

2011 ANNUAL REPORT

YEAR ENDED JUNE 30, 2011
CONNECTICUT LOTTERY CORPORATION



CTLOTTERY.ORG

RECORD
COMMISSIONS TO
CT LOTTERY RETAILERS
\$57.0 MILLION

NEARLY
\$7.3
BILLION
DELIVERED TO THE
GENERAL FUND
SINCE 1972

RECORD TRANSFERS

**\$289.3
MILLION**
TO THE GENERAL FUND

**\$620.1
MILLION
IN PRIZES**

GENERAL FUND ALLOCATIONS INCLUDE:

- LIBRARIES & EDUCATION SERVICES
- DEPARTMENT OF EDUCATION
- HEALTH & HOSPITALS
- HUMAN SERVICES
- AND MORE



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2011 ANNUAL REPORT

Fiscal Year Ended June 30, 2011



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CONNECTICUT LOTTERY CORPORATION

(A Component Unit of the State of Connecticut)

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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



December 29, 2011

The Honorable Dannel P. Malloy, 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, 2011. 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 2011, 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, convenient 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 selling terminal-based draw games and instant "scratch" games.

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

Other noteworthy developments in the Lottery's history include:

- The first instant game began 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 \$1.0 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 drawings every Monday and Thursday, and a top prize of up to \$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.
- The first limited ticket draw game (Super Draw) was introduced in October 2010 for a singular drawing held on January 1, 2011.

Public Act 96-212, the result of a privatization initiative, 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 39 years of continuous operation, Connecticut's Lottery is one of the oldest lotteries in the United States. From its inception to June 30, 2011, the Lottery has generated total sales of approximately \$21.4 billion and has paid approximately \$7.3 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 2011, the Lottery achieved record sales and returned a record sum to the General Fund. Sales for fiscal 2011 totaled \$1.017 billion, an increase of \$19.8 million from fiscal 2010 and payments to the state's General Fund totaled \$289.3 million, an increase of \$3.8 million over the prior year. (For a more complete overview of the financial highlights of fiscal 2011, 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 resulted from an increase of \$17.2 million in Scratch game sales, an increase of \$14.1 million in Daily games (Play3 Day, Play4 Day, Play3 Night, and Play4 Night) sales, offset by a decrease of \$6.9 million in Lucky-4-Life game sales, and a decrease of \$5.6 million in Classic Lotto game sales. All other draw game sales (Multi-state games, Cash5 and CT Super Draw) increased approximately \$1.0 million from fiscal 2010.

A number of other significant events occurred during the year ended June 30, 2011 that may not be apparent from the financial results noted above. Some of these are highlighted below:

- The CLC launched two raffle style games, Million Dollar Super Draw and \$1,000,000 Super Draw 2. The top prize in each game was \$1,000,000 and the odds provided players the best chance to win that sum compared to all other draw games.
- In January 2011, the CLC launched a totally redeveloped consumer website. The new site provides consumers enhanced graphics, expanded search capabilities, mapping features, archiving of winning numbers, and more.
- As further evidence of the CLC's commitment to responsible gaming, the CLC became a member of the World Lottery Association (WLA) and achieved Level 1 responsible gaming accreditation.
- The CLC partnered with New England Patriot's Hall of Fame player, John Hannah, and University of Connecticut's Coach Geno Auriemma, to develop a Public Service Announcement campaign to remind the public that lottery games are not suitable gifts for children.
- The CLC maintained its support and funding for the CT Partnership for Responsible Gambling, the CT Committee for Gambling Awareness and the CT Women's Problem Gambling Project.
- The CLC has voluntarily participated in the State of Connecticut's Supplier Diversity Program and has consistently exceeded the goals set by the Department of Administrative Services (DAS). The CLC achieved 326% of goal amount as set by DAS for Minority Business Enterprise (MBE) spending and a total of 226% for total Small Business Enterprise (SBE) and MBE spend combined. The CLC is committed to bolstering our supplier diversity efforts further. The CLC officially joined the Greater New England Minority Supplier Development Council (GNEMSDC) and participated in their 2011 Business Expo. In addition, there has been increased outreach with potential minority suppliers.

FUTURE PROJECTS

In fiscal year 2012, the Connecticut Lottery Corporation will continue with initiatives to promote growth and expansion and enhance transfers to the General Fund.

- In January 2012, the Multi-State Lottery Association will introduce a revised Powerball game with higher minimum jackpots, more prizes of \$1,000,000 and a new price point of \$2.

- In the spring of 2012, the six New England states will join together to launch a regional version of the Connecticut draw game, “Lucky for Life”. The regional game will offer a top prize of \$7,000 per week for life.
- The Lottery will continue to research and develop a variety of new products and services, implement appropriate promotions and seek to engage in business partnerships that will ensure the Lottery’s mission to raise revenue for the state in a socially responsible manner.
- The CLC will continue to strengthen its commitment to responsible gaming by involving more staff at different levels and across departments to bring new energy and focus to this core area. There are now eight different responsible gaming committees that CLC staff have an opportunity to participate on which include: WLA accreditation, the Department of Consumer Protection’s Gambling Awareness Committee, the Connecticut Partnership for Responsible Gambling, the Connecticut Women’s Project for Problem Gambling, Retailer Responsible Play initiatives, Public Service Announcements and Marketing initiatives, Executive Development and Outreach.
- The CLC is currently working towards level two accreditation by the WLA which requires a lengthy self-assessment, analysis and presentation to the WLA for their consideration. There are only two U.S. lotteries that have achieved level three accreditation.
- The CLC partnered with Youth Rights Media (YRM) on creating its first viral PSA. YRM is a New Haven based non-profit organization “dedicated to empowering youth to know, protect and advance their rights”. YRM builds youth, power and leadership by engaging young people in video media production and community organizing, equipping them with tools, skills and strategies for affecting change within themselves and their communities. We are nearing completion of this project and we look forward to posting the final product on YouTube.
- The CLC will contract with a Supplier Diversity Consultant to help build a more robust and successful Supplier Diversity Program.
- The CLC will host an “Open House” during 2012 aimed at attracting SBE and MBE vendors. At this event, potential vendors will be able to meet CLC purchasing staff as well as corporation managers. Vendors will be given an opportunity to showcase their abilities and speak directly with CLC purchasers in order to see how they may be able to provide their services or products to the Corporation.

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 2011 continued to suffer from the slow recovery from the effects of the global recession that began in fiscal 2008. The continuing issues of high unemployment, poor growth in the housing sector and significant credit risk with mortgage holdings of financial institutions have slowed the growth in the economy, both for Connecticut and the nation.

Consumer confidence rose for the first three quarters of fiscal 2011 and then started a downward trend that continued for the balance of the fiscal period. The forecast is for continued weakening for fiscal 2012 due to the high unemployment rates and expectations for sluggish growth in the economy. The Federal Reserve continues to maintain interest rates at historic lows and debate continues as to measures needed to prevent a further slowdown in the national economy. While the Consumer Price Index increased by 3.6% between June 2010 and June 2011 concerns about inflation appear to be secondary to the efforts by the Federal Reserve to stimulate the economy. 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 0.6% in fiscal 2011 compared to a 0.2% increase recorded at the national level for the same period. Connecticut's unemployment rate remained at 9.1% during fiscal 2011, while the national unemployment rate declined from 9.5% in June 2010 to 9.2% in June 2011. Forecasts indicate employment gains will be slow for fiscal 2012 and this contributes to expectations of slow economic growth in the next year.

Although the economy has been slow to recover from the downturn in 2008, the lottery industry and the Connecticut Lottery Corporation experienced growth in sales and profits during fiscal 2011. While it remains difficult to demonstrate a direct relationship between general economic indicators and sales trends within the lottery industry, it is apparent that improved consumer confidence and lower unemployment rates would improve the growth rate of the economy and increase the prospects for further gains in sales and profits. Our players will continue to 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. 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



STATE OF CONNECTICUT
List of Principal State Officers, as of June 30, 2011

Dannel P. Malloy, Governor

Nancy Wyman, Lieutenant Governor

Denise Merrill

Denise L. Nappier

Kevin Lembo

George Jepsen

Secretary of the State

State Treasurer

Comptroller

Attorney General



CONNECTICUT LOTTERY CORPORATION
Board of Directors, as of June 30, 2011

Frank A. Farricker, Chairman

Benjamin Barnes

Robert S. Dakers

Denise L. Nappier

Robert C. Morgan

Gale A. Mattison

Steven A. Bafundo

Patrick M. Birney

James N. Farrell

Joseph J. Kaliko

Margaret L. Morton

Natasha M. Pierre

Kenneth J. Saccente

Martin E. Stauffer

Michael P. Thompson

Secretary, Office of Policy and Management

Designee of Secretary,

Office of Policy and Management

State Treasurer

Designee of State Treasurer

Vice Chairman



CONNECTICUT LOTTERY CORPORATION
Organizational Chart, as of June 30, 2011

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
Steven J. Fox	Manager, Vendor Compliance

MARKETING & SALES

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

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 2011 Statistics:

\$127.8 million in General Fund payments

42 scratch games launched

60.1% of total net sales

44.2% of General Fund payments

Scratch games are easy to play and provide instant entertainment for players. By removing the thin scratch-off 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 Cashword to the excitement of Bingo or a casino style game like Roll 'Em. 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. A new play style was introduced this year with the launch of Red Hot 5's Doubler: offering play areas on both sides of the ticket, providing players more chances to win. Scratch 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! With such a variety of games, it's easy to see why scratch games are the play of choice for many consumers.

