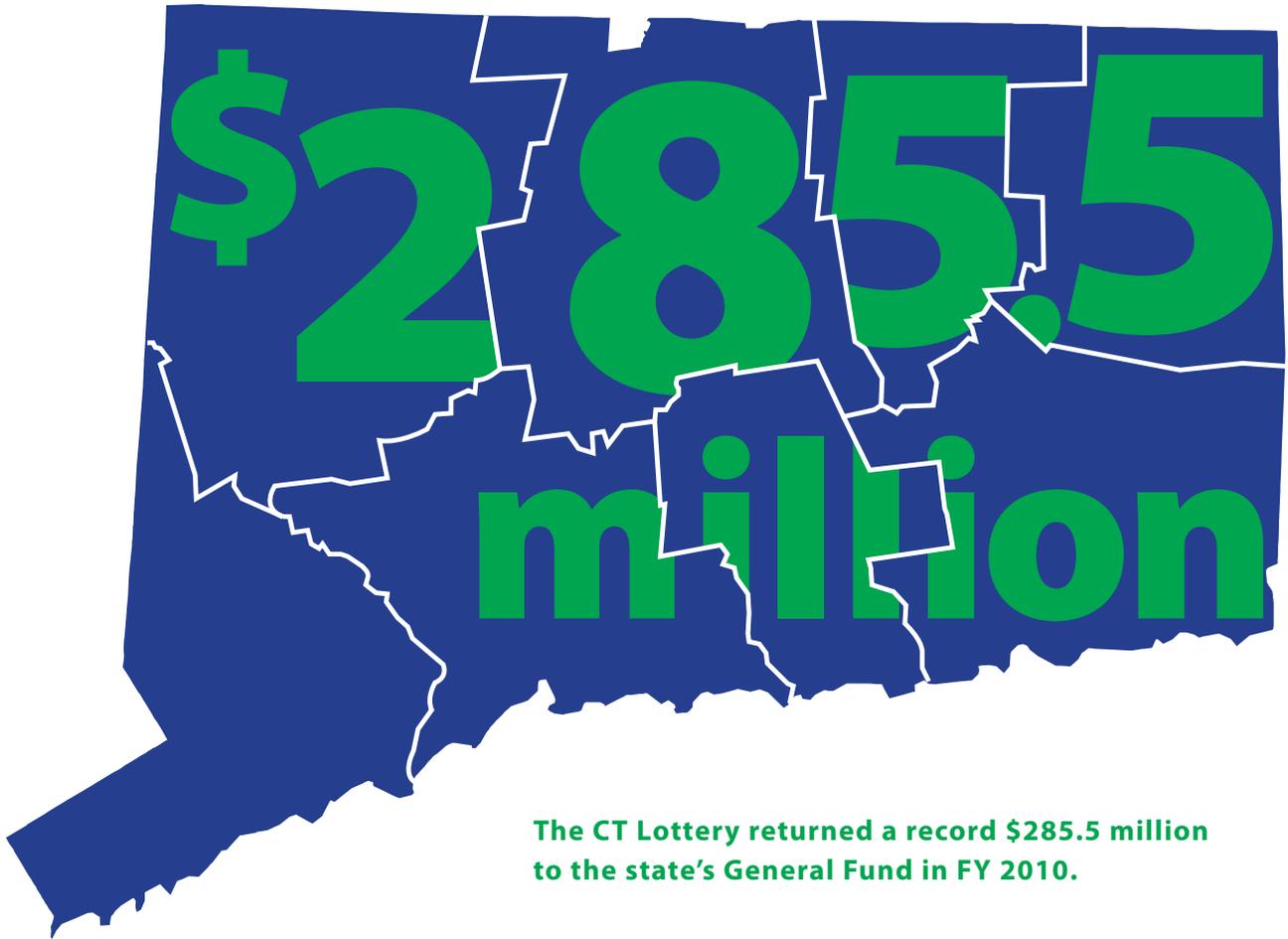


2010 ANNUAL REPORT

Year ended June 30, 2010

Connecticut Lottery Corporation



The CT Lottery returned a record \$285.5 million to the state's General Fund in FY 2010.



ctlottery.org

2010 ANNUAL REPORT

Fiscal Year Ended June 30, 2010



CONNECTICUT LOTTERY CORPORATION

(A Component Unit of the State of Connecticut)

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CONNECTICUT LOTTERY CORPORATION
2010 ANNUAL REPORT

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MISSION STATEMENT

The mission of the Connecticut Lottery Corporation is to raise revenue in an entrepreneurial manner for the State of Connecticut, consistent with the highest standards of good public policy and social responsibility, 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 as a leader in the lottery industry, committed to helping the State of Connecticut achieve its revenue raising objectives. Furthermore, it is the Connecticut Lottery Corporation's charge to address problem and underage gambling by taking proactive measures to implement and support responsible gaming initiatives.



INTRODUCTORY SECTION

CONNECTICUT LOTTERY CORPORATION Raising Revenue with Social Responsibility

While fully embracing its mission to raise revenue for the state of Connecticut, the Connecticut Lottery Corporation recognizes equally the obligation to operate with responsibility and integrity. The CT Lottery is diligent in its efforts to promote responsible gaming and to maximize returns to the General Fund. To balance its revenue raising objectives, the CT Lottery consistently and proactively establishes and sustains programs and resources to help those negatively impacted by gambling problems. The CT Lottery has been cited by both national experts and by the National Council on Problem Gambling for its commendable efforts to educate and inform the public, its retailers and its employees about problem gambling.

A key component of the CT Lottery's social responsibility efforts is a commitment to avoid marketing lottery products to youth. Working with experts in the gaming community, the CT Lottery is committed to mitigating the risks of gaming, with an emphasis on raising awareness about underage gambling.

In fiscal 2010, the CT Lottery supported and financed numerous social responsibility efforts in collaboration with the Department of Mental Health and Addiction Services Problem Gambling Services Unit (DMHAS PGS).

During the winter holidays, the CT Lottery presented a widespread print campaign that reminded adults of the impact that gambling problems can have on families.



Don't gamble with their future.

Don't let gambling problems keep you from having a happy life. Help is available. Talk with someone who can help you regain control. Free and confidential help for all gambling issues.

CT Problem Gambling Helpline
1-800-346-6238
Open 24 hours a day

There are better solutions.

MEET & GREET

March 23, 2010

Old Judiciary Room
State Capitol Building
210 Capitol Avenue
Hartford, CT 06106

8:30 am - 10:00 am
Light Breakfast Served

Light Breakfast for your guests provided by:
Connecticut Committee for Gambling Awareness

Principles of Youth Gambling Statement

With these considerations in mind and to increase public awareness of the importance of responsible gaming initiatives, the Committee has adopted a statement of principles on youth gambling:

- Gambling products should not be designed, advertised or promoted in a manner that targets children or adolescents, and,
- Gambling venues should be designed for adults and contain prominent notices that under age gambling is unlawful.

On March 23, 2010, the CT Lottery supported and developed materials for a "Meet and Greet" hosted by the members of the Connecticut Committee for Gambling Awareness (CCGA) at the State Capitol Building. Additionally, the CT Lottery initiated and co-authored the "Principles of Youth Gambling Statement" adopted by the CCGA.

To mark National Problem Gambling Awareness Week, the CT Lottery sponsored a lighted marquee at the XL Center in Hartford. A phone number to call for gambling problems was broadcast more than 2,000 times during its one-week run in March 2010.

Is gambling a problem? There's help and hope.
1-800-346-6238
 Problem Gambling Helpline
 24-Hour Confidential Services

Bridgeport: REGIONAL NCCCA OUTPATIENT COUNSELING CENTER 203-366-5811

Norwalk & Stamford: NCCCA INPATIENT PROGRAM 203-866-2544

Westport: POSITIVE DII 203-227-7644 x126

Danbury, Middlebury & New Milford: NCCCA OUTPATIENT COUNSELING CENTER 203-257-5031

Waterbury: MORRIS FOUNDATION 203-755-1143 x318

Cheshire: PROBLEM GAMBLING SERVICES 860-344-2244
 Toll-free 1-866-440-4375

Norwich, Putnam & New London: ENTER COMMUNITY & FAMILY SERVICES 860-823-3094

Some services are offered at no charge and ability to pay is never a barrier to receiving help. Non-English-speaking services available.

Further support for the work of DMHAS PGS was provided through printing and production of 50,000 Responsible Gambling “pocket cards” to promote outreach programs and services. The theme of “There’s help and hope” is a recurring one used by DMHAS PGS.

GAMBLING IS NOT CHILD'S PLAY.
 It's illegal for anyone under 18 years old to buy or cash a lottery ticket.

PLEASE PLAY RESPONSIBLY. ctlottery.org Purchasers must be 18 or older.

A print advertisement in “CT Parent Magazine,” in the September issue, was used to reinforce the CT Lottery’s “Not Child’s Play” on-going campaign.

GAMBLING IS NOT CHILD'S PLAY.
 24-HOUR CONFIDENTIAL PROBLEM GAMBLING HELP:
1-800-346-6238 www.problemgambling.org

A message from the CT Lottery.
 PLEASE PLAY RESPONSIBLY. Purchasers must be 18 or older.

In FY 2010, as in other years, the CT Lottery supported multiple responsible gaming initiatives:

- CT Council on Problem Gambling Annual Conference, October 2009
- National Council on Problem Gambling/McGill International Center for Youth Gambling Problems Holiday Campaign, November – December 2009
- National Problem Gambling Awareness Week, March 2010
- DMHAS PGS Legislative Breakfast Sponsorship, dedicated to the promotion of responsible gaming initiatives, March 2010
- Continued training of employees and retailers about problem gambling issues. Dr. Jeffrey Derevensky, PH.D., Professor of School/ Applies Child Psychology at McGill University presented a staff development program for CT Lottery personnel on the impact of “Gambling and Youth,” April 2010
- On-going broadcast throughout the year of responsible gaming public service announcements on both radio and television.

The CT Lottery’s Responsible Gaming Alliances include:

- CT Partnership for Responsible Gambling
- Connecticut Committee for Gambling Awareness
- CT Women’s Project on Problem Gambling
- CT Council on Problem Gambling

A two-month out-of-home billboard campaign in Waterbury, Bridgeport and Hartford was used during the summer months as a reminder to the public that gambling is not child’s play. Thirteen boards in all were used.



December 29, 2010

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 Annual Report of the Connecticut Lottery Corporation (CLC or Lottery) for the fiscal year ended June 30, 2010. 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 2010, 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-three states plus the District of Columbia operate lotteries within

the United States using computer-based draw games and instant “scratch” games. Limited use of the internet is coming under increasing consideration as lotteries explore growth opportunities.

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-cent 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 the 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 (MUSL) and the Connecticut launch of the Powerball game on November 29, 1995.
- The first “For-Life” draw game, Lucky-4-Life, was introduced on March 29, 2009 featuring a double matrix for five numbers, drawings on Monday and Thursday, and a top prize of \$2,000 per week for life.
- The first cross licensing of a multi-jurisdictional jackpot game occurred in 2010 with the Connecticut launch of the Mega Millions game on January 31, 2010.

As a result of a privatization initiative, Public Act 96-212 created the Connecticut Lottery Corporation as a quasi-public corporation for the purpose of generating revenues for the state’s General Fund. 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 38 years of continuous operation, Connecticut’s Lottery is one of the oldest lotteries in the United States. From its inception to June 30, 2010, the Lottery has generated total sales of approximately \$20.4 billion and has paid approximately \$7.0 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

In fiscal year 2010, the Lottery returned a record sum to the General Fund. In fiscal year 2010, the Lottery achieved sales of \$996.8 million, an increase of \$5.5 million from fiscal 2009 and the second highest level reached in Connecticut lottery history. Payments to the state's General Fund totaled \$285.5 million, an increase of \$2.5 million over the prior year. (For a more complete overview of the financial highlights of fiscal 2010, 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 increase was attributable to \$21.2 million in Lucky-4-Life game sales, \$11.2 million from the launch of the Mega Millions game, offset by a decrease of \$16.6 million in Scratch game sales, a decrease of \$6.9 million in Powerball game sales, and a net decrease of \$3.4 million in all other draw games. All other draw game sales include the numbers games (Play3 Day, Play4 Day, Play3 Night, and Play4 Night), Cash5, and Classic Lotto.

