



**GAMBLING  
ISN'T CHILD'S  
PLAY.**

Billions to benefit Connecticut since 1972.



# 2008 ANNUAL REPORT

**Connecticut Lottery Corporation**

(A Component Unit of the State of Connecticut)

Fiscal Year Ended June 30, 2008

# 2008 ANNUAL REPORT

Fiscal Year Ended June 30, 2008



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

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**CONNECTICUT LOTTERY CORPORATION  
2008 ANNUAL REPORT**

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## MISSION STATEMENT

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

## VISION STATEMENT

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





# INTRODUCTORY SECTION

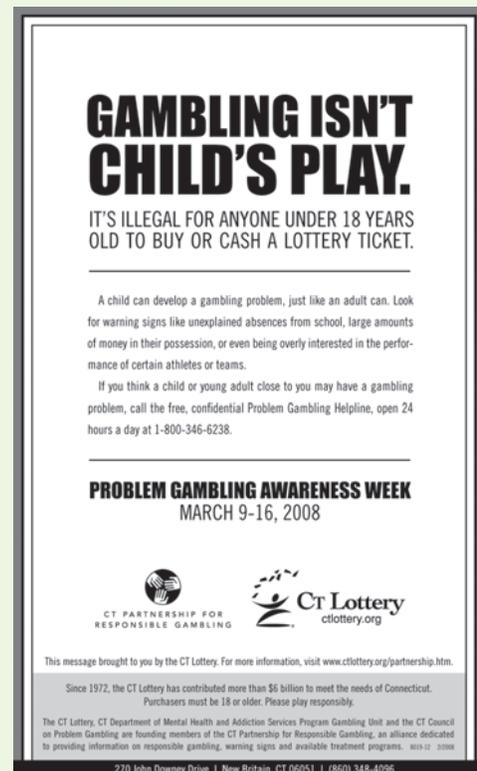
## CONNECTICUT LOTTERY CORPORATION

### Raising Revenue with Social Responsibility

The Connecticut Lottery Corporation recognizes its obligation to our citizens to operate with responsibility and integrity. Diligent in our effort to promote responsible gaming, the Lottery consistently and proactively establishes and sustains programs and resources to help those negatively affected by gambling problems.

The Lottery's commitment to responsible play is groundbreaking and genuine, as evidenced by the funding and programming ingenuity dedicated to this mission. In fiscal 2008, the Lottery supported numerous social responsibility efforts to raise awareness of gambling issues and to promote the services for help offered by the Department of Mental Health and Addiction Services (DMHAS) via the Problem Gambling Helpline, including:

- Two 30-second television public service announcements (English, Spanish, closed caption)
- Two 30-second radio public service announcements
- Multi-faceted campaign to prevent underage gambling; newsprint ads, mobile billboards, signage, videos on lottery terminals, information on Lottery web site.
- Sponsorship of "National Problem Gambling Awareness Week" program held at the Legislative Office Building, March 2008
- Mandatory training and video education for all Lottery retailers, "Response-Able Business Practices for Retailers"
- Sponsorship for various events: CT Council on Problem Gambling Annual Conference, DMHAS Annual Legislative Breakfast, Los Areyto Festival, DMHAS Bettor Choice Outing



**GAMBLING ISN'T CHILD'S PLAY.**  
IT'S ILLEGAL FOR ANYONE UNDER 18 YEARS OLD TO BUY OR CASH A LOTTERY TICKET.

A child can develop a gambling problem, just like an adult can. Look for warning signs like unexplained absences from school, large amounts of money in their possession, or even being overly interested in the performance of certain athletes or teams.

If you think a child or young adult close to you may have a gambling problem, call the free, confidential Problem Gambling Helpline, open 24 hours a day at 1-800-346-6238.

**PROBLEM GAMBLING AWARENESS WEEK**  
MARCH 9-16, 2008

This message brought to you by the CT Lottery. For more information, visit [www.ctlottery.org/partnership.htm](http://www.ctlottery.org/partnership.htm).  
Since 1972, the CT Lottery has contributed more than \$6 billion to meet the needs of Connecticut. Purchasers must be 18 or older. Please play responsibly.  
The CT Lottery, CT Department of Mental Health and Addiction Services Program Gambling Unit and the CT Council on Problem Gambling are founding members of the CT Partnership for Responsible Gambling, an alliance dedicated to providing information on responsible gambling, warning signs and available treatment programs. 0019 12 2008  
270 John Downey Drive | New Britain, CT 06051 | (860) 348-4096

*Print Ad*

*Outdoor Banner*



**GAMBLING ISN'T CHILD'S PLAY.**



**IT'S ILLEGAL FOR ANYONE UNDER 18 YEARS OLD TO BUY OR CASH A LOTTERY TICKET.**

**Problem Gambling Awareness Week  
March 9-16, 2008**

Purchasers must be 18 or older. Please play responsibly. 24-Hour Confidential Problem Gambling Help!

This message brought to you by the CT Lottery.  
For more information, visit  
[www.ctlottery.org/partnership.htm](http://www.ctlottery.org/partnership.htm)



*Poster*



*National Problem Gambling Awareness Week Press Conference,  
held at the Legislative Office Building  
Pictured: Senator Andrea Stillman, Representative Stephen Dargan*



*"Big Game" TV Public Service Announcement*



*"Family Dinner" TV Public Service Announcement*

*Customer Display Unit  
Responsible Play Message*

**If you or someone you care about needs help, call 24 hours for free confidential information.**

**PROBLEM GAMBLING HELPLINE**  
**1-800-346-6238 (1-800-34-NO BET)**

A message from the CT Lottery on behalf of the CT Partnership for Responsible Gambling.







December 29, 2008

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

We are pleased to transmit to you the Annual Report of the Connecticut Lottery Corporation (CLC or Lottery) for the fiscal year ended June 30, 2008. 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 letter of transmittal, state officers, CLC Directors, 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 2008, the comparative financial statements of the CLC, the related notes to the financial statements and supplementary schedules. The statistical section, which is unaudited, provides additional information concerning the Lottery's sales and expenses. The compliance section contains the independent auditors report on internal control over financial reporting and on compliance with Connecticut General Statutes.

Accounting principles generally accepted in the United States (GAAP) for governmental enterprise funds require that we provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Connecticut Lottery Corporation's MD&A can be found immediately following the report of the independent auditors in the financial section.

## **PROFILE OF THE CONNECTICUT LOTTERY CORPORATION**

### **Historical Overview of the Lottery Industry and Connecticut's Lottery**

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

In 1971, the Connecticut Legislature created the Commission on Special Revenue (later changed to the Division of Special Revenue) to operate the lottery and regulate pari-mutuel wagering. On February 15, 1972, tickets for the

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

Other noteworthy developments in our Lottery's history include:

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

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

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

The passage of Public Act 96-212 marked the first time a lottery operated by a state agency had been transferred to a quasi-public corporation to be operated as an enterprise fund. With more than 36 years of continuous operation, Connecticut's Lottery is one of the oldest lotteries in the United States. From its inception to June 30, 2008, the Lottery has generated total sales of approximately \$18.4 billion and has paid approximately \$6.4 billion to the state's General Fund. The General Fund is used to fund a wide variety of state services that benefit Connecticut residents including health and hospitals, education, road maintenance and public safety.

## HIGHLIGHTS OF THE PAST YEAR

The CLC operates one of the most successful lotteries in the United States. Fiscal 2008 included outstanding financial results with record sales of \$998.1 million, an increase of \$41.1 million from the sales of fiscal 2007. Payments to the state's General Fund totaled \$283.0 million, \$4.0 million higher than the prior fiscal year, and the second highest level ever achieved. (For a more complete overview of the financial highlights of fiscal 2008, including comparisons with the results of the prior fiscal year, please read Management's Discussion and Analysis included in the financial section of this report.) The total sales increase was caused by an increase of \$24.0 million in Scratch game sales, an increase of \$9.8 million in other draw games, and an increase of \$5.4 million in Powerball game sales. Other draw game sales include the daily games (Play3 Day, Play4 Day, Play3 Night, and Play4 Night) and Cash5. Play3 Day and Play4 Day games were extended from five drawings per week to seven drawings per week during fiscal 2008, contributing to the increase in this category of game sales.