DAILY GAMES

Fiscal Year 2011 Statistics:

\$90.6 million in General Fund payments



Play3 Day: 4.7% of total net sales
6.9% of General Fund payments



Play4 Day: 3.7% of total net sales
4.7% of General Fund payments



Play3 Night: 7.6% of total net sales
9.9% of General Fund payments



Play4 Night: 6.2% of total net sales
9.7% 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 2011 Statistics:

\$12.0 million in General Fund payments

3.4% of total net sales

4.2% 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 2011 Statistics:

\$7.8 million in General Fund payments

2.4% of total net sales

2.7% of General Fund payments

Twice each week, players can win up to one 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. Tickets cost \$1 per play.

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 2011 Statistics:

\$25.4 million in General Fund payments

5.9% of total net sales

8.8% 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 44 lottery jurisdictions, including Mega Millions lotteries cross-licensed to sell Powerball, Powerball drawings are held twice weekly, on Wednesday and Saturday nights.

The fiscal 2011 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 2011 Statistics:

\$12.2 million in General Fund payments

3.2% of total net sales

4.2% of General Fund payments

On January 31, 2010, the CT Lottery, 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.

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!

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.

LUCKY-4-LIFE



Fiscal Year 2011 Statistics:

\$12.4 million in General Fund payments

2.3% of total net sales

4.3% of General Fund payments

Lucky-4-Life began on March 29, 2009, a “hybrid” draw game combining 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 SUPER DRAW



Fiscal Year 2011 Statistics:

\$1.1 million in General Fund payments

0.5% of total net sales

0.4% of General Fund payments

On October 1, 2010, Connecticut launched the new draw game, Million Dollar Super Draw. A draw game unlike any other offered before – a game of chance in which a guaranteed top prize winner is selected at random on New Year’s Day 2011, from a limited pool of tickets sold. With a maximum of 275,000 tickets and a guaranteed \$1,000,000 top prize drawn, Million Dollar Super Draw provided players with the best chance to become a millionaire.



With the success of Million Dollar Super Draw, a second draw game “\$1,000,000 Super Draw 2”, with a drawing date of July 4, 2011 was launched in April 2010.

Each “Super Draw” ticket, offered a 1 in 275,000 chance of winning \$1,000,000 – the best odds ever offered by the CT Lottery for winning one million dollars in a draw game. The games awarded one top prize of \$1,000,000 cash; ten \$20,000 cash prizes; 50 prizes of \$1,000 cash; and 1,250 prizes of \$100 cash. A total of 1,311 prizes worth \$1,375,000 were awarded. Tickets were sold in sequential order from 100001 to 375000 for each game.

NEW CT Lottery Website, December 2010



“CTLOTTERY.ORG – Click it up!” That’s what our viewers did!



A digital billboard “teased” the launch of our new website.

The blend of design and technology provides viewers with a stimulating, fun experience. Players can get winning numbers, game information, winning stories and news announcements, responsible play information, winning numbers charts and history, look-up tools with a wide variety of search capabilities. In addition, one of the newest features



is free, real-time text alerts and RSS feeds of the winning numbers.

Instant Ticket Vending Machines - September 2010

The CT Lottery installed instant ticket vending machines in select CT Lottery retailers. The machines add convenience for players and help to reduce lines at the registers.

Safeguards have been placed into the machines to support the CT Lottery’s commitment to keep youth away from gambling,

and to encourage lawful use of the machines. Age verification devices have been hard-wired into the machines and messaging on the machines states clearly that gambling by persons under age 18 is illegal and prosecutable. Another key initiative to minimize use by underage individuals provides store personnel with remote control switches capable of shutting the vending machines down immediately if an underage person attempts to access the machine.



First Lottery Millionaires of the Year Claim Million Dollar Super Draw Top Prize



(Left-Right: Jennifer Menges, Brenda Vosseler, Matthew Davison, Edward and Ginny Davidson)

As revelers rang in 2011, the CT Lottery put a new twist on having a happy and prosperous New Year. Is there a better way to start 2011 than by winning a million dollars and becoming the state’s first lottery millionaires of the year? The Davidson Family of Goshen did just that when the numbers on their Million Dollar Super Draw ticket - 215523 - matched those drawn by the CT Lottery in its Million Dollar Super Draw event on January 1 and won the game’s \$1,000,000 top prize. “I was going to retire next year, but now I’ll be able to retire early,” said Ed Davidson who purchased the winning ticket and shared the million dollar prize with his family. “It’s unbelievable; it’s more than I ever dreamed of winning.”



World War II Veteran Gives Thanks, Wins \$1,000,000 Prize Instantly



World War II veteran, John Geas of Stamford, said he had much to be thankful for after winning a \$1,000,000 top prize playing “\$70 Million Blockbuster.” “I have a beautiful family. We’re very, very close.”

The winning match on Geas’ instant ticket gave him the choice of a \$1,000,000 20-year annuity or a cash lump sum value of \$621,200. Opting for the cash lump sum, Geas received a prize check for \$425,525 after taxes. And Geas couldn’t stop smiling about it. Geas had big plans for his prize. “My wife, Tessie, just retired, so I’m taking her on a Mediterranean cruise. She deserves it!”

Birthday Card Reveals \$1,000,000 Prize

Jackie Triumfo of Guilford couldn’t have been more surprised with the birthday card her brother gave her, containing a “\$100,000,000 Diamond Mine” instant game ticket. “After I opened the card, I didn’t look at the ticket for a while, but Ronald asked me to check it. When he looked at it...I think his eyes nearly bugged out of his head,” said Triumfo laughing. The \$10 ticket had a matching pair of 4’s with a corresponding prize worth \$1,000,000. “Honestly, I thought he was joking, until he swore it was true.”



“Congratulations, Classic Lotto Jackpot Winner!”

Before leaving town on business, Art Hlywa, Jr. of Southbury stopped at a convenience store to pick up a newspaper and check some “Quick Pick” tickets he had purchased for the February 25, 2011 Classic Lotto drawing. Scanning his tickets in a Ticket Checker, he discovered the six numbers on his ticket were a perfect match with the winning numbers drawn, 2 - 18 - 19 - 27 - 41 - 43, and the ticket was worth a mind-boggling \$3,600,000. “It feels amazing to know that the kid’s college will be paid for, we can pay off all our bills, and we’ll be debt free,” Hlywa said.

Spur of the Moment Decision Creates A Millionaire

Like millions of other people, Joye Epps' attention was caught in early January by the chance to become a Mega Millions® jackpot winner. As a result, the West Haven resident made a spur-of-the-moment decision and purchased a single CT Lottery Mega Millions® with Megaplier® ticket ...and won a million dollars. Epps successfully matched the first 5 Mega Millions® numbers, 4 - 8 - 15 - 25 - 47 drawn on January 4, but missed the Mega Ball number of 42. "We couldn't be happier," said Joye. "This will help us buy a house, but it will also help our family and our church."



Six Simple Words Spell CASH for Ansonia Resident

An odd assortment of six unrelated words was just the right combination needed by Joshua Everlith of Ansonia to win the top prize in the "\$100,000 Cashword 2" scratch game. The 23-year old tire salesman first thought he had won \$30, but after handing the ticket to the clerk, Everlith was informed that it couldn't be cashed at the store—because the ticket was actually worth \$100,000. "The money will pay off some student loans," said Everlith. "Maybe I'll even start a business."

A Tale of Two Sisters...Who Split a \$200,000 Powerball Prize

Although they live far apart, Kimberlee Smith of Wilton, CT and Robin Lytle of Manhasset, NY, are as close as two sisters can be. Thanks to technology, they shared the joy of winning a \$200,000 Powerball prize together via text message. "Bought 5 tix for tonight's Powerball," Kimberlee texted Robin on March 30, 2011. Kimberlee's text the following morning was a real heart-stopper; it simply read, "We won!"

"For the last six months or so, we've taken turns buying tickets. When she told me we missed the Powerball, but all the rest of the numbers came in, we just started screaming," Robin said. Each sister received a check for \$68,500 (prize value after taxes).



(Left-Right: Kimberlee Smith and Robin Lytle)

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 raise awareness about underage gambling. The CT Lottery has been cited by both national experts and by the National Council on Problem Gambling for its efforts to educate and inform the public, its retailers and employees about problem and underage gambling.

During the fiscal year 2011, the CT Lottery supported and financed social responsibility efforts in collaboration with the Department of Mental Health and Addiction Services Problem Gambling Services Unit (DMHAS PGS).

The CT Lottery's holiday campaign once again reminded adults of the impact that gambling problems can have on families.

In FY 2011, as in other years, the CT Lottery supported multiple responsible play initiatives:

- Connecticut Council on Problem Gambling Annual Conference, October 2010
- National Council on Problem Gambling and the International Centre for Youth Gambling Problems and High Risk Behaviors at McGill University - Holiday Campaign, November – December 2010
- Became a member of World Lottery Association on February 4, 2011 and was granted Level 1 Accreditation in Responsible Gaming Framework
- National Problem Gambling Awareness Week – March 2011
- As part of the initiative to prevent underage gambling, CT Lottery ran messages on digital billboards, the XL Center marquee, and a print ad in CT Parent Magazine's September, January and March issues.

A lighted marquee at the XL Center kicked off National Problem Gambling Awareness Week.



A print ad (above) and a digital billboard (below) were part of the CT Lottery's Responsible Play initiative.



