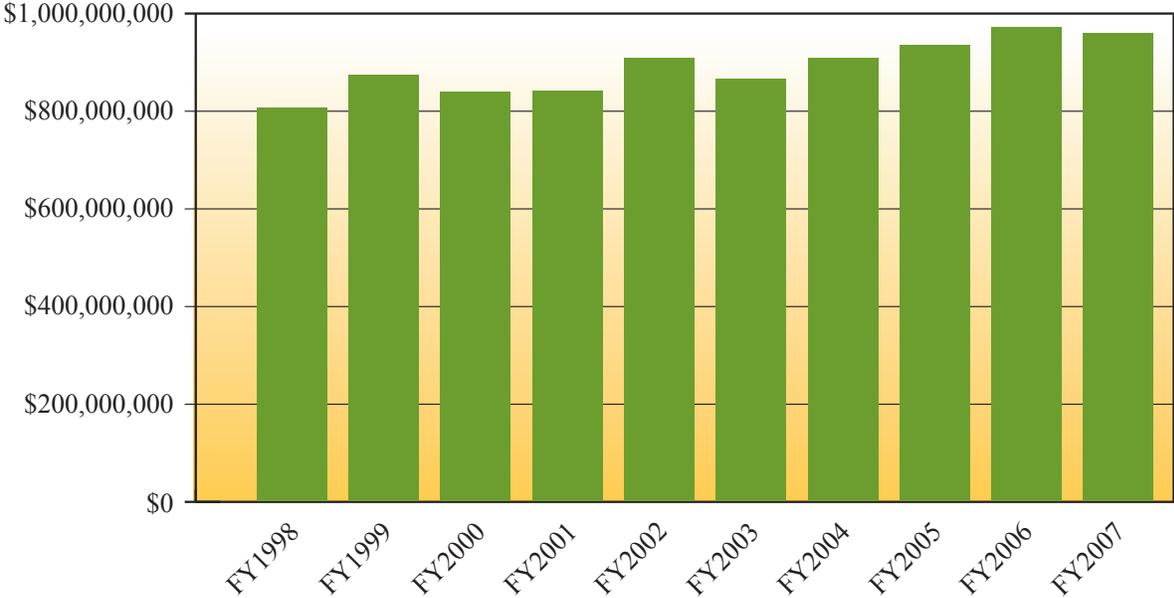


STATE SERVICES SUPPORTED BY LOTTERY PAYMENTS TO THE GENERAL FUND
Fiscal Year 2007 Payments to the General Fund: \$279,000,000