A number of other significant events occurred during the year ended June 30, 2008 that may not be apparent from the financial results noted above. Some of these are highlighted below:

- The Connecticut Lottery Corporation moved its headquarters from New Britain to Rocky Hill, leasing over 92,000 sq. ft. combining headquarter and warehouse operations.
- In May 2008, the Connecticut Lottery Corporation successfully converted its central gaming system to a new generation of gaming technology. The new technology brought updated computer terminals to all of our retailer locations along with a satellite communications system.
- The Connecticut Lottery Corporation remained a national leader in promoting Responsible Play. The Connecticut Lottery Corporation continued its involvement in the Connecticut Partnership for Responsible Gambling, the Connecticut Committee for Problem Gambling and the Connecticut Women's Project for Problem Gambling.
- The Board of Directors appointed Anne M. Noble as President and Chief Executive Officer and Paul Sternburg as Vice President, Marketing & Sales, returning the senior management team to its full complement.

## **FUTURE PROJECTS**

The Connecticut Lottery Corporation in fiscal 2009 will continue growth and expansion to fulfill its mission to contribute to the state's General Fund.

- In January 2009, Powerball, the Lottery's multi-state jackpot game will change to offer players higher jackpots and higher payouts. The game matrix will be amended to allow for the addition of Florida as the 32nd lottery participating in this multi-jurisdictional game.
- The Classic Lotto game will celebrate its 25th anniversary during the next fiscal period. The Connecticut Lottery Corporation will highlight this game, which has been a brand name for the Lottery for the last quarter century. TV and radio commercials will feature the anniversary of the game and retailers will participate in an incentive program to invigorate sales of Classic Lotto.
- Throughout Connecticut, the Lottery will continue to develop and launch a variety of new products, including both the latest in instant scratch games as well as a new draw game. Expanded distribution networks and technologies are also being examined to boost sales.
- The Connecticut Lottery Corporation's commitment to research and advertising will be matched by the Lottery's commitment to Responsible Play. New public service announcements will be produced and added to our existing inventory of TV, radio and print pieces to increase awareness of the importance of playing responsibly and to educate our patrons about problem gambling programs.

## **FINANCIAL OPERATIONS**

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

**INTERNAL CONTROL ENVIRONMENT:** Management of the CLC is responsible for establishing and maintaining an internal control structure designed to assure that assets are protected from loss, theft, or misuse,

and to ensure that the accounting system allows for compilation of accurate and timely information. The structure is designed to provide reasonable assurance that these objectives are met.

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

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

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

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

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

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

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

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

**INDEPENDENT AUDIT:** Connecticut statutes require an annual audit of the CLC by independent auditors. The audits of the CLC’s financial statements for fiscal years 2007 and 2008 have been completed in conformity with generally accepted auditing standards. The unqualified opinion of the independent auditors on the CLC financial statements is included in the financial section of this report.

## ECONOMIC CONDITIONS

The national economy entered one of the most dramatic downturns of the last century during fiscal 2008. Significant losses in the financial markets caused by defaults on sub-prime mortgage instruments spread to all sectors of the economy causing government intervention on a global scale. Higher energy costs and a slumping housing market preceded the tighter credit conditions and contributed to an economy that has fallen into severe recession.

Consumer confidence surveys reflect the same dramatic decreases, indicating the recovery period will be slower than recessions of the recent past. The Federal Reserve, concerned about higher inflation, initially increased the Federal Funds Rate early in the year, only to reverse direction as the depth of the downturn became more evident. Concerns about inflation were justified, as the increase in the consumer price index reached 4.9% between June 2007 and June 2008. The Federal Reserve has signaled its willingness to again reduce rates in the next fiscal period to further ease the tight credit conditions.

Connecticut was impacted by the same economic pressures noted in the national economy and had mixed results compared to national statistics. Total employment in Connecticut increased 0.3% in fiscal 2008 compared to a 0.1% decrease recorded at the national level for the same year. However, Connecticut's unemployment rate increased 25%, from 4.4% to 5.5% during fiscal 2008, while the national unemployment rate increased 20% for the same period, from 4.6% to 5.5%.

As stated in past reports, it is difficult to demonstrate a direct relationship between general economic indicators and sales trends within the lottery industry. However, the rapid rise in energy costs over the past several years has been cited by numerous lotteries as having a negative impact on sales of scratch tickets at gasoline stations and convenience stores during the same period. In addition, the decrease in consumer confidence, the increase in unemployment and the general concern about the economy are factors that undoubtedly will be considered by our players as they evaluate their own current financial condition and 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. Operating systems and processes are constantly reviewed to control expenses and maximize the payments to the state's General Fund.

Respectfully Submitted,



Anne M. Noble  
President & CEO



John A. Ramadei  
Chief Financial Officer



**STATE OF CONNECTICUT**  
List of Principal State Officers, as of June 30, 2008

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**M. Jodi Rell**, Governor

<b>Susan Bysiewicz</b>	Secretary of the State
<b>Denise L. Nappier</b>	State Treasurer
<b>Nancy S. Wyman</b>	Comptroller
<b>Richard Blumenthal</b>	Attorney General



**CONNECTICUT LOTTERY CORPORATION**  
Board of Directors, as of June 30, 2008

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**John Paul**, Chairman

<b>Robert L. Genuario</b>	Secretary, Office of Policy and Management
<b>Gale A. Mattison</b>	Vice Chairman, Designee of Office and Policy Management Secretary
<b>Denise L. Nappier</b>	State Treasurer
<b>Robert Morgan</b>	Designee of State Treasurer
<b>Steven A. Bafundo</b>	
<b>Patrick M. Birney</b>	
<b>Wendy Kingsbury</b>	
<b>Carolyn C. Long</b>	
<b>Margaret L. Morton</b>	
<b>Patricia Racz</b>	
<b>Kenneth J. Saccente</b>	
<b>Martin E. Stauffer</b>	



## CONNECTICUT LOTTERY CORPORATION

Organizational Chart, as of June 30, 2008

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### EXECUTIVE

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<b>Anne M. Noble</b>	President & Chief Executive Officer
<b>Helen Duffy</b>	Executive Secretary

### OPERATIONS & ADMINISTRATION

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

### MARKETING & SALES

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<b>Paul Sternburg</b>	Vice President, Marketing & Sales
<b>Gloria G. Donnelly</b>	Director, Sales
<b>Joseph C. Bevivino</b>	Director, Marketing Research
<b>Diane Patterson</b>	Director, Communications & Public Relations
<b>Peter Donahue</b>	Lottery Games Manager

### FINANCE

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<b>John A. Ramadei</b>	Chief Financial Officer
<b>Elizabeth Colby</b>	Lottery Financial Manager

### LEGAL

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<b>James F. McCormack</b>	Corporate Counsel & Director of Government Affairs
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### HUMAN RESOURCES

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<b>Karen M. Mehigen</b>	Director, Human Resources
<b>Sandra A. Cady</b>	Human Resource Specialist
<b>Maria N. Barone</b>	Human Resource Specialist

### SECURITY

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<b>Alfred W. Dupuis, Jr.</b>	Director, Security
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## SCRATCH GAMES

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### **Fiscal Year 2008 Statistics:**

*\$132.6 million in General Fund payments*

60 scratch games launched

62.0% of total net sales

46.8% of General Fund payments

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

There's a play style for everyone – from the crossword action of Ca\$hword to the arcade flair of Pinball Wizard; the excitement of Bingo to the real card action of Stud Poker. Depending upon the game, players may need to match numbers, symbols or dollar amounts, spell words, beat the dealer's card, or reveal a Bonus Prize. Scratch games offer popular themes and color combinations to add to the fun. With a variety of ways to win in this category, it's easy to see why scratch games are the play of choice for many consumers. Ticket prices range from \$1 to \$30, with set prizes from a FREE \$1 scratch ticket up to \$100,000 a year for life, with a minimum guarantee of \$2,000,000.