A number of other significant events occurred during the year ended June 30, 2010 that may not be apparent from the financial results noted above. Some of these are highlighted below:

- Lucky-4-Life, a draw game launched in March 2009 with a top prize of \$2,000 per week for life, was awarded the "Best New Online Game" during fiscal 2010 by the North American Association of State and Provincial Lotteries.
- In September 2009, the Lottery launched its first cross promotion between a scratch game and a draw game with the scratch game named Fortune Cookie. One of the prizes in the Fortune Cookie game was a free entry into the next Lucky-4-Life game drawing.
- In January 2010, MUSL, the association of lotteries that operates the Powerball game cross licensed Powerball with twelve other lotteries that operate the Mega Millions game, thereby allowing forty-two (42) lotteries to sell both jackpot games.
- The CLC initiated a new series of scratch games featuring second chance drawings, including on-line registration.
- The Connecticut Lottery Corporation phased-in a new claim period of 180 days for winning tickets, bringing the corporation in line with the industry standard.
- The CLC remained a national leader in promoting Responsible Play. The Connecticut Lottery Corporation continued its involvement in the Connecticut Partnership for Responsible Gambling, the Connecticut Committee for Problem Gambling and the Connecticut Women's Project for Problem Gambling.
- The CLC participated in state programs to limit expenditures and assist in efforts to reduce the state's budget deficit. Employee furloughs, wage freezes, reduced travel and automobile expenses, and other reductions to expenditures generated higher General Fund transfers.

FUTURE PROJECTS

In fiscal year 2011, The Connecticut Lottery Corporation will continue with initiatives to promote growth and expansion and enhance transfers to the General Fund.

- In September 2010, the Lottery introduced Instant Ticket Vending Machines (ITVMs) to select retail locations. These self-service vending machines are designed to provide convenience to both the consumers and the retailers and to provide additional revenue to the state's General Fund.

- On October 1, 2010, the CLC began selling its newest draw game, Million Dollar Super Draw. The number of tickets offered is limited to 275,000 and the top prize is \$1,000,000, creating the lowest odds ever offered by the CLC for a million dollar prize. A single drawing will be held on January 1, 2011.
- Extensive planning and design efforts have been devoted to improving the current CLC website. The redesign is expected to be introduced to the public in January 2011 and will include new charts for winning game numbers, more convenient look-up tables for player ticket numbers, text alerts, enhanced graphics and many other new features.
- Throughout the year, the Lottery will continue to research and develop a variety of new products and services. During fiscal 2010, the Legislature introduced proposals for the CLC to operate a Keno game in Connecticut and substantial research was completed by the CLC to determine the feasibility and logistics for such a game. While the Legislature did not include Keno in the state budget plan for fiscal 2011, the CLC is prepared to respond to legislative initiatives to increase revenues for the General Fund in a socially responsible manner. Expanded distribution networks for the game offerings and developing technologies are also being examined to boost sales.
- The Connecticut Lottery Corporation's commitment to research and advertising will be matched by the Lottery's commitment to Responsible Play. TV, radio and print pieces will continue to be scheduled to increase awareness of the importance of playing responsibly and to educate our patrons about problem gambling programs.

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 essentially 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 Digest	"AA"
A. M. Best	"A and Contingent A"

CASH MANAGEMENT: The CLC collects cash from sales of lottery games from approximately 2,700 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 2009 and 2010 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 economic environment throughout fiscal 2010 continued to suffer from the effects of the global recession that began in fiscal 2008. Governmental programs initiated to stabilize financial markets and to stimulate growth in the economy have been slow to create economic activity or to improve employment levels. While the financial markets have improved from the onset of the recession, credit policies remain tight and both corporate and private investments remain well below the levels that existed prior to the start of the recession.

Consumer confidence remains at low levels based upon the high unemployment rates, the loss in value of owned real estate, and the decline in market value of retirement portfolios. Concerns about continuing mortgage foreclosures and record high deficits at all levels of government contribute to the uncertainty about the length of the economic recovery period. The Federal Reserve has maintained interest rates at historic lows and debate continues as to whether stimulus programs need to be extended to prevent another downturn or a significant slowdown in the national economy. While the Consumer Price Index increased by 1.1% between June 2009 and June 2010, possible deflation has been another item of concern at the Federal Reserve when setting policy. The Federal Reserve has pledged to keep interest rates low until economic recovery is more certain and credit conditions have eased. However, when all factors are considered, the majority of economic forecasts conclude that significant time remains before the economy is fully recovered and unemployment levels are significantly reduced.

Connecticut continues to share the same economic pressures found in the national and global economies. Total employment in Connecticut decreased 0.8% in fiscal 2010 compared to a 0.7% decrease recorded at the national level for the same year. Connecticut's unemployment rate increased 4.8%, from 8.4% to 8.8% during fiscal 2010, while the national unemployment rate remained flat at 9.5%. Connecticut also struggles with projections of one of the highest per capita state budget deficits for the next fiscal year.

It is always difficult to demonstrate a direct relationship between general economic indicators and sales trends within the lottery industry. However, it is apparent from financial reports from across the lottery industry that the decrease in consumer confidence, the high unemployment rates and the general concern about the economy have affected sales and profits in most states during fiscal 2010. These factors undoubtedly will be considered by our players as they evaluate their own current financial condition and continue to adjust their spending habits. Management will continue to monitor economic developments and will re-evaluate its business plans and products accordingly. Careful attention will continue to be made to emerging markets and to changes in government regulations, especially those affecting the internet. New game concepts and revisions to existing games are examined on a regular basis to increase sales revenues and returns to the General Fund. Operating systems and processes are constantly reviewed to control expenses and maximize the payments to the state's General Fund.

We look forward to the coming year and continuing to find ways to be as innovative and efficient as possible in order to maximize the transfers to the General Fund.

Respectfully Submitted,



Anne M. Noble
President & CEO



John A. Ramadei
Chief Financial Officer



STATE OF CONNECTICUT
List of Principal State Officers, as of June 30, 2010

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, 2010

John Paul, Chairman

Brenda L. Sisco	Acting Secretary, Office of Policy and Management
Jeffrey R. Beckham	Designee of Acting Secretary, Office of Policy and Management
Denise L. Nappier	State Treasurer
Robert C. Morgan	Designee of State Treasurer
Gale A. Mattison	Vice Chairman
Steven A. Bafundo	
Patrick M. Birney	
Wendy Kingsbury	
Carolyn C. Long	
Margaret L. Morton	
Patricia Racz	
Kenneth J. Saccente	
Martin E. Stauffer	



CONNECTICUT LOTTERY CORPORATION
Organizational Chart, as of June 30, 2010

EXECUTIVE

Anne M. Noble	President & Chief Executive Officer
Helen Duffy	Executive Secretary

OPERATIONS & ADMINISTRATION

Barbara A. Porto	Vice President, Operations & Administration
Michael J. Hunter	Director, Information Technology
John J. Gasparini	Manager, Application and Internet Development
Joel M. Bloom	Manager, Vendor Compliance

MARKETING & SALES

Paul R. Sternburg	Vice President, Marketing & Sales
Gloria G. Donnelly	Director, Sales
Philip S. Kopel	Director, Marketing Research
Diane Patterson	Director, Communications & Public Relations
Thomas J. Trella	Director, Lottery Games

FINANCE

John A. Ramadei	Chief Financial Officer
Barry L. Sheftel	Lottery Financial Manager

GOVERNMENT AFFAIRS

Chelsea E. Turner	Director, Government Affairs
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LEGAL

James F. McCormack	Corporate Counsel
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HUMAN RESOURCES

Sandra A. Cady	Director, Human Resources
Jennifer Hunter	Human Resource Specialist
Jane M. Rooney	Human Resource Specialist

SECURITY

Alfred W. Dupuis, Jr.	Director, Security
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SCRATCH GAMES



Fiscal Year 2010 Statistics:

\$124.6 million in General Fund payments

42 scratch games launched

59.5% of total net sales

43.6% 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 \$100,000 a year for life, with a minimum guarantee of \$2,000,000.

DAILY GAMES

Fiscal Year 2010 Statistics:

\$85.3 million for this category in General Fund payments



Play3 Day: **4.3%** of total net sales
5.7% of General Fund payments



Play4 Day: **3.5%** of total net sales
6.2% of General Fund payments



Play3 Night: **7.3%** of total net sales
9.2% of General Fund payments



Play4 Night: **6.1%** of total net sales
8.7% of General Fund payments

Four times per day, players have an opportunity to win with the Lottery's "Daily Games." Four games in all – Play3 Day, Play4 Day, Play3 Night and Play4 Night – help us make sure that we've got your numbers!

To win, players select three or four digits from 1 through 9, choose a wager style, and pick a wager between \$.50 and \$5 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 2010 Statistics:

\$12.7 million in General Fund payments

3.5% of total net sales

4.5% 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 increase their chance to win more often, and win more prize levels. Prizes can be won seven different ways 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 2010 Statistics:

\$11.0 million in General Fund payments

3.0% of total net sales

3.9% 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 2010 Statistics:

\$37.4 million in General Fund payments

8.6% of total net sales

13.1% of General Fund payments

With jackpots that have reached as high as \$365 million, it's easy to see why Powerball is so popular with players. Now played in 42 lottery jurisdictions, including Mega Millions lotteries cross-licensed to sell Powerball, Powerball drawings are held twice weekly, on Wednesday and Saturday nights.

The current format of Powerball began in January 2009, with 59 white balls and 39 red balls. A jackpot win requires matching 5 white balls and one red ball to the winning numbers drawn from the two pools of numbers. When players opt to activate the Power Play feature for an additional \$1 per play, any prize they win (other than the jackpot) is multiplied up to five times its original value. With Power Play, the "Match 5" prize always wins \$1,000,000 cash.

Mega Millions



Fiscal Year 2010 Statistics:

\$3.6 million in General Fund payments

1.1% of total net sales

1.3% of General Fund payments

Mega Millions with Megaplier broke all previous records for the largest jackpot ever won in North American history in 2007 when a \$390 million prize was split between two winning tickets held by owners in Georgia and New Jersey. Jackpots in the game start at \$12 million and grow until they're won, making this game attractive to players who enjoy the chance to play big!

On January 31, 2010, the CLC, along with 22 other lottery jurisdictions in the United States joined the Mega Millions game as an historic cross-selling agreement between the industry's two largest drawing games, Mega Millions and Powerball, went into effect.

A basic Mega Millions ticket costs \$1 per play. Players may pick six numbers from two separate pools of numbers – 5 of 56 white balls and 1 of 46 yellow balls selected during each drawing of the game. The jackpot is won by matching all 6 numbers drawn. Besides the jackpot, there are eight other ways to win prizes in the game.

Purchasers can choose their own numbers, or play the easy way by asking for a "Quick Pick." By choosing to activate the Megaplier feature for an additional \$1 per play, players can increase the value of any prize won by as much as 2, 3 or 4 times, depending on which number is selected as the Megaplier in that drawing. With Megaplier, the "Match 5" prize is always guaranteed to be \$1,000,000 cash. Drawings are held twice weekly, on Tuesday and Friday nights.



Fiscal Year 2010 Statistics:

\$10.9 million in General Fund payments

3.1% of total net sales

3.8% of General Fund payments

Lucky-4-Life, Connecticut's first new draw game in more than a decade began sales on March 29, 2009. The game is a "hybrid," combining game features from both the instant and numbers games that lottery players have found appealing. The game's top prize is meaningful, with a value of up to \$2,000 a week, paid EVERY week, for the rest of a winner's natural life.

The "for life" prize payout format is the centerpiece of the game's attraction. For each \$2 play, four numbers between 1 and 39 and one "Lucky Ball" number between 1 and 39 must be matched in order to win the top prize of up to \$2,000 a week for life. Seven other prize levels are included in the game. Drawings are held twice weekly, on Monday and Thursday nights.

CONNECTICUT LOTTERY CORPORATION
Get Ready for Mega Jackpot Fun!