During a press conference at the Legislative Office Building, hosted by Senator Andrea Stillman (D - Waterford) on March 8, 2011, the CT Lottery presented two public service announcements that focused on youth and young adult problem gambling awareness:



*New England Patriots legend,
John Hannah in a TV PSA.*

- A :30 TV Spot “Not Child’s Play” featured New England Patriots legend, John Hannah
- A :30 Radio Spot “Not Child’s Play” featured Geno Auriemma – UCONN Women’s Head Basketball Coach
- Participated in DMHAS sponsored Legislative Breakfast on March 10, 2011, to learn more about woman and problem gambling.
- Participated as a sponsor and presenter at the Annual Conference of the National Council on Problem Gambling in June.
 - Worked in conjunction with Massachusetts Council on Problem Gambling
- Continued professional development and training of employees on issues related to problem gambling. Robert Vincent, Senior VP Corporate Affairs, GTECH Corporation spoke to employees on May 5, 2011.

- On-going broadcast throughout the year of responsible gaming public service announcements on radio, television, in-store monitors, and out-of-home opportunities.
- The CT Lottery’s responsible gaming alliances include:
 - CT Partnership for Responsible Gambling
 - CT Woman’s Project on Problem Gambling
 - CT Council on Problem Gambling
 - CT Department of Mental Health & Addiction Services
 - CT Committee for Gambling Awareness
 - World Lottery Association



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 years ended June 30, 2011 and 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 audits.

We conducted our audits 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 Lottery’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 Lottery’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 audits provide 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, 2011 and 2010, and the changes in financial position and its cash flows for the years then ended, in conformity with US generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2011 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.

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 Schedules of Profit Margins by Game Type for the years ended June 30, 2011 and 2010 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst & Young LLP

September 8, 2011

CONNECTICUT LOTTERY CORPORATION

Management's Discussion and Analysis, June 30, 2011 and 2010

The following Management's Discussion and Analysis (MD&A) provides an overview of the Connecticut Lottery Corporation's (the Lottery) financial performance for the fiscal year ended June 30, 2011. The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements and notes to financial statements.

FINANCIAL STATEMENTS PRESENTED IN THIS REPORT

The Lottery 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. The Lottery 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 Lottery'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 Lottery. The Statements of Cash Flows reconcile the changes in cash and cash equivalents with the activities of the Lottery for the periods presented. The activities are classified as to operating, investing, capital financing and non-capital financing.

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

FINANCIAL HIGHLIGHTS OF FISCAL 2011

- Total net sales (operating revenue) were \$1,016.6 million, an increase of \$19.8 million, or 2.0%, from fiscal 2010 and the highest sales level ever achieved. This was the first time operating revenue surpassed the billion dollar mark in Connecticut lottery history.
- Transfers to the State's General Fund were \$289.3 million, an increase of \$3.8 million, or 1.3%, compared to the prior fiscal year, and also a new record for the Lottery.
- 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 \$14.5 million, or 9.7%.

CONNECTICUT LOTTERY CORPORATION
Management's Discussion and Analysis, June 30, 2011 and 2010

CONDENSED FINANCIAL INFORMATION

Net Assets and Changes in Net Assets

Net assets represent the assets of the Lottery less the liabilities owed to third parties. The net assets are restricted for promotional purposes, augmenting prizes or increasing payments to the State's General Fund. Net assets increased \$97,000, or 1.3%, for fiscal 2011 and increased \$822,000, or 12.5%, for fiscal 2010. Listed in Table 1 below is a summary of the key components of net assets. The Lottery transfers unrestricted net assets to the State's General Fund; therefore the change in net assets does not reflect the results of the Lottery'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)

	2011	Increase (Decrease)	2010	Increase (Decrease)	2009
Current assets	\$ 72,839	\$ (6,071)	\$ 78,910	\$ (2,925)	\$ 81,835
Investments and other non-current assets	139,777	(14,488)	154,265	(19,047)	173,312
Capital assets (net of accumulated depreciation)	2,531	(136)	2,667	(119)	2,786
<i>Total assets</i>	215,147	(20,695)	235,842	(22,091)	257,933
Current liabilities	72,116	(6,354)	78,470	(3,978)	82,448
Long-term liabilities	135,517	(14,437)	149,954	(18,936)	168,890
<i>Total liabilities</i>	207,633	(20,791)	228,424	(22,914)	251,338
Net assets					
Invested in capital assets	2,531	(136)	2,667	(119)	2,786
Restricted net assets	7,514	97	7,417	822	6,595
Unrestricted net assets	(2,531)	136	(2,667)	119	(2,786)
<i>Total net assets</i>	\$ 7,514	\$ 97	\$ 7,417	\$ 822	\$ 6,595

CONNECTICUT LOTTERY CORPORATION
Management's Discussion and Analysis, June 30, 2011 and 2010

TABLE 2
Changes in Net Assets
(in thousands)

	2011	Increase (Decrease)	2010	Increase (Decrease)	2009
Total game sales, net	\$ 1,016,614	\$ 19,767	\$ 996,847	\$ 5,544	\$ 991,303
Other operating income	78	(95)	173	—	173
Nonoperating revenues:					
Interest income	11,097	(1,774)	12,871	(2,302)	15,173
Other	5	2	3	(3)	6
<i>Total revenues</i>	1,027,794	17,900	1,009,894	3,239	1,006,655
Total cost of sales	703,227	14,884	688,343	2,927	685,416
Total operating expenses	22,206	1,650	20,556	(658)	21,214
Non-operating expenses:					
Interest expense	11,064	(1,709)	12,773	(1,897)	14,670
<i>Total costs and expenses</i>	736,497	14,825	721,672	372	721,300
Change in net assets before					
Payments to State Funds	291,297	3,075	288,222	2,867	285,355
Payments to Chronic					
Gamblers' Fund	1,900	—	1,900	(48)	1,948
Payments to State's General Fund	289,300	3,800	285,000	2,500	283,000
<i>Change in net assets</i>	97		822		407
Total net assets - beginning balance	7,417		6,595		6,188
Total net assets - ending balance	\$ 7,514		\$ 7,417		\$ 6,595

OVERVIEW OF FINANCIAL POSITION

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 \$20.7 million, or 8.8%, in fiscal 2011 and \$22.1 million, or 8.6%, in fiscal 2010. 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 the long-term asset account, *Investment for prize payments*, and in the long-term liability account, *Long-term annuities payable* totaled \$14.5 million, or 9.7%, in fiscal 2011 and \$19.0 million, or 11.3%, in fiscal 2010.

The Lottery 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 Lottery, which in-turn pays the winners.

CONNECTICUT LOTTERY CORPORATION
Management's Discussion and Analysis, June 30, 2011 and 2010

TABLE 3
Sales and Related Expenses
(in thousands)

	2011	Increase (Decrease)	2010	Increase (Decrease)	2009
SALES					
Scratch games	\$ 610,568	\$ 17,194	\$ 593,374	\$ (16,639)	\$ 610,013
Daily games	225,381	14,064	211,317	4,973	206,343
Multi-state games	93,465	(3,048)	96,513	4,379	92,134
Lucky-4-Life	23,815	(6,883)	30,698	21,247	9,451
Classic Lotto	24,341	(5,563)	29,904	(3,038)	32,942
Cash5	34,243	(798)	35,041	(5,379)	40,420
CT Super Draw	4,801	4,801	—	—	—
Total sales	\$ 1,016,614	\$ 19,767	\$ 996,847	\$ 5,544	\$ 991,303

RELATED EXPENSES

Prize expense	\$ 620,134	\$ 11,379	\$ 608,755	\$ 4,043	\$ 604,712
Retailer commissions	\$ 56,964	\$ 1,078	\$ 55,885	\$ 114	\$ 55,771
On-line systems	\$ 9,290	\$ 465	\$ 8,825	\$ (271)	\$ 9,096
Production expenses	\$ 6,227	\$ 858	\$ 5,370	\$ 319	\$ 5,051

Percentage Increase (Decrease)

SALES

Scratch games	2.9%	(2.7%)
Daily games	6.7%	2.4%
Multi-state games	(3.2%)	4.8%
Lucky-4-Life	(22.4%)	224.8%
Classic Lotto	(18.6%)	(9.2%)
Cash5	(2.3%)	(13.3%)
CT Super Draw	100.0%	—%

Total sales

2.0%

0.6%

RELATED EXPENSES

Prize expense	1.9%	0.7%
Retailer commissions	1.9%	0.2%
On-line systems	5.3%	(3.0%)
Production expenses	16.0%	6.3%

CONNECTICUT LOTTERY CORPORATION

Management's Discussion and Analysis, June 30, 2011 and 2010

Total sales for fiscal 2011 increased by \$19.8 million, or 2.0%, from the prior fiscal year. Scratch game sales and Daily game sales were the categories with the largest increases during the fiscal year with offsets from decreases in the Lucky-4-Life and Classic Lotto games. Scratch games increased by \$17.2 million, or 2.9% and Daily games (Play3 Day, Play4 Day, Play3 Night and Play4 Night) increased by \$14.1 million, or 6.7%. Lucky-4-Life decreased by \$6.9 million, or 22.4%, and Classic Lotto decreased by \$5.6 million, or 18.6%. In fiscal 2010, total sales increased by \$5.5 million, or 0.6%, from fiscal year 2009. The increase was primarily caused by new draw games introduced over the prior 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%.

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 and in prior financial statement reports. For fiscal 2011, prize expense increased \$11.4 million, or 1.9%, compared to a 2.0% increase in total sales, or \$19.8 million. During fiscal 2010, prize expense increased \$4.0 million, or 0.7%, while total sales increased 0.6%, or \$5.5 million. This deviation in prize expense percentage can be more dramatic in individual game results. For example, during fiscal 2011, Play4 Day sales increased \$3.0 million, or 8.5%, while Play4 Day prize expense increased \$6.6 million, or 48.2%. In the same fiscal year, Play4 Night sales increased \$1.7 million, or 2.8%, while Play4 Night prize expense decreased by \$1.4 million, or 4.6%. The random selection of winning numbers causes the deviation from expected results in the short-term.