## DAILY GAMES

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### **Fiscal Year 2008 Statistics:**

*\$81.4 million for this category in General Fund payments*



Play3 Day: **3.9%** of total net sales  
**5.0%** of General Fund payments



Play4 Day: **3.2%** of total net sales  
**3.2%** of General Fund payments



Play3 Night: **7.6%** of total net sales  
**11.5%** of General Fund payments



Play4 Night: **6.2%** of total net sales  
**9.1%** 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 \$5.00 per play. Prize amounts are based on the wager style and amount, and range from a modest \$25 up to an exciting \$25,000 per ticket.

## CASH5

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### **Fiscal Year 2008 Statistics:**

**\$14.9 million** in General Fund payments

4.1% of total net sales

5.3% of General Fund payments

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

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

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

## CLASSIC LOTTO

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### **Fiscal Year 2008 Statistics:**

**\$11.4 million** in General Fund payments

3.2% of total net sales

4.0% of General Fund payments

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

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

In fiscal year 2009, Connecticut's Lotto game will reach 25 years of sales and General Fund returns. More than \$1.5 billion has been returned to players as prizes since the game began.

## POWERBALL

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### **Fiscal Year 2008 Statistics:**

**\$42.7 million** in General Fund payments

**9.8%** of total net sales

**15.1%** of General Fund payments

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

The current game began in August 2005. For each \$1 play, five numbers between 1 and 55 and an additional Powerball number between 1 and 42 are selected. When players opt to activate the PowerPlay feature for an added \$1, any prize they win (except the Jackpot) is multiplied up to five times.

In January 2009, Florida will join the Powerball game. The addition of Florida will mean an added 20 million potential players to the game, an increased minimum jackpot to \$20,000,000, more winners, and better overall odds.

# CONNECTICUT LOTTERY CORPORATION

## CT Lottery Winners

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Manchester Resident Hector Sanchez won \$5,000 a month for life by playing Win For Life.



John Lorusso of Eastford won \$15,000,000 playing Powerball.



Seymour resident Glenn Froscono won \$100,000 playing Cash5.



The Valentino Family won \$100,000 playing Cash5.



Sadie Watson of Bridgeport won \$800,000 playing Powerball with PowerPlay.



Jose Vazquez of Middletown won \$50,000 playing Card Night.

# CONNECTICUT LOTTERY CORPORATION

## CT Lottery Winners

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**Terence Brick won \$5,000 a month for life playing Win for Life.**



**Jim and Colleen Fraccola of Darien won \$2,000,000 playing Powerball.**



**Torrington couple Jim and Jean Seitz claimed a \$5,511,009 Classic Lotto Jackpot.**



**Kenneth Brenton of Manchester won \$100,000 a year for life playing Set for Life.**



**Tony Gedraitis won the \$50,000 top prize playing New York Yankees®.**

# CONNECTICUT LOTTERY CORPORATION

## Point-of-Sale (POS)

Poster



\$70 Million Blockbuster was launched in April 2008 with a comprehensive marketing campaign that included POS, television and radio. It also included some non-traditional vehicles to publicize the game including a mobile billboard, as well as movie theater advertising. The \$10 game returned approximately \$2.2 million to the state's General Fund.

Window Cling



Mini-Topper

Counter Mat

A catchy and unforgettable holiday campaign was launched in 2007, celebrating "Secret Scratch Game Man." In addition to television and radio advertisements, POS at retailer locations included posters, brochures, wobblers, counter mats, and custom designed signage.



# CONNECTICUT LOTTERY CORPORATION

## Red Sox®-Yankees® Scratch Game Point-of-Sale, Advertising and Media Coverage

In March of 2008, the CT Lottery launched two new \$5 Major League Baseball® scratch games featuring the Boston Red Sox® and the New York Yankees®. The two scratch games generated a tremendous interest with fans across the state not only because of the deep-rooted rivalry between Red Sox fans and Yankees fans, but also because of the prizes that were available, including second-chance drawings to win spring training tickets or tickets to an All-Star Game. The game was promoted through a variety of advertising mediums. Significant media coverage was received from media outlets including WTIC-AM, WTNH-TV and WFSB-TV.

WFSB-TV news story.



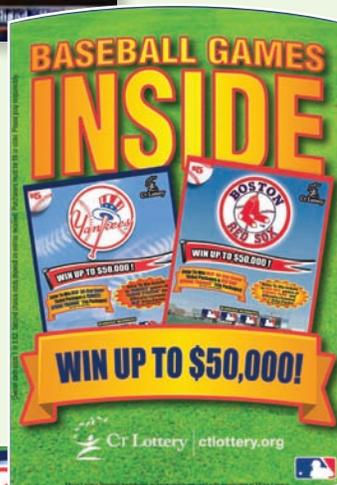
WTNH-TV news story.

Poster



Lottery produced TV commercial.

Window Cling



Billboard





## FINANCIAL SECTION

## REPORT OF INDEPENDENT AUDITORS

To the Directors  
Connecticut Lottery Corporation

We have audited the statements of net assets of Connecticut Lottery Corporation (a component unit of the State of Connecticut) as of June 30, 2008 and 2007 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Connecticut Lottery Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Connecticut Lottery Corporation as of June 30, 2008 and 2007, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2008 on our consideration of the Connecticut Lottery Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedules of Profit Margins by Game Type are presented for purposes of additional analysis and are not a required part of the financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The image shows a handwritten signature in black ink that reads "UHY LLP". The letters are stylized and slanted to the right.

Hartford, Connecticut  
September 24, 2008

## **CONNECTICUT LOTTERY CORPORATION**

### **Management's Discussion and Analysis, June 30, 2008 and 2007**

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The following Management's Discussion and Analysis (MD&A) provides an overview of the Connecticut Lottery Corporation's (CLC) financial performance for the fiscal year ended June 30, 2008. The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements, notes to financial statements, and supplementary information included in the "Financial Section", the other information included in the "Statistical Section", and the Report on Internal Control over Financial Reporting and on Compliance and Other Matters and on Compliance Under C.G.S. 1-122 Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards included in the "Compliance Section" of this report.

#### **FINANCIAL STATEMENTS PRESENTED IN THIS REPORT**

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

The financial statements include: Statements of Net Assets; Statements of Revenues, Expenses and Changes in Net Assets; and Statements of Cash Flows. The Statements of Net Assets provide a measure of the CLC's economic resources. The Statements of Revenues, Expenses and Changes in Net Assets measure the transactions for the periods presented and the impact of those transactions on the resources of the CLC. The Statements of Cash Flows reconcile the changes in cash and cash equivalents with the activities of the CLC for the periods presented. The activities 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 2008**

- Total sales were \$998.1 million, an increase of \$41.1 million, or 4.3%, from fiscal 2007 and the highest sales level achieved in Connecticut lottery history.
- Transfers to the State's General Fund were \$283.0 million, an increase of \$4.0 million, or 1.4%, from the prior fiscal year, and the second highest level ever achieved.
- Annuities payable and related investments for prizes decreased due to fewer winners selecting long-term installment payment options and continued amortization of older annuities. Long-term annuities payable and long-term investments for prizes decreased \$29.8 million, or 13.3%.