For the first-time ever, on January 31, 2010 Connecticut’s Lottery players were able to purchase Mega Millions drawing game tickets within Connecticut’s borders.

In an historic cross-selling agreement reached between the organizations that manage Powerball and Mega Millions, tickets for the nation’s two most popular draw games offered huge jackpots to winners four nights each week.

Anne M. Noble, President and CEO of the CT Lottery noted that “Mega Millions national popularity is tremendous. We are excited to now have the opportunity to offer it locally, at all CT Lottery retailers. As an added bonus, Connecticut will offer the ‘Megaplier’ feature, which gives players the opportunity to enhance their potential prizes. As with our other games, profits from ticket sales will help fund many valuable services and programs that benefit citizens of our state.”

**GET TO KNOW
 MEGA MILLIONS WITH
 MEGAPLIER!**

- Drawings every Tuesday and Friday nights
- Jackpots start at \$12 Million and grow until they are won
- Overall odds 1 in 39.9
- Jackpot odds 1 in 175,711,536
- Megaplier feature “multiplies” prizes won (except the jackpot) by 2, 3 or 4 times
- Tickets cost \$1 each, to add the Megaplier costs \$1 more
- 9 prize levels in all
- Tickets cannot be canceled
- Easy to play – Pick 5 unique “white” numbers from 1 to 56 and 1 Mega Ball “yellow” number from 1 to 46, or, let the computer choose numbers for you with a “Quick Pick” selection.
- Match all 6 to win the Jackpot
- Advance Action up to 26 draws



CT's "Mega Winner" Collects \$250,000 Prize Following Family Visit



Recently, Barlow returned to Connecticut to spend time with her family and to accept her prize check for \$171,250 (value after taxes). With a contagious, "mega-watt" smile firmly in place, Barlow visualized how she intended to surprise her children with the exciting news. "I'm going to invest for my grandchildren's college education. Then, I might take a trip to Alaska. I've always wanted to go to Alaska."

After visiting with family in Stafford Springs, Linda Barlow stopped at a nearby gas station to fill-up her car before making the long trip back home to Jupiter, FL. While there, she also purchased one "Quick Pick" ticket for CT's first-ever Mega Millions drawing held February 2, 2010. In doing so, Barlow successfully matched the first 5 numbers drawn on that date winning \$250,000. "I've never won more than \$1, maybe \$2. I'm so excited!" Barlow told Lottery officials.

Unaware of the drawing results, Barlow contacted the CT Lottery headquarters in Rocky Hill to inquire whether her Mega Millions ticket was a winning one. "When the clerk told me that I had matched the first 5 numbers drawn, I started to shake. I was so excited, I didn't believe it. So, I went on the lottery's website (ctlottery.org) to check and saw my numbers there ... then I just cried," said Barlow.





Derby Resident Wins Quarter-Million Dollar Lottery Prize

Spare pocket change for Derby resident Adrian Gjonbalaj has transformed into a “lotto” cash – a quarter of a million dollars, to be exact. Gjonbalaj successfully matched the first 5 numbers drawn in the May 25 Mega Millions with Megaplier® game, 05-14-17-19-24, winning him \$250,000.

Two Times Four, Equals \$25,000 CT Lottery Win!

Lottery players statewide celebrated May 5th's Play4 Night drawing, in which 2 - 2 - 2 - 2 was drawn, marking the sixth largest payout in CT Lottery history for the Play4 Night game.

Dorota Bhasin's husband, George, won big when the 2-2-2-2 number sequence on his five Play4 tickets was drawn. Each ticket's prize value was \$5,000.



Seamstress “Takes In” \$1,900,000 Jackpot Prize

Krystyna Dudzikowski of Plymouth is the second Classic Lotto Jackpot winner of the year. Spring is a busy time of year for full-time seamstress and business owner, Krystyna Dudzikowski of Plymouth. But, Dudzikowski had to take a moment to put down her sewing needle and become CT's newest Lottery millionaire, claiming the winning jackpot ticket from the February 9th Classic Lotto drawing worth \$1,900,000.



27-Year Old Is 50th Person to Win for Entire Lifetime with CT Lottery's "WIN FOR LIFE" Series

What began as an average day for 27-year old Andre Bryant of Stamford ended as nothing short of spectacular. After purchasing a Win for Life, 17th Edition instant ticket, Bryant stopped at a local barbershop to visit some friends. He scratched the ticket, and revealed the number match, and the word WIN in the prize area that is needed to win the games top prize ... a mind-boggling \$5,000 a month, every month for the rest of his life, with a guaranteed minimum payout of \$1,000,000.



Factory Line Worker Scores "Big Money" in Willington

Over the past 29 years as a factory line worker, Rita Bennett of Willington had grown used to day-to-day routine. On February 4, however, something quite unexpected occurred when Bennett purchased a CT Lottery "Big Money" instant ticket and discovered she was a \$2,000,000 top prize winner!

After a Blind Date and 52 Years of Marriage, New Britain Couple Wins Again!

Robert and Pauline Dellonna of New Britain met on a blind date more than 52 years ago. Robert was "quick" to realize that she was "the one" and proposed to Pauline just four months later—they've been happily married ever since. And now, they're enjoying life even more after winning a \$2,700,000 Classic Lotto Jackpot!





FINANCIAL SECTION

REPORT OF INDEPENDENT AUDITORS

To the Directors
Connecticut Lottery Corporation

We have audited the accompanying basic financial statements of the Connecticut Lottery Corporation (the “Lottery”), a component unit of the State of Connecticut, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Lottery’s management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Lottery for the year ended June 30, 2009, were audited by other auditors whose report dated September 9, 2009, expressed an unqualified opinion on those statements.

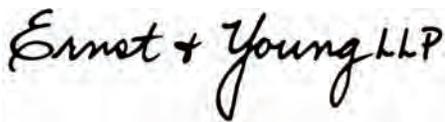
We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Organization’s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lottery as of June 30, 2010, and the changes in financial position and, its cash flows for the year then ended in conformity with US generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2010 on our consideration of the Lottery’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 audit.

The Management's Discussion and Analysis on pages 28 through 34 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Profit Margins by Game Type for the year ended June 30, 2010 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. In their report on the financial statements for the year ended June 30, 2009, dated September 9, 2009, the other auditors indicated that the Schedule of Profit Margins by Game Type for the year ended June 30, 2009 was fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The image shows a handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, professional style.

September 8, 2010

CONNECTICUT LOTTERY CORPORATION

Management's Discussion and Analysis, June 30, 2010 and 2009

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, 2010. 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 supplementary information included in the "Financial Section," the other information included in the "Statistical Section," and the 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* included in the "Compliance 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 in the Statements of Cash Flows are classified as to operating, investing, capital financing and non-capital financing.

The notes to the financial statements are an integral part of the financial statements and provide information that is essential to a full understanding of the statements.

FINANCIAL HIGHLIGHTS OF FISCAL 2010

- Transfers to the State's General Fund were \$285.5 million, an increase of \$2.5 million compared to the prior fiscal year, and the highest level ever achieved in Connecticut lottery history.
- Total sales were \$996.8 million, an increase of \$5.5 million, or 0.6%, from fiscal 2009 and the second highest sales level ever achieved.
- 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 \$19.0 million, or 11.3%.

CONNECTICUT LOTTERY CORPORATION
Management's Discussion and Analysis, June 30, 2010 and 2009

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 \$822,000, or 12.5%, for fiscal 2010 and increased \$407,000, or 6.6%, for fiscal 2009. 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)

	2010	Increase (Decrease)	2009	Increase (Decrease)	2008
Current assets	\$ 78,910	\$ (2,925)	\$ 81,835	\$ (13,088)	\$ 94,923
Investments and other non-current assets	154,265	(19,047)	173,312	(25,638)	198,950
Capital assets (net of accumulated depreciation)	2,667	(119)	2,786	(153)	2,939
<i>Total assets</i>	235,842	(22,091)	257,933	(38,879)	296,812
Current liabilities	78,470	(3,978)	82,448	(13,978)	96,426
Long-term liabilities	149,954	(18,936)	168,890	(25,308)	194,198
<i>Total liabilities</i>	228,424	(22,914)	251,338	(39,286)	290,624
Net assets					
Invested in capital assets	2,667	(119)	2,786	(153)	2,939
Restricted net assets	7,417	822	6,595	407	6,188
Unrestricted net assets	(2,667)	119	(2,786)	153	(2,939)
<i>Total net assets</i>	\$ 7,417	\$ 822	\$ 6,595	\$ 407	\$ 6,188

CONNECTICUT LOTTERY CORPORATION
Management's Discussion and Analysis, June 30, 2010 and 2009

TABLE 2
Changes in Net Assets
(in thousands)

	2010	Increase (Decrease)	2009	Increase (Decrease)	2008
Total game sales	\$ 996,847	\$ 5,544	\$ 991,303	\$ (6,845)	\$ 998,148
Other operating income	173	–	173	(34)	207
Nonoperating revenues:					
Interest income	12,871	(2,302)	15,173	(3,400)	18,573
Other	3	(3)	6	–	6
<i>Total revenues</i>	1,009,894	3,239	1,006,655	(10,279)	1,016,934
Total cost of sales	688,343	2,927	685,416	(6,866)	692,282
Total operating expenses	20,556	(658)	21,214	596	20,618
Non-operating expenses:					
Interest expense	12,773	(1,897)	14,670	(2,381)	17,051
<i>Total costs and expenses</i>	721,672	372	721,300	(8,651)	729,951
Change in net assets before					
Payments to State Funds	288,222	2,867	285,355	(1,628)	286,983
Payments to Chronic					
Gamblers' Fund	1,900	(48)	1,948	48	1,900
Payments to State's General Fund	285,500	2,500	283,000	–	283,000
<i>Change in net assets</i>	822		407		2,083
Total net assets - beginning balance	6,595		6,188		4,105
Total net assets - ending balance	\$ 7,417		\$ 6,595		\$ 6,188

OVERVIEW OF FINANCIAL POSITION

The CLC's financial position remained strong during fiscal 2010. 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 \$22.1 million, or 8.6%, in fiscal 2010 and \$38.9 million, or 13.1%, in fiscal 2009. Long-term liabilities consist primarily 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 \$19.0 million, or 11.3%, in fiscal 2010 and \$25.6 million, or 13.2%, in fiscal 2009.

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, 2010 and 2009

Results of Operations

TABLE 3
Sales and Related Expenses
(in thousands)

	2010	Increase (Decrease)	2009	Increase (Decrease)	2008
SALES					
Scratch games	\$ 593,374	\$ (16,639)	\$ 610,013	\$ (8,957)	\$ 618,970
Multi-state games	96,513	4,379	92,134	\$ (6,066)	98,200
Lucky-4-Life	30,698	21,247	9,451	9,451	–
Cash5	35,041	(5,379)	40,420	(739)	41,159
All other games	241,221	1,936	239,285	(534)	239,819
<i>Total sales</i>	<i>\$ 996,847</i>	<i>\$ 5,544</i>	<i>\$ 991,303</i>	<i>\$ (6,845)</i>	<i>\$ 998,148</i>

RELATED EXPENSES

Prize expense	\$ 608,755	\$ 4,043	\$ 604,712	\$ (3,506)	\$ 608,218
Retailer commissions	\$ 55,885	\$ 114	\$ 55,771	\$ (179)	\$ 55,950
On-line systems	\$ 8,825	\$ (271)	\$ 9,096	\$ (2,488)	\$ 11,584
Production expenses	\$ 5,370	\$ 319	\$ 5,051	\$ (1,699)	\$ 6,750

Percentage Increase (Decrease)

SALES

Scratch games	(2.7%)	(1.4%)
Multi-state games	4.8%	(6.2%)
Lucky-4-Life	224.8%	100.0%
Cash5	(13.3%)	(1.8%)
All other games	0.8%	(0.2%)

Total sales

0.6% (0.7%)

RELATED EXPENSES

Prize expense	0.7%	(0.6%)
Retailer commissions	0.2%	(0.3%)
On-line systems	(3.0%)	(21.5%)
Production expenses	6.3%	(25.2%)

CONNECTICUT LOTTERY CORPORATION

Management's Discussion and Analysis, June 30, 2010 and 2009

Total sales for fiscal 2010 increased by \$5.5 million, or 0.6%, from the prior fiscal year. The increase was primarily caused by new draw games introduced over the last two years. The Lucky-4-Life game, introduced in the fourth quarter of fiscal 2009, and the Mega Millions multi-state game, introduced in January of 2010 contributed the largest increases to total sales for fiscal 2010. Lucky-4-Life sales increased \$21.2 million, or 224.8% and Mega Millions sales added \$11.2 million in fiscal 2010. These increases were offset by decreases in other categories of game sales. Scratch games sales decreased \$16.6 million, or 2.7%, and Powerball and Cash5 game sales both decreased following the introduction of Mega Millions. Powerball decreased \$6.9 million, or 7.4%, and Cash5 decreased \$5.4 million, or 13.3%. In fiscal 2009, total sales decreased by \$6.8 million, or 0.7%, from fiscal 2008. The decrease was primarily caused by a decrease in Scratch games sales of \$9.0 million, or 1.4%, a decrease in Powerball game sales of \$6.1 million, or 6.2%, offset by the introduction of the new draw game Lucky-4-Life. Lucky-4-Life added \$9.5 million to total sales for fiscal 2009. Other draw games include the Daily Games (Play3 Day, Play4 Day, Play3 Night and Play4 Night) and Classic Lotto. Other draw games increased \$1.9 million, or 0.8%, in fiscal 2010 and decreased \$0.5 million, or 0.2%, in fiscal 2009.