Retailer commissions increased \$1.1 million, or 1.9%, in fiscal 2011 and increased \$114,000, or 0.2%, in fiscal 2010. 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 Lottery to promote selected games.

On-line system expenses increased \$0.5 million, or 5.3% in fiscal 2011 and decreased by \$0.3 million, or 3.0%, in fiscal 2010. Credits related to system performance offset system charges for sales and caused the variance in comparability between the two years.

Production expenses increased by \$0.9 million, or 16.0% in fiscal 2011 and \$0.3 million, or 6.3%, in fiscal 2010. 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. In fiscal 2011 the Lottery introduced automated vending machines for Scratch ticket sales that accounted for a significant portion of the increase in Production costs for the period. Production costs increased in fiscal 2010 primarily due to production costs of Scratch tickets and a new studio contract for drawing broadcasts.

CONNECTICUT LOTTERY CORPORATION

Management's Discussion and Analysis, June 30, 2011 and 2010

Other costs and expenses do not vary directly with total sales. These include marketing, advertising and promotions expenses and operating expenses. Management budgets these items based upon current business plans and economic conditions and continuously monitors actual results to determine whether adjustments are required to meet overall business objectives. Marketing, advertising and promotions expenses increased \$1.1 million, or 11.6%, in fiscal 2011 and decreased \$1.3 million, or 11.8%, in fiscal 2010.

Total operating expenses increased by \$1.6 million, or 8.0% in fiscal 2011 and decreased \$0.7 million, or 3.1%, in fiscal 2010. Increases in fiscal 2011 were caused by increased salaries and benefits that resulted when the salary freezes of fiscal 2010 ended and by unusual snow removal costs incurred during the winter of 2011. Decreases in fiscal 2010 resulted from statewide freezes on salaries and benefits and early retirements in response to a state sponsored program, which affected Lottery expenses as well as the 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 \$66,000, or 66.7%, in fiscal 2011 and \$0.4 million, or 80.4%, in fiscal 2010 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 Lottery were consistent with the changes in the general market rates for this period.

The payments to the State's General Fund increased \$3.8 million, or 1.3% for fiscal 2011 and \$2.5 million, or 0.9%, in fiscal 2010. Fiscal 2011 General Fund payments represent a new record in transfers to the State. Payments to the General Fund reflect the net earnings of the Lottery that are transferred to the State's General Fund.

BUDGETARY COMPARISONS

The Lottery'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 Lottery to maximize the payments to the State's General Fund. As a quasi-public corporation, the Lottery'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 Lottery 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 Lottery's total assets.

The Lottery has financed capital asset acquisitions with proceeds from operations and has not used financing from long-term debt. The Lottery 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	
	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 16,615,694	\$ 18,269,655
Accounts receivable, net of allowance of \$875,000 and \$1,020,000 as of June 30, 2011 and 2010, respectively	23,639,829	22,563,562
Prepaid annuities for prizes	26,172,068	30,246,244
Accrued interest receivable	4,129,121	5,172,949
Ticket inventory, net of allowance of \$478,022 and \$471,927 as of June 30, 2011 and 2010, respectively	1,867,586	2,532,566
Due from the Multi-State Lottery Association	261,356	–
Prepaid expenses	153,829	125,167
<i>Total current assets</i>	72,839,483	78,910,143
NONCURRENT ASSETS		
Investments for prize payments	134,809,542	149,322,912
Prize reserves held by Multi-State Lottery Association	4,767,674	4,741,721
Capital assets, net	2,530,973	2,666,910
Advances to high-tier claim centers	200,000	200,000
<i>Total noncurrent assets</i>	142,308,189	156,931,543
<i>Total assets</i>	\$ 215,147,672	\$ 235,841,686

	June 30	
	2011	2010
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Annuities payable	\$ 26,888,185	\$ 31,190,204
Prizes payable	33,479,386	26,856,278
Accrued interest payable	4,129,121	5,172,949
Accounts payable and accrued expenses	6,817,533	14,015,106
Due to the Multi-State Lottery Association	–	643,890
Deferred revenue	801,947	592,016
<i>Total current liabilities</i>	72,116,172	78,470,443
LONG-TERM LIABILITIES		
Deferred rent liability	468,566	391,987
Deferred retiree salaries and benefits payable	239,110	239,193
Long-term annuities payable	134,809,542	149,322,912
<i>Total long-term liabilities</i>	135,517,218	149,954,092
<i>Total liabilities</i>	207,633,390	228,424,535
NET ASSETS		
Invested in capital assets	2,530,973	2,666,910
Restricted	7,514,282	7,417,151
Unrestricted	(2,530,973)	(2,666,910)
<i>Total net assets</i>	7,514,282	7,417,151
<i>Total liabilities and net assets</i>	\$ 215,147,672	\$ 235,841,686

See accompanying notes.

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

	Years ended June 30	
	2011	2010
OPERATING REVENUE		
Scratch game sales	\$ 610,570,601	\$ 593,376,690
On-line game sales	315,860,382	310,191,954
Multi-state game sales	93,493,452	96,544,194
	1,019,924,435	1,000,112,838
Less sales returns, cancellations and promotion	(3,310,422)	(3,266,030)
<i>Total operating revenue</i>	1,016,614,013	996,846,808
COST OF SALES AND OPERATING EXPENSES		
COST OF SALES		
Prize expense	620,133,591	608,754,786
Retailer commissions	56,963,644	55,884,936
On-line systems	9,290,390	8,825,183
Marketing, advertising and promotion	10,611,709	9,508,611
Production expenses	6,227,448	5,369,683
<i>Total cost of sales</i>	703,226,782	688,343,199
OPERATING EXPENSES		
Salaries and benefits	15,355,003	14,074,801
Other operating expenses	3,425,619	3,150,284
Depreciation and amortization	451,777	465,348
Bad debt expense	100,400	80,551
Office of Policy and Management, regulatory purposes	2,873,242	2,785,397
<i>Total operating expenses</i>	22,206,041	20,556,381
OTHER OPERATING REVENUE	78,121	173,156
<i>Operating income</i>	\$ 291,259,311	\$ 288,120,384

	Years ended June 30	
	2011	2010
NONOPERATING REVENUES (EXPENSES)		
Interest income from investments on annuities	\$ 11,064,341	\$ 12,772,538
Interest income	32,820	98,621
Interest expense on annuity payments	(11,064,341)	(12,772,538)
Annuity assignment	5,000	3,000
<i>Total nonoperating revenues, net</i>	37,820	101,621
CHANGE IN NET ASSETS AVAILABLE		
BEFORE PAYMENTS TO STATE FUNDS	291,297,131	288,222,005
Payments to State's General Fund	289,300,000	285,500,000
Payments to Chronic Gamblers' Fund	1,900,000	1,900,000
<i>Change in net assets</i>	97,131	822,005
TOTAL NET ASSETS, beginning	7,417,151	6,595,146
TOTAL NET ASSETS, ending	\$ 7,514,282	\$ 7,417,151

See accompanying notes.

CONNECTICUT LOTTERY CORPORATION
Statements of Cash Flows

	Years ended June 30	
	2011	2010
OPERATING ACTIVITIES		
Receipts from sale of game tickets	\$1,015,647,277	\$1,003,432,585
Receipts from other operating income	62,917	173,983
Payments for prizes	(614,441,682)	(609,950,007)
Payments to retailers	(56,963,644)	(55,884,936)
Payments to suppliers	(32,690,802)	(21,175,210)
Payments to employees	(15,355,086)	(14,095,373)
Payments for other expenses	(6,222,282)	(5,909,103)
<i>Net cash provided by operating activities</i>	290,036,698	296,591,939
INVESTING ACTIVITIES		
Receipt of principal from annuities	30,952,931	34,077,897
Receipt of interest from annuities	12,108,169	13,920,083
Receipt of interest from cash equivalents	32,820	98,621
Purchase of insurance annuities	(11,026,541)	(10,657,909)
<i>Net cash provided by investing activities</i>	32,067,379	37,438,692
CAPITAL AND RELATED FINANCING ACTIVITIES		
Sale of capital assets	–	1,800
Purchases of capital assets	(315,840)	(348,667)
<i>Net cash used in capital financing activities</i>	(315,840)	(346,867)
NONCAPITAL FINANCING ACTIVITIES		
Payment of principal on long-term annuities	(31,165,570)	(35,049,495)
Payment of interest on long-term annuities payable	(12,108,169)	(13,920,083)
Annuity assignment	5,000	3,000
Payments to State's General Fund	(289,300,000)	(285,500,000)
Payments to Chronics Gamblers' Fund	(1,900,000)	(1,900,000)
Additions to long-term annuities payable	11,026,541	10,657,909
<i>Net cash used in noncapital financing activities</i>	(323,442,198)	(325,708,669)

	Years ended June 30	
	2011	2010
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	\$ (1,653,961)	\$ 7,975,095
CASH AND CASH EQUIVALENTS, Beginning	18,269,655	10,294,560
CASH AND CASH EQUIVALENTS, Ending	\$ 16,615,694	\$ 18,269,655
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 291,259,311	\$ 288,120,384
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	451,777	465,348
Loss on disposal of assets	-	826
Bad debt expense	100,400	80,551
Changes in operating assets and liabilities:		
Accounts receivable	(1,176,667)	6,809,013
Due from Multi-State Lottery Association	(261,356)	201,995
Accounts payable and accrued expenses	(7,197,573)	2,782,661
Ticket Inventory	664,980	(277,333)
Prepaid expenses	(43,866)	22,940
Prize reserves	(25,953)	105,526
Advances to high-tier claim centers	-	(50,000)
Prizes payable	6,623,108	(2,146,631)
Due to Multi-State Lottery Association	(643,890)	643,889
Deferred revenue	209,931	(223,236)
Deferred rent liability	76,579	76,578
Deferred retiree salaries and benefits payable	(83)	(20,572)
<i>Net cash provided by operating activities</i>	<i>\$ 290,036,698</i>	<i>\$ 296,591,939</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

Effective July 1, 2010 the Lottery changed its capitalization threshold for the purchase of equipment and leasehold improvements from \$500 to \$5,000.