**CONNECTICUT LOTTERY CORPORATION**  
**Management's Discussion and Analysis, June 30, 2008 and 2007**

**CONDENSED FINANCIAL INFORMATION**

*Net Assets and Changes in Net Assets*

Net assets represent the assets of the CLC less the liabilities owed to third parties. The net assets are reserved for promotional purposes, augmenting prizes or increasing payments to the State's General Fund. Net assets increased \$2.1 million, or 50.7%, for fiscal 2008 and increased \$928,000, or 29.2%, for fiscal 2007. Listed in Table 1 below is a summary of the key components of net assets. The CLC transfers unrestricted net assets to the State's General Fund; therefore the change in net assets does not reflect the results of the CLC's operating activities. Listed in Table 2 below is a summary of the key components of revenues, expenses and changes in net assets.

**TABLE 1**  
*Net Assets*  
*(in thousands)*

	<b>2008</b>	<b>Increase/ (Decrease)</b>	<b>2007</b>	<b>Increase/ (Decrease)</b>	<b>2006</b>
Current assets	\$ 94,923	\$ 11,571	\$ 83,352	\$ (8,824)	\$ 92,176
Investments and other noncurrent assets	198,950	(29,724)	228,674	(33,128)	261,802
Capital assets (net of accumulated depreciation)	2,939	1,461	1,478	(446)	1,924
<b><i>Total assets</i></b>	<b>296,812</b>	<b>(16,692)</b>	<b>313,504</b>	<b>(42,398)</b>	<b>355,902</b>
Current liabilities	96,426	10,737	85,689	(10,324)	96,013
Long-term annuities payable	194,198	(29,512)	223,710	(33,002)	256,712
<b><i>Total liabilities</i></b>	<b>290,624</b>	<b>(18,775)</b>	<b>309,399</b>	<b>(43,326)</b>	<b>352,725</b>
Net assets					
Invested in capital assets	2,939	1,461	1,478	(446)	1,924
Restricted net assets	6,188	2,083	4,105	928	3,177
Unrestricted net assets	(2,939)	(1,461)	(1,478)	446	(1,924)
<b><i>Total net assets</i></b>	<b>\$ 6,188</b>	<b>\$ 2,083</b>	<b>\$ 4,105</b>	<b>\$ 928</b>	<b>\$ 3,177</b>

## CONNECTICUT LOTTERY CORPORATION

### Management's Discussion and Analysis, June 30, 2008 and 2007

**TABLE 2**  
*Changes in Net Assets*  
*(in thousands)*

	<b>2008</b>	<b>Increase/ (Decrease)</b>	<b>2007</b>	<b>Increase/ (Decrease)</b>	<b>2006</b>
Total game sales	\$ 998,148	\$ 41,122	\$ 957,026	\$ (13,301)	\$ 970,327
Other operating income	207	29	178	(58)	236
Nonoperating revenues:					
Interest income	18,573	(2,768)	21,341	(2,493)	23,834
Other	6	(5)	11	6	5
<b><i>Total revenues</i></b>	<b>1,016,934</b>	<b>38,378</b>	<b>978,556</b>	<b>(15,846)</b>	<b>994,402</b>
Total cost of sales	692,282	33,009	659,273	(8,379)	667,652
Total operating expenses	22,518	2,915	19,603	52	19,551
Nonoperating expenses:					
Interest expense	17,051	(2,701)	19,752	(2,636)	22,388
<b><i>Total costs and expenses</i></b>	<b>731,851</b>	<b>33,223</b>	<b>698,628</b>	<b>(10,963)</b>	<b>709,591</b>
Change in net assets before					
Payments to General Fund	285,083	5,155	279,928	(4,883)	284,811
Payments to General Fund	283,000	4,000	279,000	(5,865)	284,865
<b><i>Change in net assets</i></b>	<b>2,083</b>		<b>928</b>		<b>(54)</b>
Total net assets - beginning	4,105		3,177		3,231

## CONNECTICUT LOTTERY CORPORATION

### Management's Discussion and Analysis, June 30, 2008 and 2007

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#### OVERVIEW OF FINANCIAL POSITION

The CLC's financial position remained strong during fiscal 2008. 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 \$16.7 million, or 5.3%, in fiscal 2008 and \$42.4 million, or 11.9%, in fiscal 2007. Long-term liabilities consist primarily of annuities payable to lottery winners with prizes payable over several years. Beginning in 1997, winners could elect a lump sum payment instead of a long-term annuity. Since the lump sum option was offered, the trend among winners has been to elect the lump sum payment. The end result has been fewer additions to long-term annuities and a reduction in the long-term liability as older annuities are paid off. The reduction in long-term annuities payable and in the long-term asset: Investments for prize payments at present value totaled \$29.8 million, or 13.3%, in fiscal 2008 and \$33.0 million, or 12.9%, in fiscal 2007.

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

# CONNECTICUT LOTTERY CORPORATION

## Management's Discussion and Analysis, June 30, 2008 and 2007

### Results of Operations

**TABLE 3**  
*Sales and Related Expenses*  
*(in thousands)*

	2008	Increase/ (Decrease)	2007	Increase/ (Decrease)	2006
<b>SALES</b>					
Scratch games	\$ 618,970	\$ 24,037	\$ 594,933	\$ 7,374	\$ 587,559
Powerball	98,200	5,448	92,752	(29,181)	121,933
Classic Lotto	32,201	1,815	30,386	(1,875)	32,261
All other games	248,777	9,822	238,955	10,381	228,574
<i><b>Total sales</b></i>	\$ 998,148	\$ 41,122	\$ 957,026	\$ (13,301)	\$ 970,327

#### RELATED EXPENSES

Prize expense	\$ 608,218	\$ 28,364	\$ 579,854	\$ (7,534)	\$ 587,388
Retailer commissions	\$ 55,950	\$ 2,353	\$ 53,597	\$ (454)	\$ 54,051
On-line systems	\$ 11,584	\$ (604)	\$ 12,188	\$ (60)	\$ 12,248
Production expenses	\$ 6,750	\$ (678)	\$ 7,428	\$ (68)	\$ 7,496

#### *Percentage Increase/(Decrease)*

#### SALES

Scratch games	4.0%	1.3%
Powerball	5.9%	(23.9%)
Classic Lotto	6.0%	(5.8%)
All other games	4.1%	4.5%
<i><b>Total sales</b></i>	4.3%	(1.4%)

#### RELATED EXPENSES

Prize expense	4.9%	(1.3%)
Retailer commissions	4.4%	(0.8%)
On-line systems	(5.0%)	(0.5%)
Production expenses	(9.1%)	(0.9%)

## CONNECTICUT LOTTERY CORPORATION

### Management's Discussion and Analysis, June 30, 2008 and 2007

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Total sales for fiscal 2008 increased by \$41.1 million, or 4.3%, from the prior fiscal year. The increase was primarily caused by an increase in Scratch games sales of \$24.0 million, or 4.0%, other draw games sales of \$9.8 million, or 4.1%, and Powerball game sales of \$5.4 million, or 5.9%. Other draw games include the Daily Games (Play3 Day, Play4 Day, Play3 Night and Play4 Night) and Cash5. Play3 Day and Play4 Day were extended from five drawings per week to seven drawings per week during fiscal 2008, contributing to the increase in this category of games sales. Total games sales of \$998.1 million in fiscal 2008 represented a new record for annual sales by the CLC. Total sales for fiscal 2007 decreased by \$13.3 million, or 1.4%, from fiscal 2006. The decrease was primarily caused by a decrease in Powerball game sales of \$29.2 million, or 23.9%. Powerball game sales are dependent upon large jackpot prize levels, which reached record levels during fiscal 2006 but returned to average levels during fiscal 2007. The decrease in Powerball game sales in fiscal 2007 were partially offset by increases in other draw games sales of \$10.4 million, or 4.5%, and increases in Scratch games sales of \$7.4 million, or 1.3%.