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 in the past years. For fiscal 2010, prize expense increased \$4.0 million, or 0.7%, compared to a 0.6% increase in total sales. This is comparable with fiscal 2009, when prize expense decreased \$3.5 million, or 0.6%, as opposed to the 0.7% decrease in total sales. This deviation in prize expense percentage can be more dramatic in individual game results. For example, during fiscal 2010, Play4 Day sales increased \$1.7 million, or 5.2%, while Play4 Day prize expense decreased \$1.8 million, or 11.6%. In the same fiscal year, Play4 Night sales increased \$0.8 million, or 1.3%, while Play4 Night prize expense decreased by \$1.1 million, or 3.3%. The random selection of winning numbers causes the deviation from expected results in the short-term.

Retailer commissions increased \$114,000, or 0.2%, in fiscal 2010 and decreased \$179,000, or 0.3%, in fiscal 2009. Retailer commissions generally 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 \$271,000, or 3.0% in fiscal 2010 and \$2.5 million, or 21.5%, in fiscal 2009. Fiscal 2009 represented the first full year under a new systems contract which includes more favorable rates than the prior contract. The change in fiscal 2010 was increased due to credits for system performance, which caused the variance in comparability between the two years.

Production expenses increased by \$318,000, or 6.3%, in fiscal 2010 and decreased \$1.7 million, or 25.2%, in fiscal 2009. Production expenses include: the production costs of Scratch tickets, royalty fees associated with licensed games, studio costs for drawing broadcasts and courier costs to deliver the tickets to the retailers. Production costs increased in fiscal 2010 primarily due to production costs of Scratch tickets and a new studio contract for drawing broadcasts. Production expenses decreased in fiscal 2009 due to efforts to increase production quantities of individual Scratch games and to reduce the total number of games produced within a fiscal year.

CONNECTICUT LOTTERY CORPORATION

Management's Discussion and Analysis, June 30, 2010 and 2009

Other costs and expenses do not vary directly with total sales. These include marketing, advertising and promotion 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 promotion expenses decreased \$1.3 million, or 11.8%, in fiscal 2010 and increased \$1.0 million, or 10.3%, in fiscal 2009.

Total operating expenses decreased \$0.7 million, or 3.1%, in fiscal 2010 and increased \$0.6 million, or 2.9%, in fiscal 2009. Decreases in fiscal 2010 resulted from state-wide freezes on salaries and benefits and early retirements in response to a state sponsored program, which affected CLC expenses as well as the regulatory expenses. Increases in fiscal 2009 expenses included increased salary and fringe benefits, increased facilities expenses, 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 decreased \$0.4 million, or 80.4%, in fiscal 2010 and \$1.0 million, or 66.9%, in fiscal 2009 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 increased \$2.5 million, or 0.9%, in fiscal 2010 and represent a new record in transfers to the State. Payments were unchanged in fiscal 2009 compared to fiscal 2008. 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, deferred rent and long-term retirement benefits. For more detailed information on capital asset activity and long-term liabilities, please read the disclosures included in the notes to the financial statements.

CONNECTICUT LOTTERY CORPORATION
Statements of Net Assets

	June 30	
	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 18,269,655	\$ 10,294,560
Accounts receivable, net of allowance of \$1,020,000 and \$1,000,000 as of June 30, 2010 and 2009, respectively	22,563,562	29,453,126
Prepaid annuities for prizes	30,246,244	33,161,388
Accrued interest receivable	5,172,949	6,320,494
Ticket inventory, net of allowance of \$471,927 and \$381,134 as of June 30, 2010 and 2009, respectively	2,532,566	2,255,233
Due from the Multi-State Lottery Association	–	201,995
Prepaid expenses	125,167	148,107
<i>Total current assets</i>	78,910,143	81,834,903
NONCURRENT ASSETS		
Investments for prize payments	149,322,912	168,315,131
Prize reserves held by Multi-State Lottery Association	4,741,721	4,847,248
Advances to high-tier claim centers	200,000	150,000
Capital assets, net	2,666,910	2,786,217
<i>Total noncurrent assets</i>	156,931,543	176,098,596
<i>Total assets</i>	\$ 235,841,686	\$ 257,933,499

	June 30	
	2010	2009
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Annuities payable	\$ 31,190,204	\$ 35,076,947
Prizes payable	26,856,278	29,002,909
Accrued interest payable	5,172,949	6,320,494
Accounts payable and accrued expenses	14,015,106	11,232,445
Due to the Multi-State Lottery Association	643,890	–
Deferred revenue	592,016	815,252
<i>Total current liabilities</i>	78,470,443	82,448,047
LONG-TERM LIABILITIES		
Deferred rent liability	391,987	315,410
Deferred retiree salaries and benefits payable	239,193	259,765
Long-term annuities payable	149,322,912	168,315,131
<i>Total long-term liabilities</i>	149,954,092	168,890,306
<i>Total liabilities</i>	228,424,535	251,338,353
NET ASSETS		
Invested in capital assets	2,666,910	2,786,217
Restricted	7,417,151	6,595,146
Unrestricted	(2,666,910)	(2,786,217)
<i>Total net assets</i>	7,417,151	6,595,146
<i>Total liabilities and net assets</i>	\$ 235,841,686	\$ 257,933,499

See accompanying notes.

CONNECTICUT LOTTERY CORPORATION
Statements of Revenues, Expenses, and Changes in Net Assets

	Years ended June 30	
	2010	2009
OPERATING REVENUE		
Scratch game sales	\$ 593,376,690	\$ 610,015,169
On-line game sales	310,191,954	292,630,912
Multi-state game sales	96,544,194	92,160,548
	1,000,112,838	994,806,629
Less sales returns, cancellations and promotion	(3,266,030)	(3,503,586)
<i>Total operating revenue</i>	996,846,808	991,303,043
COST OF SALES AND OPERATING EXPENSES		
COST OF SALES		
Prize expense	608,754,786	604,712,211
Retailer commissions	55,884,936	55,770,714
On-line systems	8,825,183	9,095,626
Marketing, advertising and promotion	9,508,611	10,786,336
Production expenses	5,369,683	5,051,416
<i>Total cost of sales</i>	688,343,199	685,416,303
OPERATING EXPENSES		
Salaries and benefits	14,074,801	14,256,982
Other operating expenses	3,150,284	3,127,325
Depreciation and amortization	465,348	477,298
Bad debt expense	80,551	94,117
Division of Special Revenue, regulatory purposes	2,785,397	3,258,480
<i>Total operating expenses</i>	20,556,381	21,214,202
OTHER OPERATING REVENUE	173,156	172,888
<i>Operating income</i>	288,120,384	284,845,426

	Years ended June 30	
	2010	2009
NONOPERATING REVENUES (EXPENSES)		
Interest income from investments on annuities	\$ 12,772,538	\$ 14,669,953
Interest income	98,621	503,756
Interest expense on annuity payments	(12,772,538)	(14,669,953)
Annuity assignment	3,000	6,000
<i>Total nonoperating revenues, net</i>	101,621	509,756
CHANGE IN NET ASSETS AVAILABLE		
BEFORE PAYMENTS TO STATE FUNDS	288,222,005	283,355,182
Payments to State's General Fund	285,500,000	283,000,000
Payments to Chronic Gamblers' Fund	1,900,000	1,948,000
<i>Change in net assets</i>	822,005	407,182
TOTAL NET ASSETS, beginning	6,595,146	6,187,964
TOTAL NET ASSETS, ending	\$ 7,417,151	\$ 6,595,146

See accompanying notes.

CONNECTICUT LOTTERY CORPORATION
Statements of Cash Flows

	Years ended June 30	
	2010	2009
OPERATING ACTIVITIES		
Receipts from sale of game tickets	\$1,003,432,585	\$977,460,902
Receipts from other operating income	173,983	175,385
Payments for prizes	(609,950,007)	(611,248,195)
Payments to retailers	(55,884,936)	(55,770,714)
Payments to suppliers	(21,175,210)	(28,775,618)
Payments to employees	(14,095,373)	(13,997,217)
Payments for other expenses	(5,909,103)	(6,309,227)
<i>Net cash provided by operating activities</i>	296,591,939	261,535,316
INVESTING ACTIVITIES		
Receipt of principal from annuities	34,077,897	37,791,768
Receipt of interest from annuities	13,920,083	15,999,865
Receipt of interest from cash equivalents	98,621	503,756
Purchase of insurance annuities	(10,657,909)	(7,913,305)
<i>Net cash provided by investing activities</i>	37,438,692	46,382,084
CAPITAL AND RELATED FINANCING ACTIVITIES		
Sale of capital assets	1,800	312
Purchases of capital assets	(348,667)	(327,241)
<i>Net cash used in capital financing activities</i>	(346,867)	(326,929)
NONCAPITAL FINANCING ACTIVITIES		
Payment of principal on long-term annuities	(35,049,495)	(37,905,571)
Payment of interest on long-term annuities payable	(13,920,083)	(15,999,865)
Annuity assignment	3,000	6,000
Payments to State's General Fund	(285,500,000)	(283,000,000)
Payments to Chronics Gamblers' Fund	(1,900,000)	(1,948,000)
Additions to long-term annuities payable	10,657,909	7,913,305
<i>Net cash used in noncapital financing activities</i>	(325,708,669)	(330,934,131)

	Years ended June 30	
	2010	2009
INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 7,975,095	\$ (23,343,660)
CASH AND CASH EQUIVALENTS, Beginning	10,294,560	33,638,220
CASH AND CASH EQUIVALENTS, Ending	\$ 18,269,655	\$ 10,294,560
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 288,120,384	\$ 284,845,426
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	465,348	477,298
Loss on disposal of assets	826	2,497
Bad debt expense	80,551	94,117
Changes in operating assets and liabilities:		
Accounts receivable	6,809,013	(13,845,021)
Due from Multi-State Lottery Association	201,995	(201,995)
Accounts payable and accrued expenses	2,782,661	(3,315,780)
Ticket Inventory	(277,333)	(529,627)
Prepaid expenses	22,940	3,167
Prize reserves	105,526	(6,794)
Advances to high-tier claim centers	(50,000)	-
Prizes payable	(2,146,631)	(5,279,424)
Due to Multi-State Lottery Association	643,889	(1,047,771)
Deferred revenue	(223,236)	2,880
Deferred rent liability	76,578	76,578
Deferred retiree salaries and benefits payable	(20,572)	259,765
<i>Net cash provided by operating activities</i>	<i>\$ 296,591,939</i>	<i>\$ 261,535,316</i>

See accompanying notes.

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's activities are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, and liabilities, net assets, revenues and expenses are accounted for in an enterprise fund with revenues recorded when earned and expenses recorded when the related liability is incurred.