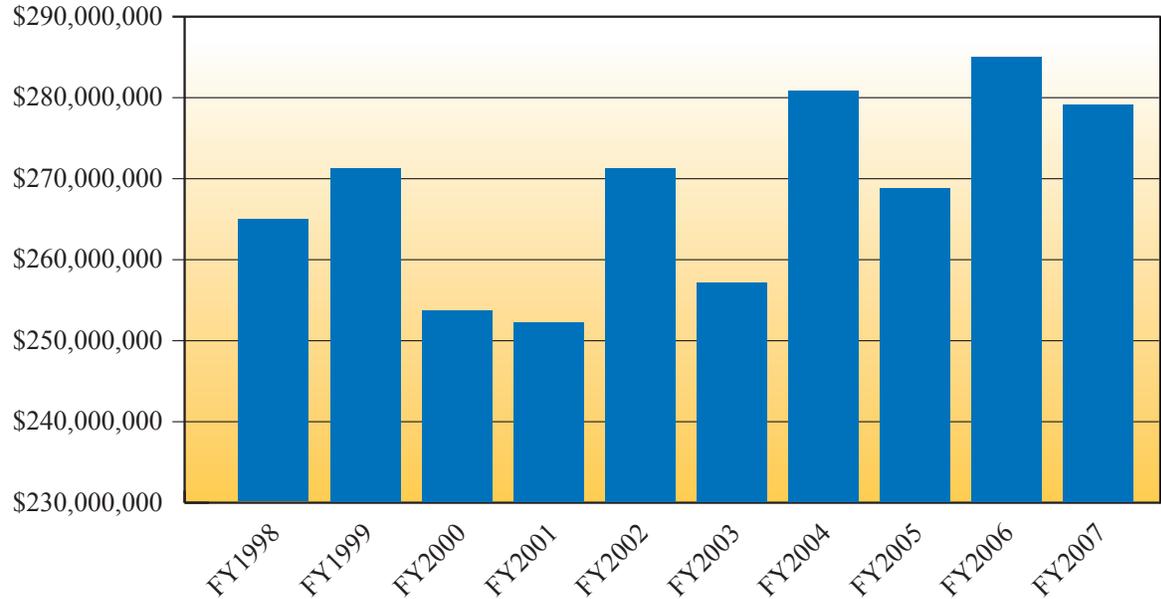


Based on Fiscal Year 2007 General Fund Percentages Appropriated by the Legislature. Source: Connecticut State Budget 2005-2007.

SALES FOR THE LAST 10 FISCAL YEARS



PAYMENTS TO THE GENERAL FUND FOR THE LAST 10 FISCAL YEARS



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CONNECTICUT LOTTERY CORPORATION
SCHEDULE OF SALES BY GAME TYPE, RELATED EXPENSES AND
PAYMENTS TO THE GENERAL FUND (\$000's) FOR THE LAST 10 FISCAL YEARS

	1998	1999	2000	2001
Sales				
Scratch	\$ 429,275	\$ 474,032	\$ 516,625	\$ 522,394
Daily Numbers ⁽¹⁾	175,274	172,720	172,550	178,015
Lotto	81,294	51,307	47,332	37,219
Cash5	58,485	48,360	44,521	41,820
Powerball	61,285	124,498	56,482	54,322
Instant Powerball	—	—	—	5,941
Total Sales	805,613	870,917	837,510	839,711
Prizes	474,372	517,307	502,494	507,864
Retailer Commissions	43,243	47,103	45,716	45,368
On-Line Systems	10,782	10,341	10,388	10,290
Other Cost of Sales	11,606	11,945	12,220	11,660
Total Cost of Sales	540,003	586,969	570,818	575,182
Payments to the General Fund	\$ 255,812 ⁽²⁾	\$ 271,308	\$ 253,598	\$ 252,003

Notes:

⁽¹⁾ Daily numbers refers to Play3, Play4, Mid-Day3, and Mid-Day4 games.

⁽²⁾ An additional \$8.46 million, from Net Assets, was paid to the General Fund in fiscal year 1998.

2002	2003	2004	2005	2006	2007
\$ 533,068	\$ 522,396	\$ 551,885	\$ 592,266	\$ 587,559	\$ 594,930
179,608	181,810	178,304	184,713	187,223	197,587
54,078	36,676	34,200	35,614	32,261	30,386
42,050	41,154	41,281	40,781	41,351	41,371
88,926	74,956	95,857	79,560	121,933	92,752
10,173	8,297	6,129	–	–	–
907,903	865,289	907,656	932,934	970,327	957,026
546,095	523,900	538,331	573,000	587,388	579,854
51,684	48,360	50,499	51,691	54,051	53,597
10,997	10,609	11,207	11,401	12,248	12,189
12,286	12,103	11,807	12,226	13,965	13,633
621,062	594,972	611,844	648,318	667,652	659,273
\$ 271,510	\$ 256,815	\$ 280,763	\$ 268,515	\$ 284,865	\$ 279,000

CONNECTICUT LOTTERY CORPORATION COMPARATIVE INDUSTRY STATISTICS

Based upon data published in La Fleur's 2007 World Lottery Almanac, the Connecticut Lottery Corporation ranked highly in key statistics for measurement of operational performance. The data for the latest period available, fiscal 2006, included data from lotteries in 42 states plus the District of Columbia (D.C.). Top performing lotteries in key categories are presented below:

A. SALES PER CAPITA:

State/District	Population (Millions)	Ticket Sales (Millions \$)	Sales Per Capita (Dollars)
1 Massachusetts	6.4	\$ 4,501.2	\$ 703.32
2 D.C.	0.6	\$ 266.4	\$ 443.98
3 New York	19.3	\$ 6,487.1	\$ 336.12
4 Georgia	9.4	\$ 2,955.4	\$ 314.40
5 Maryland	5.6	\$ 1,560.9	\$ 278.73
6 Connecticut	3.5	\$ 970.3	\$ 277.24
7 New Jersey	8.7	\$ 2,406.5	\$ 276.61
8 South Carolina	4.3	\$ 1,144.6	\$ 266.19
9 Pennsylvania	12.4	\$ 3,070.3	\$ 247.60
10 Rhode Island	1.1	\$ 261.1	\$ 237.37