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

Prize expense has the greatest impact on gross margin for the various games and has demonstrated the variability noted above in the past years. For fiscal 2008, prize expense increased \$28.4 million, or 4.9%, compared to the 4.3% increase in total sales. In fiscal 2007, prize expense decreased \$7.5 million, or 1.3%, compared to the total decrease in sales percentage of 1.4%. This deviation in prize expense percentage can be more dramatic in individual game results. For example, during fiscal 2008, Play4 Day sales increased \$9.1 million, or 39.9%, while Play4 Day prize expense increased \$8.6 million, or 78.7%. In the same fiscal year, Play3 Night sales decreased \$7.1 million, or 8.7%, while Play3 Night prize expense decreased by \$9.6 million, or 21.0%. The random selection of winning numbers causes the deviation from expected results in the short-term.

Retailer commissions increased \$2.4 million, or 4.4%, in fiscal 2008 and decreased \$454,000, or 0.8%, in fiscal 2007. These results follow sales trends more closely than prize expense. Percentage changes in retailer commissions vary slightly from sales percentage changes, due to incremental incentive compensation earned by retailers for promotions offered by the CLC to promote selected games.

On-line system expenses decreased by \$604,000, or 5.0% in fiscal 2008 and decreased \$60,000, or 0.5%, in fiscal 2007. The change in fiscal 2008 was increased due to credits for system performance, which caused the variance in comparability between the two years.

## **CONNECTICUT LOTTERY CORPORATION**

### **Management's Discussion and Analysis, June 30, 2008 and 2007**

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Production expenses decreased by \$678,000, or 9.1%, in fiscal 2008 and decreased by \$68,000, or 0.9%, in fiscal 2007. Production expenses include: the production costs of Scratch tickets, royalty fees associated with licensed games, and courier costs to deliver the tickets to the retailers.

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 \$3.6 million, or 57.6%, in fiscal 2008 and decreased \$264,000, or 4.1%, in fiscal 2007. The increase in fiscal 2008 reflected the CLC's business plans to raise games sales in all categories.

Total operating expenses increased \$2.9 million, or 14.9%, in fiscal 2008 and decreased \$52,000, or 0.3%, in fiscal 2007. The fiscal 2008 increase included increased salary and fringe benefits, increased facilities expenses, and increased regulatory expenses. The fiscal 2007 decrease was due to increased regulatory expenses offset by a reduction in legislatively directed funding (Department of Education Fund).

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 \$67,000, or 4.2%, in fiscal 2008 and increased \$143,000, or 9.9%, in fiscal 2007 due to changes in average balances invested and changes in interest rates over the course of the two years. The changes in rate of return to CLC were consistent with the changes in the general market rates for this period.

The payments to the State's General Fund increased by \$4.0 million, or 1.4%, for fiscal 2008 and decreased \$5.9 million, or 2.1%, for fiscal 2007. Payments to the General Fund reflect the net earnings of the CLC that are transferred to the State's General Fund.

### **BUDGETARY COMPARISONS**

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

## **CONNECTICUT LOTTERY CORPORATION**

### **Management's Discussion and Analysis, June 30, 2008 and 2007**

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#### **CAPITAL ASSETS AND LONG-TERM DEBT**

The CLC leases office and warehouse facilities under long-term operating leases. Capital assets consist of leasehold improvements to facilities, computer equipment and office furniture and equipment. During fiscal 2008, the office lease in New Britain expired and the CLC relocated to a new facility in Rocky Hill under a new operating lease. Capital assets are not a significant portion of CLC's total assets.

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

## CONNECTICUT LOTTERY CORPORATION

### Statements of Net Assets

	June 30	
	2008	2007
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 37,035,370	\$ 21,854,156
Accounts receivable, net of allowance of \$1,215,750 and \$896,000 as of June 30, 2008 and 2007, respectively	12,305,072	10,103,206
Prepaid annuities for prizes	36,055,362	39,936,111
Accrued interest receivable	7,650,406	9,107,098
Ticket inventory, net of allowance of \$616,685 and \$457,735 as of June 30, 2008 and 2007, respectively	1,725,606	2,209,877
Prepaid expenses	151,274	142,044
<i>Total current assets</i>	94,923,090	83,352,492
NONCURRENT ASSETS		
Investments for prize payments at present value	193,958,980	223,710,396
Prize reserves held by Multi-State Lottery Association	4,840,454	4,813,592
Advances to high-tier claim centers	150,000	150,000
Property, plant and equipment, net	2,939,083	1,477,764
<i>Total noncurrent assets</i>	201,888,517	230,151,752
<i>Total assets</i>	\$ 296,811,607	\$ 313,504,244

	<b>June 30</b>	
	<b>2008</b>	<b>2007</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Annuities payable	\$ 38,084,724	\$ 42,063,377
Prizes payable	34,282,333	24,668,392
Accrued interest payable	7,650,406	9,107,098
Accounts payable and accrued expenses	14,548,225	7,914,326
Due to the Multi-State Lottery Association	1,047,771	1,447,563
Deferred revenue	812,372	487,905
<i>Total current liabilities</i>	96,425,831	85,688,661
<b>LONG-TERM LIABILITIES</b>		
Deferred rent liability	238,832	-
Long-term annuities payable, at present value	193,958,980	223,710,396
<i>Total long-term liabilities</i>	194,197,812	223,710,396
<i>Total liabilities</i>	290,623,643	309,399,057
<b>NET ASSETS</b>		
Invested in capital assets	2,939,083	1,477,764
Restricted	6,187,964	4,105,187
Unrestricted	(2,939,083)	(1,477,764)
<i>Total net assets</i>	6,187,964	4,105,187
<i>Total liabilities and net assets</i>	\$ 296,811,607	\$ 313,504,244

See notes to financial statements.

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

	Years ended June 30	
	2008	2007
<b>SALES</b>		
Scratch game sales	\$ 618,971,484	\$ 594,936,299
On-line game sales	283,992,271	271,429,316
Powerball game sales	98,232,650	92,783,123
	1,001,196,405	959,148,738
Less sales returns, cancellations and promotion	(3,048,513)	(2,122,304)
<i>Total sales</i>	998,147,892	957,026,434
<b>COST OF SALES</b>		
Prize expense	608,217,698	579,854,360
Retailer commissions	55,950,415	53,597,244
On-line systems	11,583,977	12,188,445
Marketing, advertising and promotion	9,780,399	6,205,500
Production expenses	6,749,754	7,427,523
<i>Total cost of sales</i>	692,282,243	659,273,072
<b>OPERATING EXPENSES</b>		
Salaries and benefits	13,873,384	12,577,326
Other operating expenses	2,691,138	2,081,141
Depreciation and amortization	832,223	705,948
Bad debt expense	128,423	23,781
Division of Special Revenue, regulatory purposes	3,092,404	2,715,359
Chronic Gamblers' Fund	1,900,000	1,500,000
<i>Total operating expenses</i>	22,517,572	19,603,555
<b>OTHER OPERATING INCOME</b>		
	207,089	178,015
<i>Operating income</i>	283,555,166	278,327,822

	<b>Years ended June 30</b>	
	<b>2008</b>	<b>2007</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income from investments on annuities	\$ 17,051,241	\$ 19,751,608
Interest income	1,522,111	1,589,329
Interest expense on annuity payments	(17,051,241)	(19,751,608)
Annuity assignment	5,500	11,000
<i>Total nonoperating revenues</i>	1,527,611	1,600,329
<b>CHANGE IN NET ASSETS AVAILABLE</b>		
<b>BEFORE PAYMENTS TO GENERAL FUND</b>	285,082,777	279,928,151
<b>NONOPERATING PAYMENTS TO THE</b>		
<b>STATE OF CONNECTICUT</b>	283,000,000	279,000,000
<i>Change in net assets</i>	2,082,777	928,151
<b>TOTAL NET ASSETS, Beginning</b>	4,105,187	3,177,036
<b>TOTAL NET ASSETS, Ending</b>	<b>\$ 6,187,964</b>	<b>\$ 4,105,187</b>

See notes to financial statements.