In its accounting and financial reporting, the Lottery follows the pronouncements of the Government Accounting Standards Board ("GASB"). In addition, the Lottery follows the 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 GASB.

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.

NOTE 1 — OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments for prize payments—Investments for prize payments are recorded based on the present value of an annuity contract at terms to yield a series of future payments required to meet the obligations of the Lottery for prize disbursements. The Lottery purchases annuity contracts from insurance companies to fund its liability for installment prize awards. An annuity contract represents an obligation by an insurance company to provide a series of payments over future periods. Annuity contracts are subject to credit risk. The Lottery seeks to control its exposure to such credit risk by purchasing annuity contracts only from insurance companies that meet certain minimum standards. Such standards include a minimum required credit rating from two of three rating agencies. Due to the long-term nature of these contracts, the credit quality of the issuer is subject to change. Amounts recorded as prize expense reflect the cost of the annuity contracts necessary to satisfy prize awards plus single payment awards.

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—Instant game tickets are purchased from printing vendors. Unsold tickets are held in inventory and 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. The cost of tickets is recorded as cost of sales when the tickets are sold to the retailers. The cost of unissued tickets and returned tickets are written off at the end of each game.

Capital Assets—Capital assets are reported at cost and are depreciated using the straight-line method over the following estimated useful lives:

Leasehold Improvements	10 years
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. For the fiscal year ended June 30, 2010, the Lottery honored winning lottery tickets for up to 180 days after the drawing in which the prizes were won for on-line prizes or the official end of game for instant game prizes. After 180 days, the liability was extinguished and the related income is added to net assets restricted for certain statutorily designated purposes. On June 25, 2009, the Board of Directors approved a change to the prize claim period from one year to 180 days. The change was effective for on-line game tickets purchased on or after August 2, 2009 and for instant game tickets above game number 1000.

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.

NOTE 1 — OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Revenue Recognition —

- *Scratch game tickets* – Packs of scratch games are consigned to retail sales agents and revenue is recognized when the pack is sold.
- *Draw game tickets* – Tickets for draw games are sold through electronic terminals at retail sales locations and revenue is recognized on the date of the drawing.

Operating and Non-operating 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. Non-operating revenues are generally derived from interest earned on annuity contracts and operating cash balances. Non-operating 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 180 days after the close of the game for instant games and up to 180 days 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 181 days after the end of the instant game or drawing date, as appropriate (see Unclaimed Prizes). Powerball and MegaMillions 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 180 days (see Prizes Payable for change in term) 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, 2010 and 2009, the prize expense amounted to 61.1% and 61.0% of Lottery sales, respectively.

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

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

NOTE 1 — OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Retailer Commissions — Commissions are generally computed as 5% of ticket sales plus 1% 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 State's 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.

Use of Estimates in Preparation of Financial Statements — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications — Certain reclassifications have been made to the 2009 financial statements to conform to the present year's presentation.

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 State's General Fund in a manner and at levels considered by the Board of Directors as appropriate and prudent.

CONNECTICUT LOTTERY CORPORATION
Notes to Financial Statements, June 30, 2010 and 2009

NOTE 3 — CASH, CASH EQUIVALENTS AND CREDIT RISK

Cash and cash equivalents are as follows:

	June 30	
	2010	2009
Cash in bank	\$ 5,165,067	\$ 3,424,371
Cash in transit	19,775	43,540
STIF	12,151,636	6,137,844
Retailer-Security deposits	927,677	683,305
Petty Cash	5,500	5,500
Total cash and cash equivalents	\$ 18,269,655	\$ 10,294,560

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, 2010 and 2009, the carrying amounts of the Lottery's deposits were \$5,165,067 and \$3,424,371, respectively. The bank balances at June 30, 2010 and 2009 were \$6,227,104 and \$4,531,621, respectively, of which \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC). The balances of these funds, \$5,977,104 and \$4,281,621, respectively, were uninsured and uncollateralized.

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

At June 30, 2010 and 2009, the Lottery also had uninsured and uncollateralized investments of \$13,079,313 and \$6,821,149, 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 three 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.

CONNECTICUT LOTTERY CORPORATION
Notes to Financial Statements, June 30, 2010 and 2009

NOTE 4 — INVESTMENTS AND CREDIT RISK

Investments — The Lottery had the following investments as of:

June 30, 2010		
	Carrying Amount	Fair Value
Annuity contracts (at present value, discounted at approximately 6.6%)	\$ 179,569,155	\$ 179,569,155
June 30, 2009		
	Carrying Amount	Fair Value
Annuity contracts (at present value, discounted at approximately 7%)	\$ 201,476,519	\$ 201,476,519

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	2010	2009
John Hancock Mutual Life Insurance	\$ 37,353,116	\$ 43,604,388
Ohio National Life Insurance	34,218,930	24,656,413
New York Life Insurance	30,139,675	33,597,511
Metropolitan Life	18,243,745	18,594,315
Canada Life Assurance Company	15,913,978	22,106,096
Protective Life Insurance	12,880,311	14,609,815
Prudential Insurance Company of America	11,969,468	14,475,159
Sun Life Assurance Co. of Canada	8,592,160	18,143,891

As of June 30, 2010 and 2009, the Lottery's investments with the above institutions had ratings by A.M. Best Company ranging between A 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.

CONNECTICUT LOTTERY CORPORATION
Notes to Financial Statements, June 30, 2010 and 2009

NOTE 5 — CAPITAL ASSETS

A summary of capital assets is presented below:

	Leasehold Improvements	Computer Equipment	Furniture and Equipment	Total
Asset Cost				
Balance, June 30, 2008	\$ 972,907	\$ 1,167,666	\$ 2,530,905	\$ 4,671,478
Capital Additions	17,640	199,235	110,366	327,241
Disposals	(2,228)	(79)	(1,135)	(3,442)
Balance, June 30, 2009	988,319	1,366,822	2,640,136	4,995,277
Capital Additions	–	23,059	325,608	348,667
Disposals	–	(2,254)	(21,600)	(23,854)
Balance, June 30, 2010	\$ 988,319	\$ 1,387,627	\$ 2,944,144	\$ 5,320,090
Accumulated Depreciation				
Balance, June 30, 2008	\$ (16,375)	\$ (677,295)	\$ (1,038,725)	\$ (1,732,395)
Depreciation	(97,116)	(180,917)	(199,265)	(477,298)
Disposals	–	53	580	633
Balance, June 30, 2009	(113,491)	(858,159)	(1,237,410)	(2,209,060)
Depreciation	(97,946)	(153,915)	(213,487)	(465,348)
Disposals	–	1,829	19,399	21,228
Balance, June 30, 2010	(211,437)	(1,010,245)	(1,431,498)	(2,653,180)
Net Book Value, June 30, 2010	\$ 776,882	\$ 377,382	\$ 1,512,646	\$ 2,666,910

CONNECTICUT LOTTERY CORPORATION
Notes to Financial Statements, June 30, 2010 and 2009

NOTE 6 — LONG-TERM OBLIGATIONS

Long-term payment requirements for annuities payable represent the largest 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 2010	\$ 203,392,078	\$ 10,657,909	\$ 33,536,871	\$ 180,513,116	\$ 31,190,204
Activity for Fiscal 2009	\$ 232,043,704	\$ 7,913,305	\$ 36,564,931	\$ 203,392,078	\$ 35,076,947

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

Fiscal Years Ending June 30	Principal	Interest
2011	\$ 31,190,204	\$ 11,952,576
2012	25,126,610	9,879,600
2013	20,619,120	8,085,867
2014	16,667,117	6,619,066
2015	11,765,863	5,431,363
2016 - 2020	26,977,818	18,480,615
2021 - 2025	10,873,037	12,424,502
2026 - 2030	7,168,930	9,755,974
2031 - 2035	6,959,922	7,731,078
2036 - 2040	7,159,278	5,708,722
After 2040	16,005,217	9,340,806
	\$ 180,513,116	\$ 105,410,169

This debt represents periodic payments owed to lottery top prize winners and is fully funded by investments in annuity contracts. Amounts due after 2030 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, 2010 and 2009

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:

	Restricted	Invested in Capital Assets	Unrestricted	Total
Net Assets, June 30, 2008	\$ 6,187,964	\$ 2,939,083	\$ (2,939,083)	\$ 6,187,964
Change in net assets before payments to State Funds	—	—	285,355,182	285,355,182
Payments to State's General Fund	—	—	(283,000,000)	(283,000,000)
Payments to the Chronic Gamblers' Fund	—	—	(1,948,000)	(1,948,000)
Transferred from Restricted Net Assets to fund increased prizes	(339,435)	—	339,435	—
Purchases of capital assets net of disposals	—	324,432	(324,432)	—
Depreciation	—	(477,298)	477,298	—
Unclaimed prizes transferred to Restricted Net Assets	13,584,617	—	(13,584,617)	—
Transferred from Restricted Net Assets for promotional purposes	(4,011)	—	4,011	—
Transferred to Unrestricted Net Assets	(12,833,989)	—	12,833,989	—
Net Assets, June 30, 2009	6,595,146	2,786,217	(2,786,217)	6,595,146
Change in net assets before payments to State Funds	—	—	288,222,005	288,222,005
Payments to State's General Fund	—	—	(285,500,000)	(285,500,000)
Payments to the Chronic Gamblers' Fund	—	—	(1,900,000)	(1,900,000)
Transferred from Restricted Net Assets to fund increased prizes	(1,946,842)	—	1,946,842	—
Purchases of capital assets net of disposals	—	346,041	(346,041)	—
Depreciation	—	(465,348)	465,348	—
Unclaimed prizes transferred to Restricted Net Assets	13,051,506	—	(13,051,506)	—
Transferred from Restricted Net Assets for promotional purposes	(113,573)	—	113,573	—
Transferred to Unrestricted Net Assets	(10,169,086)	—	10,169,086	—
Net Assets, June 30, 2010	\$ 7,417,151	\$ 2,666,910	\$ (2,666,910)	\$ 7,417,151

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. During fiscal 2010, MUSL cross-licensed the Powerball game with a group of state lotteries that operate the Mega Millions game. Under the cross-license agreement, all state lotteries participating in MUSL and from the group operating Mega Millions are permitted to sell both multi-state jackpot games. The Lottery participates in both the Powerball game and the Mega Millions game.

Each lottery that is a member of MUSL and participates in a multi-state game, sells 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 for each multi-state game. Lesser prizes are paid directly to the winners by each member lottery. The prize pools for the multi-state games are based upon a percentage of each drawing period's sales with 50% collected by MUSL for Powerball and 51% collected for Mega Millions. MUSL retains a percentage of each drawing period's sales (Powerball percentage equals 2% and Mega Millions percentage equals 1%) as part of prize reserve funds until a designated cap has been accumulated. For the Powerball game, prize reserve funds of \$125,000,000 represent the cap. Currently no prize reserve cap has been established for the Mega Millions game. After the total cap has been accumulated, the percentage of drawing period sales designated for the reserve funds 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 future installments. Powerball has 30 installments over 29 years and Mega Millions has 26 annual installments. If the winner selects the installment payments, MUSL purchases securities to fund the prize annuities for MUSL members or the Mega Millions group purchases securities if the prize winner(s) is from a Mega Millions state. The annuity installments are paid to the Lottery, which in turn pays the winners their annual installments. All such prizes are paid annually with the initial payment being made in cash, to be followed by the remaining payments funded by the securities.

There were no grand prize winners in the State of Connecticut during the year ended June 30, 2010 and there was one Powerball grand prize winner in Connecticut during the year ended June 30, 2009.

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, 2010 and 2009 amounted to \$4,741,721 (net of a negative amount of \$24,108 related to the Mega Millions game) and, \$4,847,248, respectively. Investment income earned was \$30,530 and \$64,569, for the years ended June 30, 2010 and 2009, respectively. Balances due to MUSL at June 30, 2010 amounted to \$643,890 which is comprised of \$516,938 for Powerball and \$126,952 for Mega Millions. Balances due from MUSL at June 30, 2009 amounted to \$201,995.