B. NET INCOME PER CAPITA:

State/District	Population (Millions)	Net Income (Millions \$)	Net Income Per Capita (Dollars)
1 Massachusetts	6.4	\$ 951.24	\$ 148.63
2 D.C.	0.6	\$ 73.86	\$ 123.10
3 New York	19.3	\$ 2,129.38	\$ 110.33
4 New Jersey	8.7	\$ 843.39	\$ 96.94
5 Maryland	5.6	\$ 482.64	\$ 86.19
6 Georgia	9.4	\$ 804.46	\$ 85.58
7 Connecticut	3.5	\$ 284.81	\$ 81.37
8 Pennsylvania	12.4	\$ 992.36	\$ 80.03
9 South Carolina	4.3	\$ 318.86	\$ 74.15
10 Michigan	10.1	\$ 683.12	\$ 67.64

C. OPERATING EXPENSES AS PERCENTAGE OF SALES

State/District	Ticket Sales (Millions)	Operating Expenses ⁽¹⁾ (Millions \$)	Expense %
1 Massachusetts	\$ 4,501.2	\$ 83.32	1.9%
2 West Virginia	\$ 218.1	\$ 6.56	3.0%
3 Rhode Island	\$ 261.1	\$ 8.73	3.3%
4 Maryland	\$ 1,560.9	\$ 54.47	3.5%
5 New Jersey	\$ 2,406.5	\$ 88.74	3.7%
6 Florida	\$ 3,929.0	\$ 147.04	3.7%
7 South Carolina	\$ 1,144.6	\$ 46.70	4.1%
8 Georgia	\$ 2,955.4	\$ 121.04	4.1%
9 New York	\$ 6,487.1	\$ 271.68	4.2%
10 Pennsylvania	\$ 3,070.3	\$ 131.75	4.3%
11 California	\$ 3,585.0	\$ 160.52	4.5%
12 Connecticut	\$ 970.3	\$ 45.76	4.7%
13 Missouri	\$ 913.5	\$ 42.95	4.7%
14 Michigan	\$ 2,212.4	\$ 105.35	4.8%
15 Texas	\$ 3,774.7	\$ 184.90	4.9%

⁽¹⁾ Operating Expenses include all costs of sales and operating expenses except prize and commission expenses. Connecticut expenses include on-line system expense, salary and fringes, production expense, marketing expense, regulatory expense, and other operating expenses.

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COMPLIANCE SECTION

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
AND ON COMPLIANCE UNDER C.G.S. SECTION 1-122
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Directors
Connecticut Lottery Corporation

We have audited the financial statements of the Connecticut Lottery Corporation (a component unit of the State of Connecticut) as of and for the year ended June 30, 2007, and have issued our report thereon dated September 14, 2007. 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. In connection with our audit, we have read the provisions of Connecticut Public Act No. 88-266 Section 41 (the Act) of The Connecticut General Assembly relating to quasi-public agencies (adopted January 1, 1989). The Act requires the Corporation to comply with regulations concerning affirmative action, personnel practice, the purchase of goods and services, the use of surplus funds, and the distribution of loans, grants and other financial assistance.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Connecticut Lottery Corporation's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Connecticut Lottery Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Connecticut Lottery Corporation's internal controls over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Connecticut Lottery Corporation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the Connecticut Lottery Corporation's financial statements that is more than inconsequential will not be prevented or detected by the Connecticut Lottery Corporation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Connecticut Lottery Corporation's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended for the information and use of the Board of Directors, management, and Division of Special Revenue. However, this report is a matter of public record and its distribution is not limited.

The logo for UHY LLP is written in a stylized, cursive script. The letters 'UHY' are larger and more prominent, with 'LLP' in a smaller font size to the right.

Hartford, Connecticut
September 14, 2007

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Connecticut Lottery Corporation
Comprehensive Annual Financial Report | Fiscal Year 2007