## CONNECTICUT LOTTERY CORPORATION

### Statements of Cash Flows

	Years ended June 30	
	2008	2007
<b>OPERATING ACTIVITIES</b>		
Receipts from sale of game tickets	\$ 996,142,070	\$ 958,568,290
Receipts from other operating income	202,760	179,837
Payments for prizes	(598,630,619)	(586,254,295)
Payments to retailers	(55,950,415)	(53,597,244)
Payments to suppliers	(21,391,473)	(23,918,934)
Payments to employees	(13,873,384)	(12,577,326)
Payments for other expenses	(7,444,710)	(6,296,500)
<i>Net cash provided by operating activities</i>	299,054,229	276,103,828
<b>INVESTING ACTIVITIES</b>		
Receipt of principal from annuities	41,903,369	45,523,324
Receipt of interest from annuities	18,507,933	21,284,309
Receipt of interest from cash equivalents	1,522,111	1,589,329
Purchase of insurance annuities	(6,842,564)	(7,853,490)
<i>Net cash provided by investing activities</i>	55,090,849	60,543,472
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Sale of property, plant and equipment	26,599	—
Purchases of property, plant and equipment	(2,315,812)	(261,546)
<i>Net cash used in capital financing activities</i>	(2,289,213)	(261,546)
<b>NONCAPITAL FINANCING ACTIVITIES</b>		
Additions to long-term annuities payable	6,842,564	7,853,490
Payment of principal on long-term annuities	(42,014,782)	(45,762,298)
Payment of interest on long-term annuities payable	(18,507,933)	(21,284,309)
Annuity assignment	5,500	11,000
Payments to the State of Connecticut	(283,000,000)	(279,000,000)
<i>Net cash used in noncapital financing activities</i>	(336,674,651)	(338,182,117)

	Years ended June 30	
	2008	2007
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 15,181,214	\$ (1,796,363)
CASH AND CASH EQUIVALENTS, Beginning	21,854,156	23,650,519
CASH AND CASH EQUIVALENTS, Ending	\$ 37,035,370	\$ 21,854,156
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 283,555,166	\$ 278,327,822
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	832,223	705,948
(Gain)/Loss on disposal of assets	(4,329)	1,822
Bad debt expense	128,423	23,781
Changes in assets and liabilities:		
Accounts receivable	(2,330,289)	1,805,324
Accounts payable and accrued expenses	6,647,408	1,497,051
Inventories	484,271	(99,786)
Prepaid expenses	(9,230)	302,552
Prize reserves	(26,862)	127,333
Prizes payable	9,613,941	(6,527,268)
Due to Multi-State Lottery Association	(399,792)	202,717
Deferred revenue	324,467	(263,468)
Deferred rent liability	238,832	-
<i>Net cash provided by operating activities</i>	<i>\$ 299,054,229</i>	<i>\$ 276,103,828</i>

See notes to financial statements.

**NOTE 1 — OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

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

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

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

**B. Measurement Focus And Basis Of Accounting**

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

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

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

**C. Significant Accounting Policies**

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

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

# CONNECTICUT LOTTERY CORPORATION

## Notes to Financial Statements, June 30, 2008 and 2007

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### NOTE 1 — OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Leasehold Improvements	10 years
Computer Equipment	5 years
Furniture and Equipment	10 years

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

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

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

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

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

**Prize Expense**—Prize expense for scratch games is recognized at the time of sale based on the predetermined prize structure for each game and is periodically adjusted to actual as known. Prize expense for on-line games is recognized at the time of actual drawings. Prizes may be claimed up to one year after the close of the game for instant games and up to one year after the draw for on-line games. Because winning tickets may be lost, destroyed or not redeemed for other reasons, there will be differences between amounts accrued and the amounts actually paid. Those differences, called unclaimed prizes, are recognized as a reduction of expense one year and a day after the end of the game or

## CONNECTICUT LOTTERY CORPORATION

### Notes to Financial Statements, June 30, 2008 and 2007

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#### NOTE 1 — OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

as appropriate (see Unclaimed Prizes below). Powerball prize expense is recognized in accordance with the Multi-State Lottery Association agreement (see Note 8).

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

**Prize Payments**—Public Act 96-212 states a minimum of 45 percent of gross annual revenue must be paid as prizes. For the fiscal years ended June 30, 2008 and 2007, the prize expense amounted to 60.9% and 60.6% of Lottery sales, respectively.

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

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

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

**Net Assets**—Restricted net assets represent amounts set aside by statute for future use to return to participants as increased prize pools, promotional programs or payment to the State's General Fund. Unrestricted net assets represent the net assets available for future operations, capital asset purchases or distribution to the State's General Fund. Net assets invested in capital assets represented 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.

#### NOTE 2 — STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

**CONNECTICUT LOTTERY CORPORATION**  
Notes to Financial Statements, June 30, 2008 and 2007

**NOTE 3 — CASH, CASH EQUIVALENTS AND CREDIT RISK**

Cash and cash equivalents are as follows:

	<b>June 30</b>	
	<b>2008</b>	<b>2007</b>
Cash in bank	\$ 5,838,304	\$ 2,205,488
Cash held in trust by retailers	12,333,815	12,243,344
STIF	18,307,702	7,085,387
Retailer-Security deposits	550,049	314,437
Petty Cash	5,500	5,500
<b>Total cash and cash equivalents</b>	<b>\$ 37,035,370</b>	<b>\$ 21,854,156</b>

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

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

At June 30, 2008 and 2007, the carrying amounts of the Lottery's deposits were \$5,838,304 and \$2,205,488, respectively. The bank balances at June 30, 2008 and 2007 were \$6,959,736 and \$3,433,769, respectively, of which \$100,000 was covered by the Federal Deposit Insurance Corporation (FDIC) at June 30, 2008 and 2007, respectively. The balances of these funds, \$6,859,736 and \$3,333,769, 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, financially stable commercial banks.

At June 30, 2008 and 2007, the Lottery also had uninsured and uncollateralized investments of \$18,857,751 and \$7,399,824, respectively, in the State Treasurer's Short-Term Investment Fund. Cash invested in STIF is classified as pooled investments and therefore not categorized by risk type. Standard & Poor's rated the STIF as AAAM for the last two fiscal years.

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

**CONNECTICUT LOTTERY CORPORATION**  
Notes to Financial Statements, June 30, 2008 and 2007

**NOTE 4 — INVESTMENTS AND CREDIT RISK**

*Investments*—The Lottery had the following investments as of:

<b>June 30, 2008</b>		
	<b>Carrying Amount</b>	<b>Fair Value</b>
Annuity contracts (at present value, discounted at approximately 7%)	\$ 230,014,342	\$ 230,014,342
<b>June 30, 2007</b>		
	<b>Carrying Amount</b>	<b>Fair Value</b>
Annuity contracts (at present value, discounted at approximately 7%)	\$ 263,646,507	\$ 263,646,507

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

<b>June 30</b>		
<b>Institution</b>	<b>2008</b>	<b>2007</b>
John Hancock Mutual Life Insurance	\$ 49,372,314	\$ 54,799,756
New York Life Insurance	36,823,105	39,834,147
Canada Life Assurance Company	27,880,426	33,265,469
Sun Life Assurance Co. of Canada	23,479,664	32,847,229
Metropolitan Life	18,723,539	12,671,266
Ohio National Life Insurance	17,723,459	18,030,582
Prudential Insurance Company of America	16,811,857	18,991,025
Protective Life Insurance	16,328,044	17,730,699

As of June 30, 2008 and 2007, the Lottery's investments with the above institutions had ratings by A.M. Best Company ranging between B+ and A++.