CONNECTICUT LOTTERY CORPORATION
Notes to Financial Statements, June 30, 2010 and 2009

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 required 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, 2010, 2009, and 2008 was \$8,220,109, \$8,775,075, and \$8,434,383, respectively.

Contributions Made — The Lottery's contribution is determined by applying a State mandated percentage to eligible salaries and wages. This rate was 39.79 percent, 34.39 percent and 33.36 percent, during fiscal years 2010, 2009, and 2008, respectively. The contributions made compared to covered payroll follows:

	Years ended June 30		
	2010	2009	2008
Contributions made:			
By employees	\$ 103,431	\$ 110,493	\$ 105,946
Percent of current year covered payroll	1.26%	1.26%	1.26%
By the Lottery	\$ 3,270,910	\$ 3,018,072	\$ 2,813,754
Percent of current year covered payroll	39.79%	34.39%	33.36%

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, 37 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.

In accordance with a Memorandum of Understanding (MOU) effective July 1, 2009 between the State and the State Employees' Bargaining Agent Coalition (SEBAC), employees with less than 5 years of service must contribute 3% toward retiree health insurance for a 10-year period. In addition, employees with less than 10 years of actual service shall not be entitled to health care benefits until the combination of age and actual state service equals seventy-five.

During the year ended June 30, 2009, seven employees elected to retire under a 2009 Retirement Incentive Program offered by the State of Connecticut effective July 1, 2009. The retirement plan allows for payment of accrued sick and vacation pay on a deferred basis that will be treated as additional state service for retirement purposes. The total deferred payments initially estimated at \$259,765 were revised during fiscal year ended June 30, 2010 to reflect the actual amount of \$239,193 and will be paid by the CLC in equal annual installments on July 1, 2012, 2013, and 2014. Due to employees accepting the retirement prior to June 30, 2009 and the amount of the payments being determinable, the total amount has been recorded as a long-term liability in the Statements of Net Assets.

NOTE 11 — LEASE COMMITMENTS

The Lottery leases office and warehouse facilities under long-term operating leases. The warehouse lease allows for two renewal options of two years; and a third renewal option of five years for a total of nine years at the Lottery's option. The third renewal option for the warehouse was exercised in 2007 and extended the lease through July 31, 2012.

The Lottery relocated to a facility in Rocky Hill under an operating lease that commenced on April 1, 2008 and extends through June 30, 2023. The lease provided free rent from April 1, 2008 through June 30, 2008. Monthly rents will be approximately \$73,000 through June 30, 2013, \$83,000 through June 30, 2018, and \$87,000 through the end of the term. The Lottery recognizes the lease expense using the straight-line method over the term of the lease arrangement.

The Lottery leases equipment under non-cancellable operating leases expiring on various dates through June 2013. The obligations are payable in monthly installments and are immaterial.

Total rent expense for facilities and equipment was \$1,058,958 and \$1,055,798 for the fiscal years ended June 30, 2010 and 2009, respectively.

CONNECTICUT LOTTERY CORPORATION
Notes to Financial Statements, June 30, 2010 and 2009

NOTE 11 — LEASE COMMITMENTS (continued)

Future payments for the aforementioned leases are summarized as follows:

Fiscal Years Ending June 30	Amount
2011	\$ 958,704
2012	958,034
2013	885,078
2014	994,375
2015	994,375
Thereafter	8,186,250
	<u>\$ 12,976,816</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, torts, 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, 2010, 2009 and 2008, 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, 2010

PROFIT CONTRIBUTIONS (\$000's)				
	Scratch	Play3 Night	Play4 Night	Play3 Day
NET SALES	\$ 593,374	\$ 73,004	\$ 61,027	\$ 42,579
DIRECT COSTS				
Gross prize expense	409,878	41,758	31,757	22,788
Unclaimed prize credit	(5,636)	(934)	(923)	(376)
Use of unclaimed prize reserve	113	–	–	1
<i>Net prize expense</i>	404,355	40,824	30,834	22,413
Retailer commissions	34,137	4,058	3,291	2,351
On-line systems	5,157	635	686	371
Marketing, advertising and promotion	7,004	146	119	96
Production expenses	4,976	63	63	63
<i>Total direct costs</i>	455,629	45,726	34,993	25,294
GROSS PROFIT	\$ 137,745	\$ 27,278	\$ 26,034	\$ 17,285
PROFIT MARGIN (% OF NET SALES)				
NET SALES	100.0%	100.0%	100.0%	100.0%
DIRECT COSTS				
Gross prize expense	69.1%	57.2%	52.0%	53.5%
Unclaimed prize credit	(0.9%)	(1.3%)	(1.5%)	(0.9%)
Use of unclaimed prize reserve	0.0%	0.0%	0.0%	0.0%
<i>Net prize expense</i>	68.2%	55.9%	50.5%	52.6%
Retailer commissions	5.8%	5.6%	5.4%	5.5%
On-line systems	0.9%	0.9%	1.1%	0.9%
Marketing, advertising and promotion	1.2%	0.2%	0.2%	0.2%
Production expenses	0.8%	0.1%	0.1%	0.1%
<i>Total direct costs</i>	76.9%	62.7%	57.3%	59.3%
GROSS PROFIT	23.1%	37.3%	42.7%	40.7%

Play4 Day	Classic Lotto	Cash5	Powerball	Mega Millions	Lucky-4-Life	Total
\$ 34,707	\$ 29,904	\$ 35,041	\$ 85,282	\$ 11,231	\$ 30,698	\$ 996,847
14,085	15,802	19,855	42,642	5,852	15,329	619,746
(359)	(612)	(1,047)	(2,635)	–	(530)	(13,052)
–	399	–	–	–	1,548	2,061
13,726	15,589	18,808	40,007	5,852	16,347	608,755
1,850	1,577	1,953	4,379	584	1,705	55,885
302	260	305	732	101	276	8,825
69	277	88	772	543	394	9,508
63	19	63	23	18	19	5,370
16,010	17,722	21,217	45,913	7,098	18,741	688,343
\$ 18,697	\$ 12,182	\$ 13,824	\$ 39,369	\$ 4,133	\$ 11,957	\$ 308,504
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
40.6%	52.8%	56.7%	50.0%	52.1%	49.9%	62.2%
(1.0%)	(2.0%)	(3.0%)	(3.1%)	0.0%	(1.7%)	(1.3%)
0.0%	1.3%	0.0%	0.0%	0.0%	5.0%	0.2%
39.6%	52.1%	53.7%	46.9%	52.1%	53.2%	61.1%
5.3%	5.3%	5.6%	5.1%	5.2%	5.6%	5.6%
0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
0.2%	0.9%	0.3%	0.9%	4.8%	1.3%	1.0%
0.2%	0.1%	0.2%	0.0%	0.2%	0.1%	0.5%
46.2%	59.3%	60.7%	53.8%	63.2%	61.1%	69.1%
53.8%	40.7%	39.3%	46.2%	36.8%	38.9%	30.9%

CONNECTICUT LOTTERY CORPORATION
Schedule of Profit Margins by Game Type, Year Ended June 30, 2009

PROFIT CONTRIBUTIONS (\$000's)				
	Scratch	Play3 Night	Play4 Night	Play3 Day
NET SALES	\$ 610,013	\$ 72,367	\$ 60,224	\$ 40,750
DIRECT COSTS				
Gross prize expense	419,131	37,586	32,561	20,408
Unclaimed prize credit	(7,898)	(646)	(668)	(283)
Use of unclaimed prize reserve	3	–	–	–
<i>Net prize expense</i>	411,236	36,940	31,893	20,125
Retailer commissions	35,069	3,998	3,262	2,246
On-line systems	5,592	668	555	375
Marketing, advertising and promotion	8,499	109	90	66
Production expenses	4,765	45	45	52
<i>Total direct costs</i>	465,161	41,760	35,845	22,864
GROSS PROFIT	\$ 144,852	\$ 30,607	\$ 24,379	\$ 17,886
PROFIT MARGIN (% OF NET SALES)				
NET SALES	100.0%	100.0%	100.0%	100.0%
DIRECT COSTS				
Gross prize expense	68.7%	51.9%	54.1%	50.1%
Unclaimed prize credit	(1.3%)	(0.9%)	(1.1%)	(0.7%)
Use of unclaimed prize reserve	0.0%	0.0%	0.0%	0.0%
<i>Net prize expense</i>	67.4%	51.0%	53.0%	49.4%
Retailer commissions	5.8%	5.5%	5.4%	5.5%
On-line systems	0.9%	0.9%	0.9%	0.9%
Marketing, advertising and promotion	1.4%	0.2%	0.1%	0.2%
Production expenses	0.8%	0.1%	0.1%	0.1%
<i>Total direct costs</i>	76.3%	57.7%	59.5%	56.1%
GROSS PROFIT	23.7%	42.3%	40.5%	43.9%

Play4 Day	Classic Lotto	Cash5	Powerball	Lucky-4-Life	Total
\$ 33,002	\$ 32,942	\$ 40,420	\$ 92,134	\$ 9,451	\$ 991,303
15,839	17,406	23,607	46,093	5,323	617,954
(319)	(485)	(896)	(2,390)	–	(13,585)
1	339	–	–	–	343
15,521	17,260	22,711	43,703	5,323	604,712
1,777	1,752	2,261	4,885	521	55,771
319	300	374	833	80	9,096
52	406	64	986	514	10,786
53	12	45	30	4	5,051
17,722	19,730	25,455	50,437	6,442	685,416
\$ 15,280	\$ 13,212	\$ 14,965	\$ 41,697	\$ 3,009	\$ 305,887
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
48.0%	52.8%	58.4%	50.0%	56.3%	62.3%
(1.0%)	(1.4%)	(2.2%)	(2.6%)	0.0%	(1.3%)
0.0%	1.0%	0.0%	0.0%	0.0%	0.0%
47.0%	52.4%	56.2%	47.4%	56.3%	61.0%
5.4%	5.3%	5.6%	5.3%	5.5%	5.6%
1.0%	0.9%	0.9%	0.9%	0.9%	0.9%
0.2%	1.3%	0.2%	1.1%	5.5%	1.1%
0.1%	0.0%	0.1%	0.0%	0.0%	0.5%
53.7%	59.9%	63.0%	54.7%	68.2%	69.1%
46.3%	40.1%	37.0%	45.3%	31.8%	30.9%



STATISTICAL SECTION

CONNECTICUT LOTTERY CORPORATION
Schedule of Revenues, Expenses and Changes in Net Assets
Actual vs. Budget (\$000's), Year Ended June 30, 2010

	Actual	Budget	Over/(Under) Budget	% Change
OPERATING REVENUE	\$ 1,000,113	\$ 1,018,500	\$ (18,387)	(1.8%)
Less sales returns, cancellations and promotion	(3,266)	—	(3,266)	
<i>Total operating revenue</i>	996,847	1,018,500	(21,653)	(2.1%)
COST OF SALES AND OPERATING EXPENSES				
COST OF SALES				
Prize expense	608,755	617,255	(8,500)	(1.4%)
Retailer commissions	55,885	57,500	(1,615)	(2.8%)
On-line systems	8,825	9,533	(708)	(7.4%)
Marketing, advertising and promotion	9,508	9,123	385	4.2%
Production expenses	5,370	6,626	(1,256)	(19.0%)
<i>Total cost of sales</i>	688,343	700,037	(11,694)	(1.7%)
OPERATING EXPENSES				
Salaries and benefits	14,075	14,555	(480)	(3.3%)
Other operating expenses	3,150	3,154	(4)	(0.1%)
Depreciation and amortization	465	436	29	6.8%
Bad debt expense	81	175	(94)	(54.0%)
Division of Special Revenue, regulatory purposes	2,786	3,400	(614)	(18.1%)
<i>Total operating expenses</i>	20,557	21,720	(1,163)	(5.4%)
OTHER OPERATING REVENUE	173	142	31	21.9%
<i>Operating income</i>	288,120	296,885	(8,765)	(3.0%)
NONOPERATING REVENUES (EXPENSES)				
Interest income from investments on annuities	12,773	—	12,773	
Interest income	99	309	(210)	(68.0%)
Interest expense on annuity payments	(12,773)	—	(12,773)	
Annuity assignment	3	3	—	
<i>Total nonoperating revenues</i>	102	312	(210)	(67.4%)
CHANGE IN NET ASSETS AVAILABLE				
BEFORE PAYMENTS TO STATE FUNDS	288,222	297,197	(8,975)	(3.0%)
Payments to State's General Fund	285,500	295,249	(9,749)	(3.3%)
Payments to Chronic Gamblers' Fund	1,900	1,948	(48)	(2.5%)
<i>Change in net assets</i>	\$ 822	\$ —	\$ 822	N/A