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, 2011, 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 1,000.

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, with the exception of the CT Super Draw game. Revenue for CT Super Draw is recognized as tickets are sold by the retail agents.

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. Nonoperating 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 with the exception of the CT Super Draw game. Prize expense for CT Super Draw is recognized based upon the actual relationship of the predetermined prize structure to the number of tickets sold in order to properly match revenues and expenses. 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 7).

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, 2011 and 2010, the prize expense amounted to 61.0% and 61.1% of Lottery sales, respectively.

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

CONNECTICUT LOTTERY CORPORATION
Notes to Financial Statements, June 30, 2011 and 2010

NOTE 1 — OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Retailer Commissions— Commissions are generally computed as 5% of the value of ticket sales plus 1% of the prize value of the 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, if any, 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.

NOTE 2 — CASH, CASH EQUIVALENTS AND CREDIT RISK

Cash and cash equivalents are as follows:

	June 30	
	2011	2010
Cash in bank	\$ 1,003,188	\$ 5,165,067
Cash in transit	24,664	19,775
STIF	14,484,022	12,151,636
STIF (Retailer-security deposits)	1,098,320	927,677
Petty Cash	5,500	5,500
Total cash and cash equivalents	\$ 16,615,694	\$ 18,269,655

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

CONNECTICUT LOTTERY CORPORATION
Notes to Financial Statements, June 30, 2011 and 2010

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, 2011 and 2010, the carrying amounts of the Lottery's deposits were \$1,003,188 and \$5,165,067, respectively. The bank balances at June 30, 2011 and 2010 were \$2,799,731 and \$6,227,104, respectively, of which \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC). The balances of these funds, \$2,549,731 and \$5,977,104, 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, 2011 and 2010, the Lottery also had uninsured and uncollateralized investments of \$15,582,342 and \$13,079,313, respectively, in the STIF. 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 32 days. The Lottery's stated policy is to invest in highly liquid, short-term assets.

NOTE 3 — INVESTMENTS AND CREDIT RISK

Investments — The Lottery had the following investments as of:

	June 30, 2011	
	Carrying Amount	Fair Value
Annuity contracts (at present value, discounted at approximately 6.3%)	\$ 160,981,610	\$ 160,981,610
	June 30, 2010	
	Carrying Amount	Fair Value
Annuity contracts (at present value, discounted at approximately 6.6%)	\$ 179,569,155	\$ 179,569,155

CONNECTICUT LOTTERY CORPORATION
Notes to Financial Statements, June 30, 2011 and 2010

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

Institution	June 30	
	2011	2010
Ohio National Life Insurance	\$ 43,835,728	\$ 34,218,930
John Hancock Mutual Life Insurance	\$ 30,648,522	\$ 37,353,116
New York Life Insurance	26,438,547	30,139,675
Metropolitan Life	17,983,053	18,243,745
Protective Life Insurance	11,027,268	15,913,978
Prudential Life Insurance Company	9,282,742	12,880,311
Canada Life Assurance Company	9,274,826	11,969,468

As of June 30, 2011, 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, 2011 and 2010

NOTE 4 — CAPITAL ASSETS

A summary of capital assets is presented below:

	Leasehold Improvements	Computer Equipment	Furniture and Equipment	Total
Asset Cost				
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
Capital Additions	15,254	245,722	54,864	315,840
Disposals	–	(147,434)	(59,560)	(206,994)
Balance, June 30, 2011	\$ 1,003,573	\$ 1,485,915	\$ 2,939,448	\$ 5,428,936
Accumulated Depreciation				
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)
Depreciation	(98,962)	(155,919)	(196,896)	(451,777)
Disposals	–	147,434	59,560	206,994
Balance, June 30, 2011	(310,399)	(1,018,730)	(1,568,834)	(2,897,963)
Net Book Value	\$ 693,174	\$ 467,185	\$ 1,370,614	\$ 2,530,973

CONNECTICUT LOTTERY CORPORATION
Notes to Financial Statements, June 30, 2011 and 2010

NOTE 5 — 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 2011	\$ 180,513,116	\$ 11,026,541	\$ 29,841,930	\$ 161,697,727	\$ 26,888,185
Activity for Fiscal 2010	\$ 203,392,078	\$ 10,657,909	\$ 33,536,871	\$ 180,513,116	\$ 31,190,204

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

Fiscal Years Ending June 30	Principal	Interest
2012	\$ 26,888,185	\$ 10,209,707
2013	20,852,415	8,525,572
2014	16,909,362	7,049,823
2015	12,017,443	5,852,783
2016	8,982,163	5,020,274
2017 - 2021	22,468,086	18,551,979
2022 - 2026	11,711,661	13,359,380
2027 - 2031	8,283,059	10,546,274
2032 - 2036	7,580,895	8,315,105
2037 - 2041	7,724,783	6,136,217
After 2041	18,279,675	10,236,335
	<u>\$ 161,697,727</u>	<u>\$ 103,803,449</u>

This debt represents periodic payments owed to lottery top prize winners and is fully funded by investments in annuity contracts. Amounts due after 2031 represent estimates of long-term liabilities related to prizes payable over the recipients' natural lives.

As noted in Note 3 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, 2011 and 2010

NOTE 6 — 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, 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
Change in net assets before payments to State Funds	—	—	291,297,131	291,297,131
Payments to State's General Fund	—	—	(289,300,000)	(289,300,000)
Payments to the Chronic Gamblers' Fund	—	—	(1,900,000)	(1,900,000)
Transferred from Restricted Net Assets to fund increased prizes	(1,213,138)	—	1,213,138	—
Purchases of capital assets net of disposals	—	315,840	(315,840)	—
Depreciation	—	(451,777)	451,777	—
Unclaimed prizes transferred to Restricted Net Assets	10,660,754	—	(10,660,754)	—
Transferred from Restricted Net Assets for promotional purposes	(4,055)	—	4,055	—
Transferred to Unrestricted Net Assets	(9,346,430)	—	9,346,430	—
Net Assets, June 30, 2011	\$ 7,514,282	\$ 2,530,973	\$ (2,530,973)	\$ 7,514,282

NOTE 7 — 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, 2011 or 2010.

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, 2011 and 2010 amounted to \$4,767,674 and \$4,741,721, respectively. Investment income earned was \$4,037 and \$30,530, for the years ended June 30, 2011 and 2010, respectively. Balances due from MUSL at June 30, 2011 amounted to \$261,356 and balances due to MUSL at June 30, 2010 amounted to \$643,890.

NOTE 8 — 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, 2011, 2010, and 2009 was \$8,897,944, \$8,220,109 and \$8,775,075, respectively.

Contributions Made — The Lottery's contribution is determined by applying a State mandated percentage to eligible salaries and wages. This rate was 41.49 percent, 39.79 percent and 34.39 percent, during fiscal years 2011, 2010, and 2009, respectively. The contributions made compared to covered payroll follows:

	Years ended June 30		
	2011	2010	2009
Contributions made:			
By employees	\$ 121,559	\$ 103,431	\$ 110,493
Percent of current year covered payroll	1.37%	1.26%	1.26%
By the Lottery	\$ 3,692,084	\$ 3,270,910	\$ 3,018,072
Percent of current year covered payroll	41.49%	39.79%	34.39%

NOTE 9 — 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, 40 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 as of June 30, 2011 and 2010 were \$239,110 and \$239,193, respectively and will be paid by the Lottery 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 10— 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 2016. A new equipment lease agreement was entered into during fiscal 2011 with payments of approximately \$76,000 and a term of 36 months. All equipment lease obligations are payable in monthly installments.

CONNECTICUT LOTTERY CORPORATION
Notes to Financial Statements, June 30, 2011 and 2010

NOTE 10 — LEASE COMMITMENTS (continued)

Total rent expense for facilities and equipment was \$1,745,475 and \$1,058,958 for the fiscal years ended June 30, 2011 and 2010, respectively.

Future payments for the aforementioned leases are summarized as follows:

Fiscal Years Ending June 30	Amount
2012	\$ 1,896,427
2013	1,823,471
2014	1,246,490
2015	1,017,583
2016	1,000,177
Thereafter	7,191,875
	<u>\$ 14,176,023</u>

NOTE 11 — 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, 2011, 2010 and 2009, there were no claims or settlements that have exceeded insurance coverage.