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

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

**CONNECTICUT LOTTERY CORPORATION**  
Notes to Financial Statements, June 30, 2008 and 2007

**NOTE 5 — PROPERTY, PLANT AND EQUIPMENT**

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

	<b>Leasehold Improvements</b>	<b>Computer Equipment</b>	<b>Furniture and Equipment</b>	<b>Total</b>
<b>Asset Cost</b>				
Balance, June 30, 2006	\$ 2,449,159	\$ 2,863,196	\$ 3,003,845	\$ 8,316,200
Capital Additions	108,324	120,339	32,883	261,546
Disposals	–	(34,671)	(3,101)	(37,772)
Balance, June 30, 2007	2,557,483	2,948,864	3,033,627	8,539,974
Capital Additions	876,957	190,323	1,248,532	2,315,812
Disposals	(2,461,534)	(1,971,522)	(1,751,254)	(6,184,310)
Balance, June 30, 2008	972,906	1,167,665	2,530,905	4,671,476
<b>Accumulated Depreciation</b>				
Balance, June 30, 2006	(2,323,519)	(2,416,448)	(1,652,245)	(6,392,212)
Depreciation	(111,194)	(170,348)	(424,406)	(705,948)
Disposals	–	34,671	1,279	35,950
Balance, June 30, 2007	(2,434,713)	(2,552,125)	(2,075,372)	(7,062,210)
Depreciation	(43,195)	(96,691)	(692,337)	(832,223)
Disposals	2,461,534	1,971,522	1,728,984	6,162,040
Balance, June 30, 2008	(16,374)	(677,294)	(1,038,725)	(1,732,393)
<b>Net Book Value, June 30, 2008</b>	<b>\$ 956,532</b>	<b>\$ 490,371</b>	<b>\$ 1,492,180</b>	<b>\$ 2,939,083</b>

**CONNECTICUT LOTTERY CORPORATION**  
Notes to Financial Statements, June 30, 2008 and 2007

**NOTE 6 — LONG-TERM OBLIGATIONS**

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

<b>Annuities Payable</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Amounts due within one year</b>
Activity for fiscal 2008	\$ 265,773,773	\$ 6,842,564	\$ 40,572,633	\$ 232,043,704	\$ 38,084,724
Activity for fiscal 2007	\$ 302,476,305	\$ 7,853,490	\$ 44,556,022	\$ 265,773,773	\$ 42,063,377

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

<b>Fiscal Years Ending June 30</b>	<b>Principal</b>	<b>Interest</b>
2009	\$ 38,084,724	\$ 15,999,880
2010	33,348,544	13,371,443
2011	29,527,237	10,975,828
2012	24,926,989	8,857,239
2013	20,408,048	7,071,949
2014 - 2018	46,373,081	19,345,844
2019 - 2023	13,579,734	9,668,585
2024 - 2028	6,053,970	6,670,078
2029 - 2033	4,864,555	5,075,445
2034 - 2038	4,921,347	3,643,653
2039 - 2043	4,623,385	2,251,948
After 2043	5,332,090	2,346,256
	<b>\$ 232,043,704</b>	<b>\$ 105,278,148</b>

This debt represents periodic payments owed to lottery top prize winners and is fully funded by investments in annuity contracts. Amounts due after 2028 represent estimates of long-term liabilities related to prizes payable over the recipients' natural lives.

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

**CONNECTICUT LOTTERY CORPORATION**  
**Notes to Financial Statements, June 30, 2008 and 2007**

**NOTE 7 — NET ASSETS**

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

	Restricted	Invested in Capital Assets	Unrestricted	Total
<b>Net Assets, June 30, 2006</b>	\$ 3,177,036	\$ 1,923,988	\$ (1,923,988)	\$ 3,177,036
Change in net assets before				
payments to State of Connecticut	—	—	279,928,151	279,928,151
Payments to State of Connecticut	—	—	(279,000,000)	(279,000,000)
Transferred from Restricted Net				
Assets to fund increased prizes	(642,286)	—	642,286	—
Purchases of capital assets				
net of disposals totaling \$1,822	—	259,724	(259,724)	—
Depreciation	—	(705,948)	705,948	—
Unclaimed prizes transferred to				
Restricted Net Assets	16,735,548	—	(16,735,548)	—
Transferred from Restricted Net				
Assets for promotional purposes	(11,038)	—	11,038	—
Transferred to Unrestricted				
Net Assets	(15,154,073)	—	15,154,073	—
<b>Net Assets, June 30, 2007</b>	4,105,187	1,477,764	(1,477,764)	4,105,187
Change in net assets before				
payments to State of Connecticut	—	—	285,082,777	285,082,777
Payments to State of Connecticut	—	—	(283,000,000)	(283,000,000)
Transferred from Restricted Net				
Assets to fund increased prizes	(238,109)	—	238,109	—
Purchase of capital assets				
net of disposals totaling \$22,270	—	2,293,542	(2,293,542)	—
Depreciation	—	(832,223)	832,223	—
Unclaimed prizes transferred to				
Restricted Net Assets	12,986,894	—	(12,986,894)	—
Transferred from Restricted Net				
Assets for promotional purposes	(42,068)	—	42,068	—
Transferred to Unrestricted				
Net Assets	(10,623,940)	—	10,623,940	—
<b>Net Assets, June 30, 2008</b>	\$ 6,187,964	\$ 2,939,083	\$ (2,939,083)	\$ 6,187,964

**NOTE 8 — PARTICIPATION IN MULTI-STATE LOTTERY ASSOCIATION**

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

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

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

For the year ended June 30, 2008, there was one Powerball grand prize winner in the State of Connecticut. For the year ended June 30, 2007, there was no Powerball grand prize winner in the State of Connecticut.

As part of the agreement with MUSL, the Lottery is also required to deposit with MUSL additional amounts in the event the prize payout experience becomes greater than budgeted. These amounts are the property of the Lottery and would be returned in full in the event the Lottery exited the association. These amounts earn investment income at market rates, which is used to offset the Lottery's share of MUSL operating expenses for the year. Balances held by MUSL at June 30, 2008 and 2007 amounted to \$4,840,454 and \$4,813,592, respectively. Investment income earned was \$442,796 and \$375,394, for the years ended June 30, 2008 and 2007, respectively. Balances due to MUSL at June 30, 2008 and 2007 amounted to \$1,047,771 and \$1,447,563, respectively.

**NOTE 9 — PENSION PLAN**

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

## CONNECTICUT LOTTERY CORPORATION

### Notes to Financial Statements, June 30, 2008 and 2007

#### NOTE 9 — PENSION PLAN (continued)

**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, 2008, 2007, and 2006 was \$8,434,383, \$7,903,000 and \$7,151,903, respectively.

**Contributions Made**—The Lottery's contribution is determined by applying a State mandated percentage to eligible salaries and wages. This rate was 33.36 percent, 34.32 percent and 35.76 percent, during fiscal years 2008, 2007, and 2006, respectively. The contributions made compared to covered payroll follows:

	Years ended June 30		
	2008	2007	2006
Contributions made:			
By employees	\$ 105,946	\$ 100,139	\$ 89,006
Percent of current year covered payroll	1.26%	1.27%	1.24%
By the Lottery	\$ 2,813,754	\$ 2,712,152	\$ 2,557,609
Percent of current year covered payroll	33.36%	34.32%	35.76%

#### NOTE 10 — POST EMPLOYMENT BENEFITS

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

Currently, 26 retirees meet those eligibility requirements. When employees retire, the State pays 100 percent of their health care insurance premium cost (including dependent's coverage). In addition, the State pays 100 percent of the premium cost for a portion of the employees' life insurance continued after retirement. The amount of life insurance,

**NOTE 10 — POST EMPLOYMENT BENEFITS (continued)**

continued at no cost to the retiree, is determined based on the number of years of service that the retiree had with the State at time of retirement as follows: a) if the retiree had 25 years or more of service, the amount of insurance will be one-half of the amount of insurance for which the retiree was insured immediately prior to retirement, but the reduced amount cannot be less than \$7,500; (b) if the retiree had less than 25 years of service, the amount of insurance will be the proportionate amount that such years of service is to 25, rounded to the nearest \$100. The State finances the cost of post employment health care and life insurance benefits on a pay-as-you-go basis through an appropriation in the General Fund. The Lottery makes no contributions to the State for these benefits.