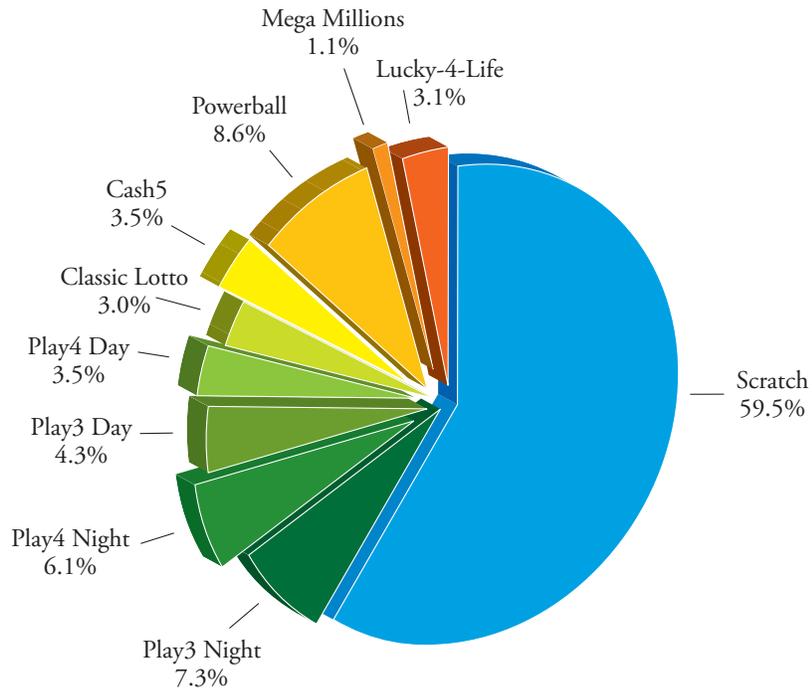
CONNECTICUT LOTTERY CORPORATION
Schedule of Revenues, Expenses and Changes in Net Assets
by Game Type (\$000's), Year Ended June 30, 2010

	Scratch	Play3 Night	Play4 Night	Play3 Day
OPERATING REVENUE	\$ 593,377	\$ 74,161	\$ 61,961	\$ 43,194
Less sales returns, cancellations and promotion	(3)	(1,157)	(934)	(615)
<i>Total operating revenue</i>	593,374	73,004	61,027	42,579
COST OF SALES AND OPERATING EXPENSES				
COST OF SALES				
Prize expense	404,355	40,824	30,834	22,413
Retailer commissions	34,137	4,058	3,291	2,351
On-line systems	5,157	635	686	371
Marketing, advertising and promotion	7,004	146	119	96
Production expenses	4,976	63	63	63
<i>Total cost of sales</i>	455,629	45,726	34,993	25,294
OPERATING EXPENSES				
Salaries and benefits	8,101	518	624	510
Other operating expenses	1,775	115	137	111
Depreciation and amortization	268	17	21	17
Bad debt expense	49	5	5	3
Division of Special Revenue, regulatory purposes	1,655	199	165	117
<i>Total operating expenses</i>	11,848	854	952	758
OTHER OPERATING REVENUE	106	13	10	7
<i>Operating income</i>	126,003	26,437	25,092	16,534
NONOPERATING REVENUES (EXPENSES)				
Interest income from investments on annuities	383	—	—	—
Interest income	41	4	4	3
Interest expense on annuity payments	(383)	—	—	—
Annuity assignment	2	—	—	—
<i>Total nonoperating revenues</i>	43	4	4	3
CHANGE IN NET ASSETS AVAILABLE				
BEFORE PAYMENTS TO STATE FUNDS	126,046	26,441	25,096	16,537
Payments to State's General Fund	124,574	26,230	24,911	16,413
Payments to Chronic Gamblers' Fund	1,114	136	113	77
<i>Change in net assets</i>	\$ 358	\$ 75	\$ 72	\$ 47

Play4 Day	Classic Lotto	Cash5	Powerball	Mega Millions	Lucky-4-Life	Total
35,177	\$ 29,925	\$ 35,067	\$ 85,311	\$ 11,233	\$ 30,707	\$ 1,000,113
(470)	(21)	(26)	(29)	(2)	(9)	(3,266)
34,707	29,904	35,041	85,282	11,231	30,698	996,847
13,726	15,589	18,808	40,007	5,852	16,347	608,755
1,850	1,577	1,953	4,379	584	1,705	55,885
302	260	305	732	101	276	8,825
69	277	88	772	543	394	9,508
63	19	63	23	18	19	5,370
16,010	17,722	21,217	45,913	7,098	18,741	688,343
615	822	712	1,075	394	704	14,075
134	179	155	316	79	149	3,150
20	27	23	35	14	23	465
3	2	3	8	–	3	81
95	75	100	260	30	89	2,785
867	1,105	993	1,694	517	968	20,556
6	4	6	15	3	3	173
17,836	11,081	12,837	37,690	3,619	10,992	288,121
–	12,390	–	–	–	–	12,773
2	2	2	36	2	2	98
–	(12,390)	–	–	–	–	(12,773)
–	–	–	–	–	1	3
2	2	2	36	2	3	101
17,838	11,083	12,839	37,726	3,621	10,995	288,222
17,724	10,998	12,732	37,427	3,592	10,899	285,500
63	53	70	192	17	65	1,900
\$ 51	\$ 32	\$ 37	\$ 107	\$ 12	\$ 31	\$ 822