NOTE 12 — 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, 2011

PROFIT CONTRIBUTIONS (\$000's)

	Scratch	Play3 Night	Play4 Night	Play3 Day	Play4 Day
NET SALES	\$ 610,568	\$ 76,863	\$ 62,766	\$ 48,086	\$ 37,666
DIRECT COSTS					
Gross prize expense	421,213	42,552	30,142	24,218	20,630
Unclaimed prize credit	(5,703)	(715)	(734)	(306)	(283)
Use of unclaimed prize reserve	3	1	–	–	–
<i>Net prize expense</i>	415,513	41,838	29,408	23,912	20,347
Retailer commissions	35,051	4,273	3,376	2,654	2,049
On-line systems	5,585	701	573	438	349
Marketing, advertising and promotion	7,203	162	130	100	78
Production expenses	5,740	71	71	71	71
<i>Total direct costs</i>	469,092	47,045	35,558	27,175	22,894
GROSS PROFIT	\$ 141,476	\$ 29,818	\$ 29,208	\$ 20,911	\$ 14,772

PROFIT MARGIN (% OF NET SALES)

NET SALES	100.0%	100.0%	100.0%	100.0%	100.0%
DIRECT COSTS					
Gross prize expense	69.0%	55.4%	48.0%	50.4%	54.8%
Unclaimed prize credit	(0.9%)	(0.9%)	(1.2%)	(0.6%)	(0.8%)
Use of unclaimed prize reserve	0.0%	0.0%	0.0%	0.0%	0.0%
<i>Net prize expense</i>	68.1%	54.4%	46.9%	49.7%	54.0%
Retailer commissions	5.7%	5.6%	5.4%	5.5%	5.4%
On-line systems	0.9%	0.9%	0.9%	0.9%	0.9%
Marketing, advertising and promotion	1.2%	0.2%	0.2%	0.2%	0.2%
Production expenses	0.9%	0.1%	0.1%	0.1%	0.2%
<i>Total direct costs</i>	76.8%	61.2%	53.5%	56.5%	60.8%
GROSS PROFIT	23.2%	38.8%	46.5%	43.5%	39.2%

Classic Lotto	Cash5	Powerball	Mega Millions	Lucky-4-Life	CT Super Draw	Total
\$ 24,341	\$ 34,243	\$ 60,280	\$ 33,185	\$ 23,815	\$ 4,801	\$ 1,016,614
12,874	19,334	30,151	17,024	9,003	2,436	629,577
(327)	(540)	(1,230)	(335)	(487)	–	(10,660)
1,213	–	–	–	–	–	1,217
13,760	18,794	28,921	16,689	8,516	2,436	620,134
1,309	1,897	3,137	1,716	1,248	254	59,964
226	307	547	305	217	42	9,290
80	73	668	801	300	1,017	10,612
29	71	34	36	33	–	6,227
15,404	21,142	33,307	19,547	10,314	3,749	703,227
\$ 8,937	\$ 13,101	\$ 26,973	\$ 13,638	\$ 13,501	\$ 1,052	\$ 313,387
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
52.9%	56.5%	50.0%	51.3%	37.8%	50.7%	61.9%
(1.3%)	(1.6%)	(2.0%)	(1.0%)	(2.0%)	0.0%	(1.0%)
5.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
56.5%	54.9%	48.0%	50.3%	35.8%	50.7%	61.0%
5.4%	5.5%	5.2%	5.2%	5.2%	5.3%	5.6%
0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
0.3%	0.2%	1.1%	2.4%	1.3%	21.2%	1.0%
0.1%	0.2%	0.1%	0.1%	0.1%	0.0%	0.6%
63.3%	61.7%	55.3%	58.9%	43.3%	78.1%	69.2%
36.7%	38.3%	44.7%	41.1%	56.7%	21.9%	30.8%

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)

	100.0%	100.0%	100.0%	100.0%
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%



STATISTICAL SECTION

CONNECTICUT LOTTERY CORPORATION
Schedule of Revenues, Expenses and Changes in Net Assets
Actual vs. Budget (\$000's), Year Ended June 30, 2011

	Actual	Budget	Over/(Under) Budget	% Change
OPERATING REVENUE	\$ 1,019,924	\$ 1,005,000	\$ 14,924	1.5%
Less sales returns, cancellations and promotion	(3,310)	–	(3,310)	
<i>Total operating revenue</i>	1,016,614	1,005,000	11,614	1.2%
COST OF SALES AND OPERATING EXPENSES				
COST OF SALES				
Prize expense	620,134	611,775	8,359	1.4%
Retailer commissions	56,964	56,641	323	0.6%
On-line systems	9,290	9,420	(130)	(1.4%)
Marketing, advertising and promotion	10,612	10,782	(170)	(1.6%)
Production expenses	6,227	6,696	(469)	(7.0%)
<i>Total cost of sales</i>	703,227	695,314	7,913	1.1%
OPERATING EXPENSES				
Salaries and benefits	15,355	15,900	(545)	(3.4%)
Other operating expenses	3,426	3,267	159	4.9%
Depreciation and amortization	452	526	(74)	(14.1%)
Bad debt expense	100	150	(50)	(33.3%)
Office of Policy & Management, regulatory purposes	2,873	3,000	(127)	(4.2%)
<i>Total operating expenses</i>	22,206	22,843	(637)	(2.8%)
OTHER OPERATING REVENUE	78	121	(43)	(35.5%)
<i>Operating income</i>	291,259	286,964	4,295	1.5%
NONOPERATING REVENUES (EXPENSES)				
Interest income from investments on annuities	11,064	–	11,064	
Interest income	33	159	(126)	(79.2%)
Interest expense on annuity payments	(11,064)	–	(11,064)	
Annuity assignment	5	3	2	66.7%
<i>Total nonoperating revenues</i>	38	162	(124)	(76.5%)
CHANGE IN NET ASSETS AVAILABLE				
BEFORE PAYMENTS TO STATE FUNDS	291,297	287,126	4,171	1.5%
Payments to State's General Fund	289,300	285,226	4,074	1.4%
Payments to Chronic Gamblers' Fund	1,900	1,900	–	
<i>Change in net assets</i>	\$ 97	\$ –	\$ 97	N/A

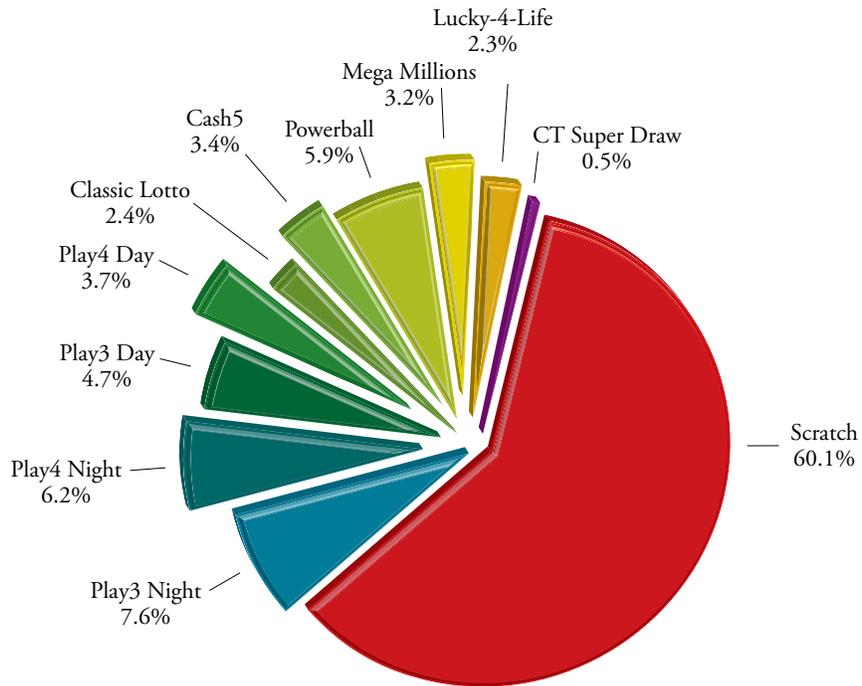
CONNECTICUT LOTTERY CORPORATION
Schedule of Revenues, Expenses and Changes in Net Assets
by Game Type (\$000's), Year Ended June 30, 2011

	Scratch	Play3 Night	Play4 Night	Play3 Day
OPERATING REVENUE	\$ 610,571	\$ 78,032	\$ 63,673	\$ 48,747
Less sales returns, cancellations and promotion	(3)	(1,169)	(907)	(661)
<i>Total operating revenue</i>	610,568	76,863	62,766	48,086
COST OF SALES AND OPERATING EXPENSES				
COST OF SALES				
Prize expense	415,513	41,838	29,408	23,912
Retailer commissions	35,051	4,273	3,376	2,654
On-line systems	5,585	701	573	438
Marketing, advertising and promotion	7,203	162	130	100
Production expenses	5,740	71	71	71
<i>Total cost of sales</i>	469,092	47,045	33,558	27,175
OPERATING EXPENSES				
Salaries and benefits	8,614	538	653	537
Other operating expenses	1,873	119	144	119
Depreciation and amortization	254	16	19	16
Bad debt expense	60	8	6	5
Office of Policy & Management, regulatory purposes	1,717	215	175	136
<i>Total operating expenses</i>	12,518	896	997	813
OTHER OPERATING REVENUE	47	6	5	4
<i>Operating income</i>	129,005	28,928	28,216	20,102
NONOPERATING REVENUES (EXPENSES)				
Interest income from investments on annuities	4,453	–	–	–
Interest income	17	2	2	1
Interest expense on annuity payments	(4,453)	–	–	–
Annuity assignment	1	–	–	–
<i>Total nonoperating revenues</i>	18	2	2	1
CHANGE IN NET ASSETS AVAILABLE				
BEFORE PAYMENTS TO STATE FUNDS	129,023	28,930	28,218	20,103
Payments to State's General Fund	127,819	28,771	28,086	20,003
Payments to Chronic Gamblers' Fund	1,138	144	118	90
<i>Change in net assets</i>	\$ 66	\$ 15	\$ 14	\$ 10

Play4 Day	Classic Lotto	Cash5	Powerball	Mega Millions	Lucky-4-Life	CT Super Draw	Total
\$ 38,155	\$ 24,361	\$ 34,268	\$ 60,301	\$ 33,192	\$ 23,823	\$ 4,801	\$ 1,019,924
(489)	(20)	(25)	(21)	(7)	(8)	–	(3,310)
37,666	24,341	34,243	60,280	33,185	23,815	4,801	1,016,614
20,347	13,760	18,794	28,921	16,689	8,516	2,436	620,134
2,049	1,309	1,897	3,137	1,716	1,248	254	56,964
349	226	307	547	305	217	42	9,290
78	80	73	668	801	300	1,017	10,612
71	29	71	34	36	33	–	6,227
22,894	15,404	21,142	33,307	19,547	10,314	3,749	703,227
653	806	730	998	998	806	22	15,355
143	175	159	297	215	174	8	3,426
19	24	21	29	29	24	1	452
4	2	3	5	4	2	1	100
106	68	94	162	113	67	20	2,873
925	1,075	1,007	1,491	1,359	1,073	52	22,206
3	2	3	4	2	2	–	78
13,850	7,864	12,097	25,486	12,281	12,430	1,000	291,259
–	6,206	–	–	–	405	–	11,064
1	1	1	6	1	1	–	33
–	(6,206)	–	–	–	(405)	–	(11,064)
–	2	–	1	–	1	–	5
1	3	1	7	1	2	–	38
13,851	7,867	12,098	25,493	12,282	12,432	1,000	291,297
13,774	7,816	12,025	25,366	12,213	12,382	1,045	289,300
70	46	66	114	63	44	7	1,900
\$ 7	\$ 5	\$ 7	\$ 13	\$ 6	\$ 6	\$ (52)	\$ 97

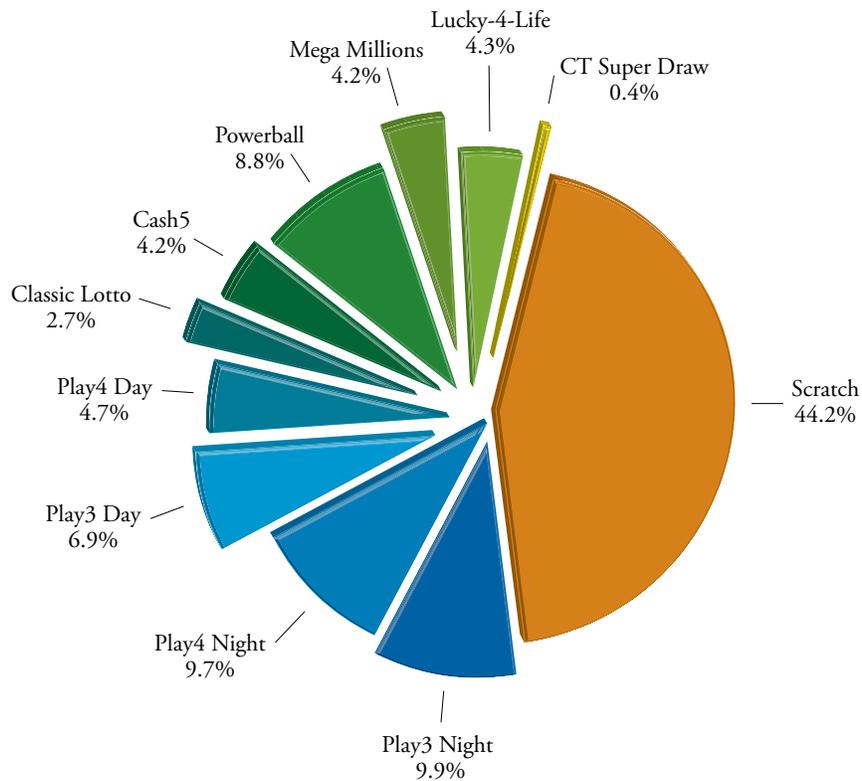
REVENUE BY GAME

Fiscal Year 2011 Total Sales: \$1,016,614,013

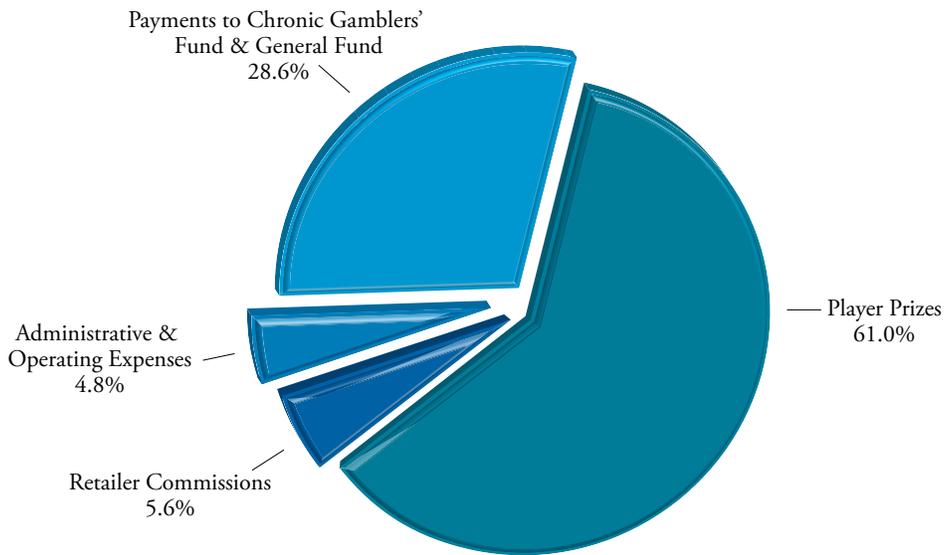


GENERAL FUND PAYMENTS BY GAME

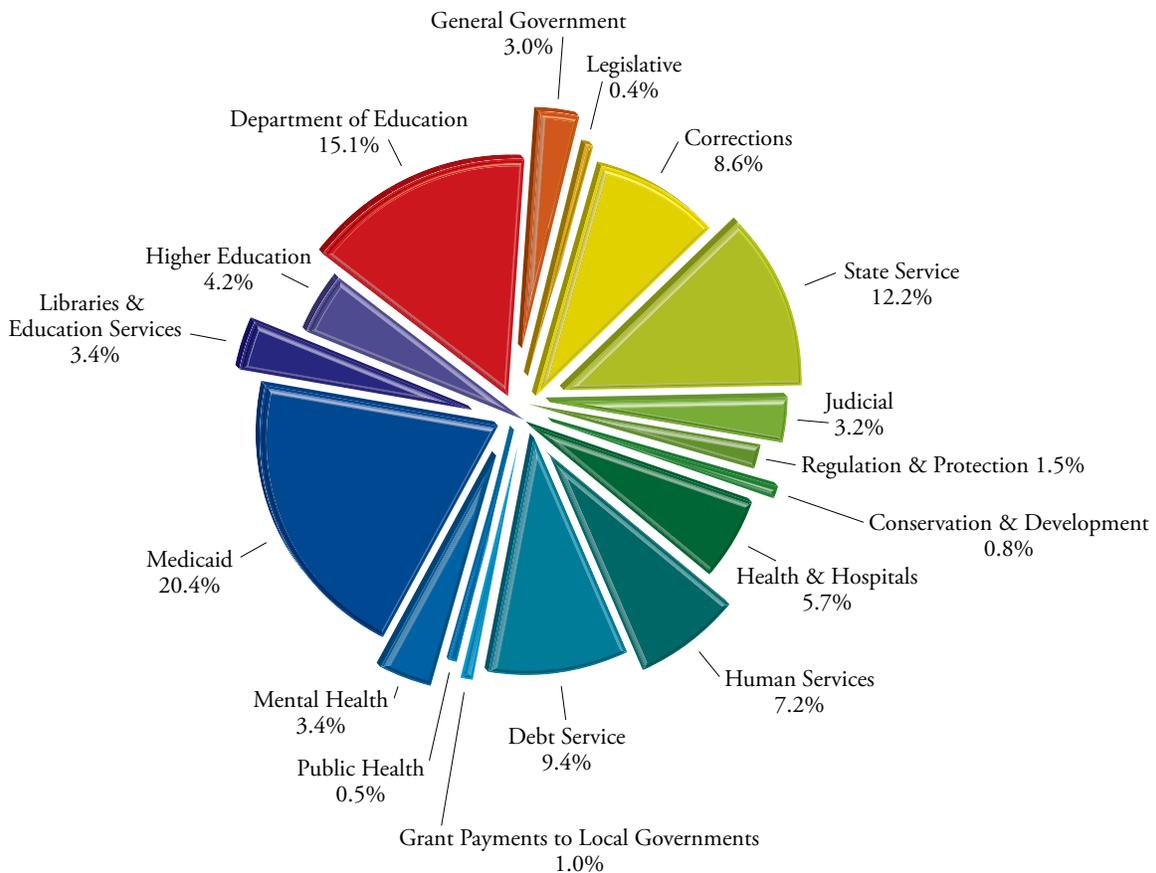
Fiscal Year 2011 Total Payments: \$289,300,000



DISTRIBUTION OF EXPENSES AND PAYMENTS AS A PERCENTAGE OF TOTAL REVENUE
Fiscal Year 2011 Total Sales: \$1,016,614,013