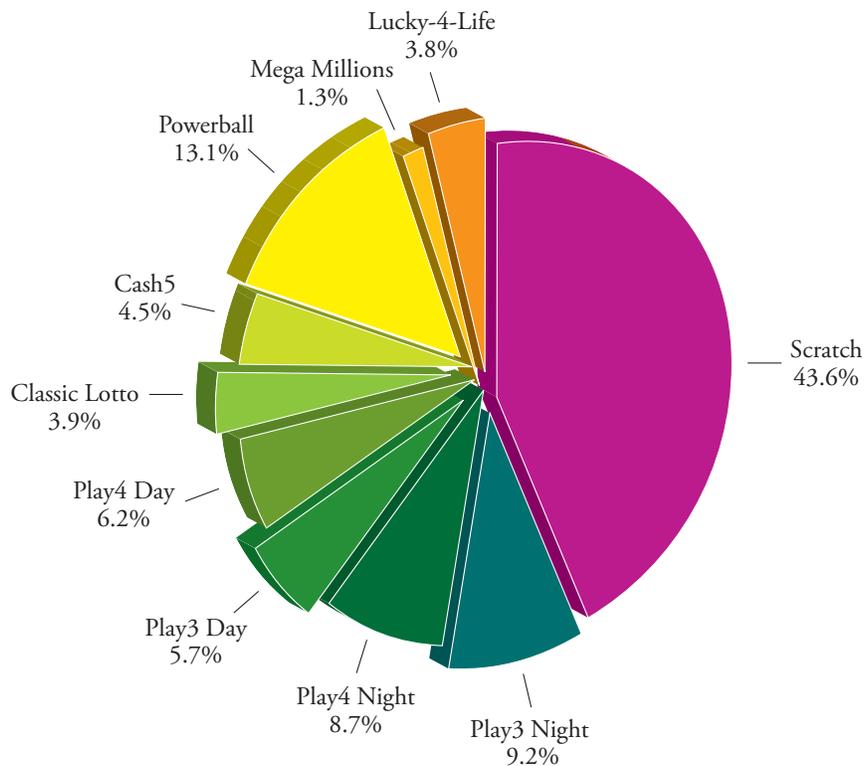
REVENUE BY GAME

Fiscal Year 2010 Total Revenue: \$996,846,808



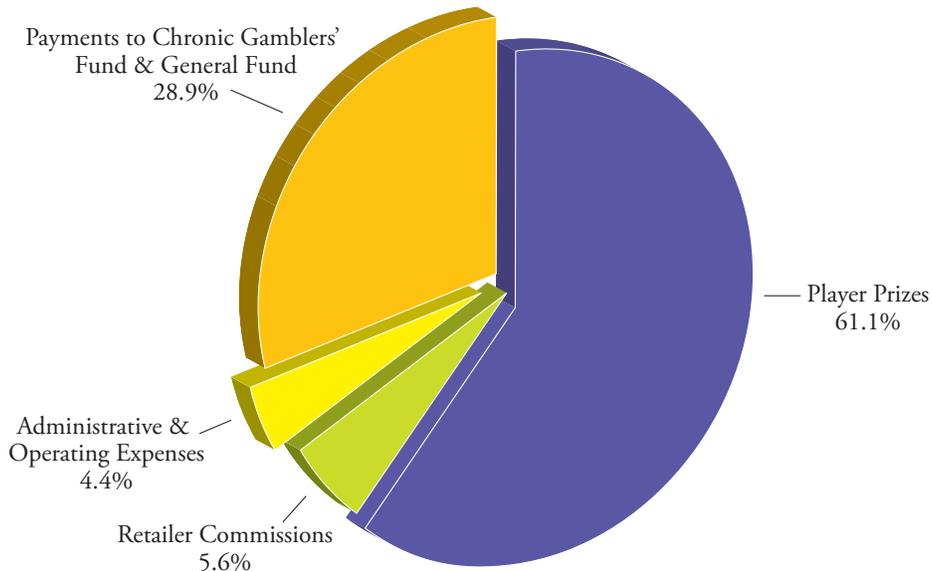
GENERAL FUND PAYMENTS BY GAME

Fiscal Year 2010 Total Payments: \$285,500,000



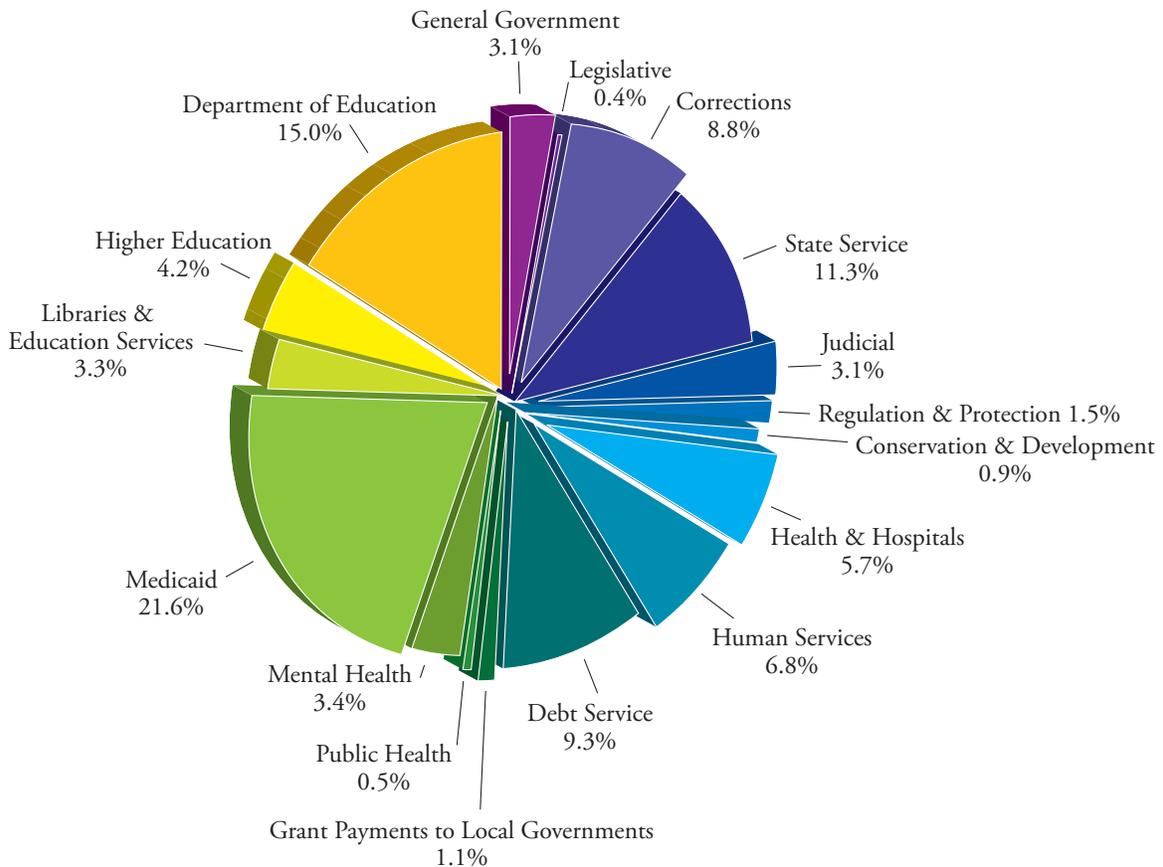
DISTRIBUTION OF EXPENSES AND PAYMENTS AS A PERCENTAGE OF TOTAL REVENUE

Fiscal Year 2010 Total Revenue: \$996,846,808



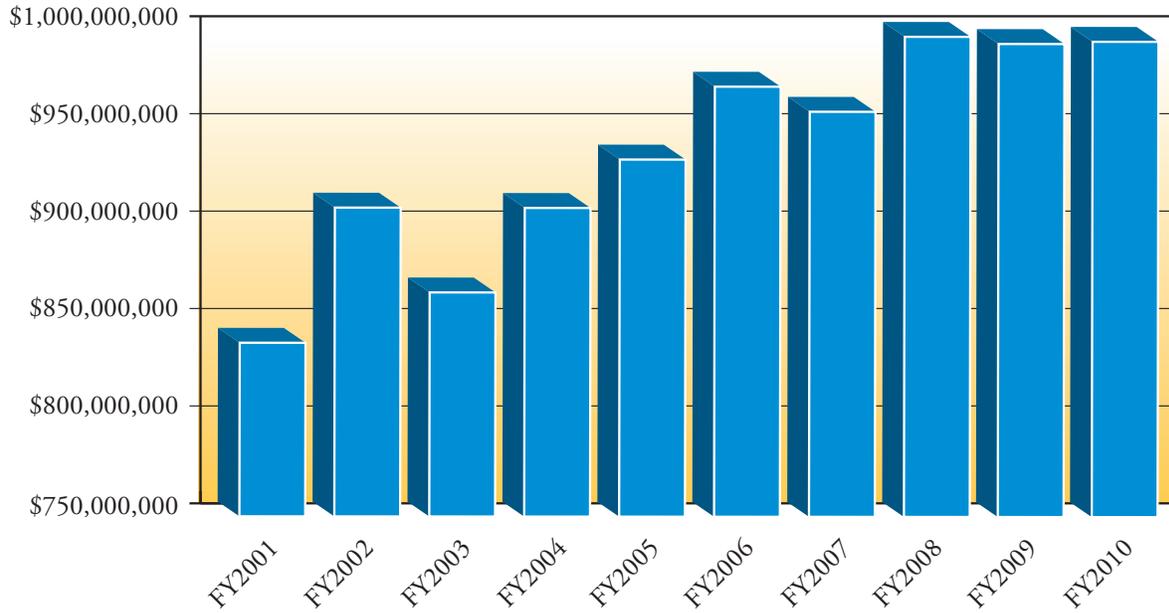
STATE SERVICES SUPPORTED BY LOTTERY PAYMENTS TO THE GENERAL FUND

Fiscal Year 2010 Payments to the General Fund: \$285,500,000

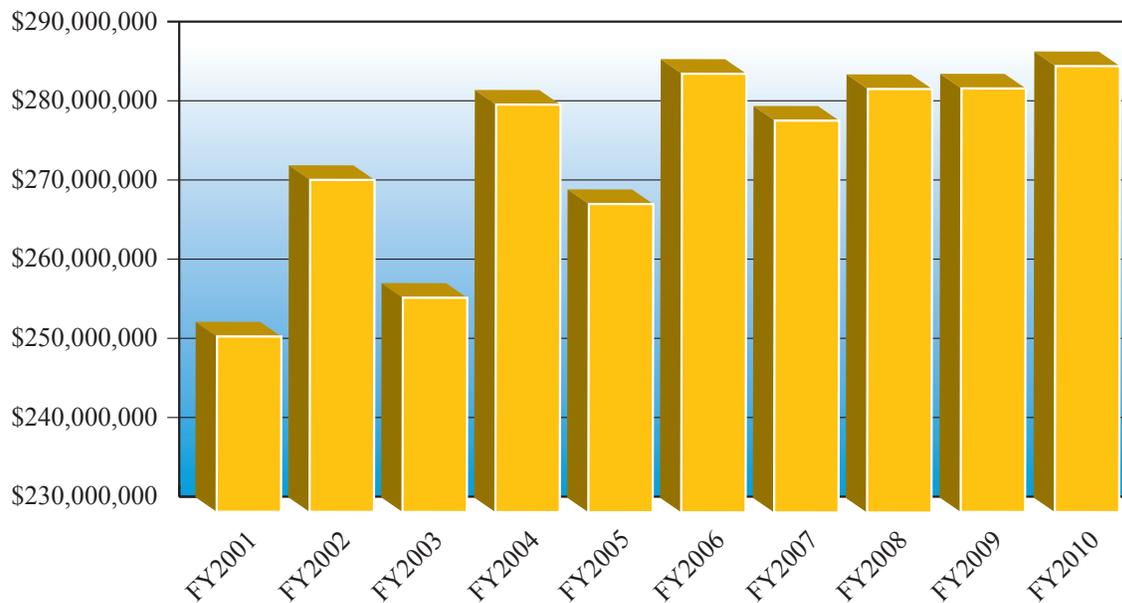


Based on Fiscal Year 2009 General Fund Percentages Appropriated by the Legislature. Source: Connecticut State Budget 2006-2009.

REVENUES FOR THE LAST 10 FISCAL YEARS



PAYMENTS TO THE GENERAL FUND FOR THE LAST 10 FISCAL YEARS



CONNECTICUT LOTTERY CORPORATION
Schedule of Revenues by Game Type, Related Expenses and
Payments to the General Fund (\$000's) For the Last 10 Fiscal Years

	2001	2002	2003	2004
Operating Revenue				
Scratch	\$ 522,394	\$ 533,068	\$ 522,396	\$ 551,885
Numbers ⁽¹⁾	178,015	179,608	181,810	178,304
Lotto	37,219	54,078	36,676	34,200
Cash5	41,820	42,050	41,154	41,281
Powerball	54,322	88,926	74,956	95,857
Mega Millions	–	–	–	–
Lucky-4-Life	–	–	–	–
Instant Powerball	5,941	10,173	8,297	6,129
Total Operating Revenue	839,711	907,903	865,289	907,656
Prizes	507,864	546,095	523,900	538,331
Retailer commissions	45,368	51,684	48,360	50,499
On-line systems	10,290	10,997	10,609	11,207
Other cost of sales	11,660	12,286	12,103	11,807
Total cost of sales	575,182	621,062	594,972	611,844
PAYMENTS TO STATE'S GENERAL FUND	\$ 252,003	\$ 271,510	\$ 256,815	\$ 280,763

Notes:

⁽¹⁾ Numbers refers to Play3 Day, Play4 Day, Play3 Night, and Play4 Night.

2005	2006	2007	2008	2009	2010
\$ 592,266	\$ 587,559	\$ 594,930	\$ 618,970	\$ 610,013	\$ 593,374
184,713	187,223	197,587	207,618	206,343	211,317
35,614	32,261	30,386	32,201	32,942	29,904
40,781	41,351	41,371	41,159	40,420	35,041
79,560	121,933	92,752	98,200	92,134	85,282
–	–	–	–	–	11,231
–	–	–	–	9,451	30,698
–	–	–	–	–	–
932,934	970,327	957,026	998,148	991,303	996,847
573,000	587,388	579,854	608,218	604,712	608,755
51,691	54,051	53,597	55,950	55,771	55,885
11,401	12,248	12,189	11,584	9,096	8,825
12,226	13,965	13,633	16,530	15,837	14,878
648,318	667,652	659,273	692,282	685,416	688,343
\$ 268,515	\$ 284,865	\$ 279,000	\$ 283,000	\$ 283,000	\$ 285,500

CONNECTICUT LOTTERY CORPORATION

Comparative Industry Statistics

Based upon data published in La Fleur's 2010 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 2009, 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	6.6	\$ 4,425.5	\$ 670.53
2 D.C.	0.6	\$ 245.4	\$ 408.95
3 Georgia	9.8	\$ 3,395.6	\$ 346.49
4 New York	19.5	\$ 6,695.1	\$ 343.34
5 Maryland	5.7	\$ 1,698.1	\$ 297.91
6 New Jersey	8.7	\$ 2,503.3	\$ 287.73
7 Connecticut	3.5	\$ 991.3	\$ 283.23
8 Pennsylvania	12.6	\$ 3,088.2	\$ 245.09
9 Michigan	10.0	\$ 2,377.4	\$ 237.74
10 South Carolina	4.6	\$ 1,005.1	\$ 218.50

B. NET INCOME PER CAPITA:

State/District	Population (Millions)	Net Income (Millions \$)	Net Income Per Capita (Dollars)
1 Massachusetts	6.6	\$ 859.4	\$ 130.21
2 D.C.	0.6	\$ 68.8	\$ 114.70
3 New York	19.5	\$ 2,081.7	\$ 106.75
4 New Jersey	8.7	\$ 873.4	\$ 100.39
5 Georgia	9.8	\$ 877.2	\$ 89.51
6 Maryland	5.7	\$ 491.7	\$ 86.25
7 Connecticut	3.5	\$ 282.9	\$ 80.83
8 Pennsylvania	12.6	\$ 910.5	\$ 72.26
9 Michigan	10.0	\$ 708.1	\$ 70.81
10 Florida	18.5	\$ 1,250.2	\$ 67.58

C. OPERATING EXPENSES AS PERCENTAGE OF SALES

State/District	Ticket Sales (Millions \$)	Operating Expenses ⁽¹⁾ (Millions \$)	Expense %
1 Massachusetts	\$ 4,425.5	\$ 99.6	2.3%
2 New Jersey	\$ 2,503.3	\$ 72.5	2.9%
3 Florida	\$ 3,938.0	\$ 131.1	3.3%
4 Maryland	\$ 1,698.1	\$ 59.4	3.5%
5 Missouri	\$ 968.5	\$ 36.5	3.8%
6 New York	\$ 6,695.1	\$ 257.6	3.8%
7 Rhode Island	\$ 238.5	\$ 9.4	3.9%
8 Georgia	\$ 3,395.6	\$ 140.2	4.1%
9 North Carolina	\$ 1,283.4	\$ 54.7	4.3%
10 South Carolina	\$ 1,005.1	\$ 43.0	4.3%
11 Pennsylvania	\$ 3,088.2	\$ 132.6	4.3%
12 Michigan	\$ 2,377.4	\$ 110.5	4.6%
13 West Virginia	\$ 198.1	\$ 9.4	4.8%
14 Connecticut	\$ 991.3	\$ 48.1	4.9%
15 Tennessee	\$ 1,014.9	\$ 50.2	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.



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 (the “Lottery”), a component unit of the State of Connecticut, as of and for the year ended June 30, 2010, and have issued our report thereon dated September 8, 2010. 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 Lottery 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 Lottery’s internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lottery’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lottery’s internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

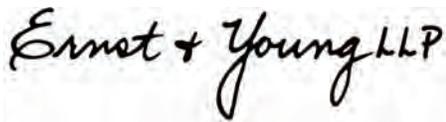
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant

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 including the Act, regulations, 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, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style script.

September 8, 2010



ctlottery.org

Connecticut Lottery Corporation
2010 Annual Report

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The 2010 Annual Report is available at: www.ctlottery.org