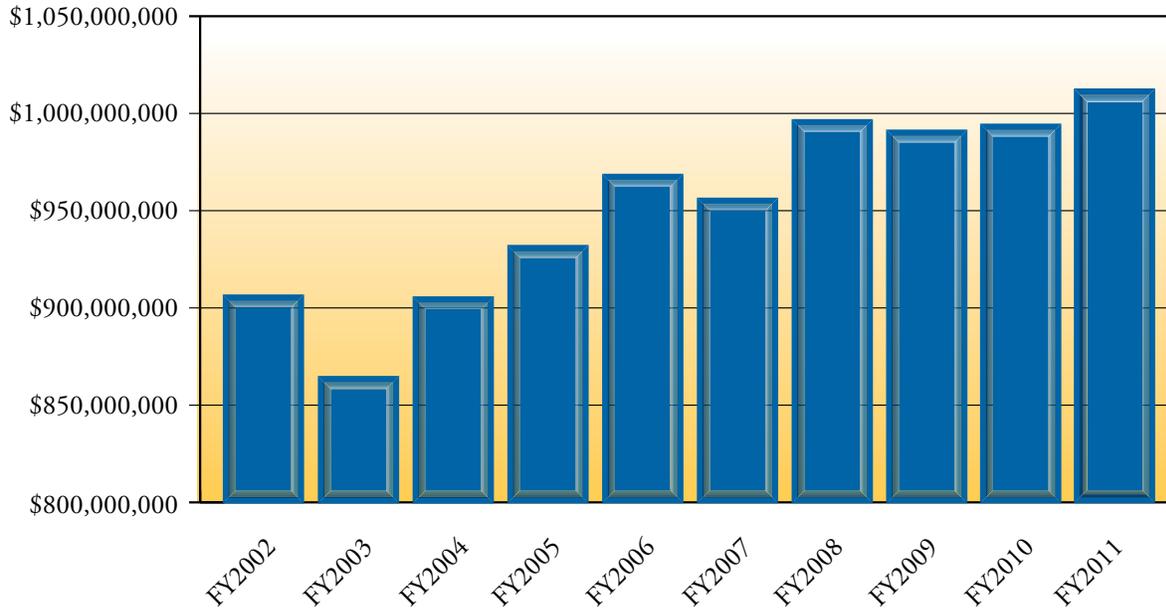


STATE SERVICES SUPPORTED BY LOTTERY PAYMENTS TO THE GENERAL FUND
Fiscal Year 2011 Payments to the General Fund: \$289,300,000

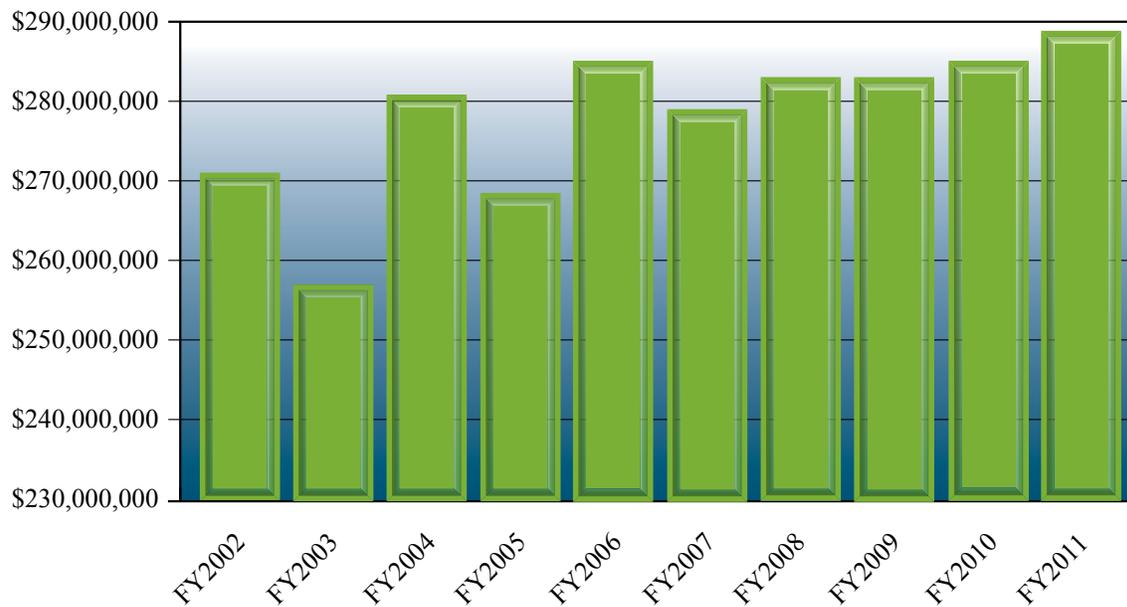


Based on Fiscal Year 2011 General Fund Percentages Appropriated by the Legislature. Source: Connecticut State Budget 2009-2011.

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

	2002	2003	2004	2005
Operating Revenue				
Scratch	\$ 533,068	\$ 522,396	\$ 551,885	\$ 592,266
Numbers ⁽¹⁾	179,608	181,810	178,304	184,713
Lotto	54,078	36,676	34,200	35,614
Cash5	42,050	41,154	41,281	40,781
Powerball	88,926	74,956	95,857	79,560
Mega Millions	–	–	–	–
Lucky-4-Life	–	–	–	–
CT Super Draw	–	–	–	–
Instant Powerball	10,173	8,297	6,129	–
Total Operating Revenue	907,903	865,289	907,656	932,934
Prizes	546,095	523,900	538,331	573,000
Retailer commissions	51,684	48,360	50,499	51,691
On-line systems	10,997	10,609	11,207	11,401
Other cost of sales	12,286	12,103	11,807	12,226
Total cost of sales	621,062	594,972	611,844	648,318
PAYMENTS TO STATE'S GENERAL FUND	\$ 271,510	\$ 256,815	\$ 280,763	\$ 268,515

Notes:

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

2006	2007	2008	2009	2010	2011
\$ 587,559	\$ 594,930	\$ 618,970	\$ 610,013	\$ 593,374	\$ 610,568
187,223	197,587	207,618	206,343	211,317	225,381
32,261	30,386	32,201	32,942	29,904	24,341
41,351	41,371	41,159	40,420	35,041	34,243
121,933	92,752	98,200	92,134	85,282	60,280
–	–	–	–	11,231	33,185
–	–	–	9,451	30,698	23,815
–	–	–	–	–	4,801
–	–	–	–	–	–
970,327	957,026	998,148	991,303	996,847	1,016,614
587,388	579,854	608,218	604,712	608,755	620,134
54,051	53,597	55,950	55,771	55,885	56,964
12,248	12,189	11,584	9,096	8,825	9,290
13,965	13,633	16,530	15,837	14,878	16,839
667,652	659,273	692,282	685,416	688,343	703,227
\$ 284,865	\$ 279,000	\$ 283,000	\$ 283,000	\$ 285,500	\$ 289,300

CONNECTICUT LOTTERY CORPORATION

Comparative Industry Statistics

Based upon data published in La Fleur's 2011 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 2010, 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	\$ 4,412.1	\$ 665.47
2 D.C.	0.6	\$ 230.2	\$ 377.31
3 New York	19.6	\$ 6,781.1	\$ 346.33
4 Georgia	9.9	\$ 3,387.4	\$ 341.82
5 New Jersey	8.7	\$ 2,605.1	\$ 298.41
6 Maryland	5.7	\$ 1,706.6	\$ 297.31
7 Connecticut	3.5	\$ 996.9	\$ 282.39
8 Pennsylvania	12.6	\$ 3,065.7	\$ 242.73
9 Michigan	9.9	\$ 2,359.2	\$ 237.59
10 Rhode Island	1.1	\$ 234.6	\$ 221.34

B. NET INCOME PER CAPITA:

State/District	Population (Millions)	Net Income (Millions \$)	Net Income Per Capita (Dollars)
1 Massachusetts	6.6	\$ 903.5	\$ 136.27
2 D.C.	0.6	\$ 66.8	\$ 109.49
3 New Jersey	8.7	\$ 925.7	\$ 106.03
4 New York	19.6	\$ 2,056.0	\$ 105.01
5 Georgia	9.9	\$ 893.9	\$ 90.20
6 Maryland	5.7	\$ 505.2	\$ 88.01
7 Connecticut	3.5	\$ 288.1	\$ 81.62
8 Pennsylvania	12.6	\$ 915.7	\$ 72.51
9 Michigan	9.9	\$ 671.3	\$ 67.60
10 Florida	18.7	\$ 1,258.7	\$ 67.38

C. OPERATING EXPENSES AS PERCENTAGE OF SALES

State/District	Ticket Sales (Millions \$)	Operating Expenses ⁽¹⁾ (Millions \$)	Expense %
1 Massachusetts	\$ 4,412.1	\$ 86.2	2.0%
2 New Jersey	\$ 2,605.1	\$ 66.4	2.5%
3 Florida	\$ 3,900.5	\$ 129.8	3.3%
4 Maryland	\$ 1,706.6	\$ 58.0	3.4%
5 New York	\$ 6,781.1	\$ 252.6	3.7%
6 Missouri	\$ 971.9	\$ 36.9	3.8%
7 South Carolina	\$ 1,007.2	\$ 39.0	3.9%
8 Pennsylvania	\$ 3,065.7	\$ 123.6	4.0%
9 Rhode Island	\$ 234.6	\$ 9.6	4.1%
10 Georgia	\$ 3,387.4	\$ 140.4	4.1%
11 North Carolina	\$ 1,421.3	\$ 59.3	4.2%
12 Ohio	\$ 2,490.2	\$ 109.4	4.4%
13 Connecticut	\$ 996.9	\$ 44.3	4.4%
14 Michigan	\$ 2,359.2	\$ 105.9	4.5%
15 Tennessee	\$ 1,060.1	\$ 49.8	4.7%

⁽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, 2011, and have issued our report thereon dated September 9, 2011. 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.

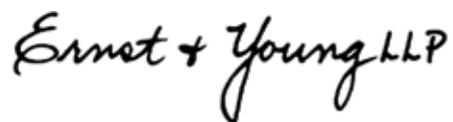
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be

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 is written in a black, cursive script. The letters are fluid and connected, with a prominent 'E' and 'Y'.

September 8, 2011



Connecticut Lottery Corporation
2011 Annual Report

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The 2011 Annual Report is available at:
CTLOTTERY.ORG