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

**NOTE 11 — LEASE COMMITMENTS**

The Lottery leases office and warehouse facilities under long-term operating leases. The previous office and current warehouse leases allow for two renewal options of two years each; and a third renewal option of five years for a total of nine years at the Lottery's option. The Lottery exercised the first and second renewal options for both the office and warehouse leases. The third renewal option for the warehouse was exercised in 2007 and extended the lease through July 31, 2012. The second renewal for the office extended the lease through August 31, 2007, which was extended through May 31, 2008.

The office lease expired and the Lottery relocated to a new facility in Rocky Hill under a new 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 noncancellable operating leases expiring on various dates through June 2012. The obligations are payable in monthly installments and are immaterial.

Total rent expense for facilities and equipment was \$691,932 and \$350,015 for the fiscal years ended June 30, 2008 and 2007, respectively.

## CONNECTICUT LOTTERY CORPORATION

### Notes to Financial Statements, June 30, 2008 and 2007

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#### NOTE 11 — LEASE COMMITMENTS (continued)

Future payments for the aforementioned leases are summarized as follows:

Fiscal Years Ending June 30	Amount
2009	\$ 977,364
2010	954,024
2011	953,520
2012	952,850
2013	884,646
Thereafter	10,175,000
	\$ 14,897,404

#### NOTE 12 — RISK MANAGEMENT

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

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

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

During each of the three years ended June 30, 2008, 2007 and 2006, there were no claims or settlements that have exceeded insurance coverage.

#### NOTE 13 — COMMITMENTS AND CONTINGENCIES

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

## CONNECTICUT LOTTERY CORPORATION

### Schedule of Profit Margins by Game Type, Year Ended June 30, 2008

<b>PROFIT CONTRIBUTIONS (\$000's)</b>				
	Scratch	Play3 Night	Play4 Night	Play3 Day
NET SALES	\$ 618,970	\$ 75,272	\$ 61,757	\$ 38,736
<b>DIRECT COSTS</b>				
Gross prize expense	423,393	36,796	31,003	20,976
Unclaimed prize credit	(7,348)	(650)	(629)	(197)
Use of unclaimed prize reserve	2	–	–	–
<i>Net prize expense</i>	416,047	36,146	30,374	20,779
Retailer commissions	35,429	4,138	3,325	2,151
On-line systems	5,966	728	599	372
Telephone costs	1,196	146	119	75
Marketing, advertising and promotion	7,405	294	196	274
Production expenses	6,502	39	39	49
<i>Total direct costs</i>	472,545	41,491	34,652	23,700
GROSS PROFIT	\$ 146,425	\$ 33,781	\$ 27,105	\$ 15,036
<b>PROFIT MARGIN (% OF NET SALES)</b>				
NET SALES	100.0%	100.0%	100.0%	100.0%
<b>DIRECT COSTS</b>				
Gross prize expense	68.4%	48.9%	50.2%	54.1%
Unclaimed prize credit	(1.2%)	(0.9%)	(1.0%)	(0.5%)
Use of unclaimed prize reserve	0.0%	0.0%	0.0%	0.0%
<i>Net prize expense</i>	67.2%	48.0%	49.2%	53.6%
Retailer commissions	5.7%	5.5%	5.4%	5.6%
On-line systems	1.0%	1.0%	1.0%	1.0%
Telephone costs	0.2%	0.2%	0.2%	0.2%
Marketing, advertising and promotion	1.2%	0.4%	0.3%	0.7%
Production expenses	1.0%	0.0%	0.0%	0.1%
<i>Total direct costs</i>	76.3%	55.1%	56.1%	61.2%
GROSS PROFIT	23.7%	44.9%	43.9%	38.8%

Play4 Day	Classic Lotto	Cash5	Powerball	Total
\$ 31,853	\$ 32,201	\$ 41,159	\$ 98,200	\$ 998,148
19,662	17,006	22,973	49,116	620,925
(216)	(504)	(908)	(2,535)	(12,987)
–	238	–	40	280
19,446	16,740	22,065	46,621	608,218
1,734	1,694	2,284	5,195	55,950
332	322	397	941	9,657
62	62	80	187	1,927
196	559	120	736	9,780
49	17	35	20	6,750
21,819	19,394	24,981	53,700	692,282
\$ 10,034	\$ 12,807	\$ 16,178	\$ 44,500	\$ 305,866
100.0%	100.0%	100.0%	100.0%	100.0%
61.7%	52.8%	55.8%	50.0%	62.2%
(0.6%)	(1.5%)	(2.2%)	(2.5%)	(1.3%)
0.0%	0.7%	0.0%	0.0%	0.0%
61.1%	52.0%	53.6%	47.5%	60.9%
5.4%	5.3%	5.5%	5.3%	5.6%
1.0%	1.0%	1.0%	1.0%	1.0%
0.2%	0.2%	0.2%	0.2%	0.2%
0.6%	1.7%	0.3%	0.7%	1.0%
0.2%	0.0%	0.1%	0.0%	0.7%
68.5%	60.2%	60.7%	54.7%	69.4%
31.5%	39.8%	39.3%	45.3%	30.6%

**CONNECTICUT LOTTERY CORPORATION****Schedule of Profit Margins by Game Type, Year Ended June 30, 2007**

<b>PROFIT CONTRIBUTIONS (\$000's)</b>				
	Scratch	Play3 Night	Play4 Night	Play3 Day
NET SALES	\$ 594,933	\$ 82,408	\$ 62,642	\$ 29,758
<b>DIRECT COSTS</b>				
Gross prize expense	405,759	46,374	33,915	13,350
Unclaimed prize credit	(7,466)	(601)	(659)	(183)
Use of unclaimed prize reserve	7	–	3	–
<i>Net prize expense</i>	398,300	45,773	33,259	13,167
Retailer commissions	34,019	4,591	3,391	1,627
On-line systems	6,377	857	670	318
Telephone costs	1,221	170	129	61
Marketing, advertising and promotion	4,539	199	141	78
Production expenses	7,285	35	35	31
<i>Total direct costs</i>	451,741	51,625	37,625	15,282
GROSS PROFIT	\$ 143,192	\$ 30,783	\$ 25,017	\$ 14,476
<b>PROFIT MARGIN (% OF NET SALES)</b>				
NET SALES	100.0%	100.0%	100.0%	100.0%
<b>DIRECT COSTS</b>				
Gross prize expense	68.2%	56.3%	54.1%	44.9%
Unclaimed prize credit	(1.3%)	(0.7%)	(1.1%)	(0.6%)
Use of unclaimed prize reserve	0.0%	0.0%	0.0%	0.0%
<i>Net prize expense</i>	66.9%	55.6%	53.0%	44.3%
Retailer commissions	5.7%	5.6%	5.4%	5.4%
On-line systems	1.1%	1.0%	1.1%	1.1%
Telephone costs	0.2%	0.2%	0.2%	0.2%
Marketing, advertising and promotion	0.8%	0.2%	0.2%	0.3%
Production expenses	1.2%	0.0%	0.1%	0.1%
<i>Total direct costs</i>	75.9%	62.6%	60.0%	51.4%
GROSS PROFIT	24.1%	37.4%	40.0%	48.6%

Play4 Day	Classic Lotto	Cash5	Powerball	Total
\$ 22,776	\$ 30,386	\$ 41,371	\$ 92,752	\$ 957,026
11,065	16,068	23,014	46,392	595,937
(183)	(2,801)	(707)	(4,136)	(16,736)
–	642	–	1	653
10,882	13,909	22,307	42,257	579,854
1,225	1,638	2,303	4,803	53,597
244	325	443	989	10,223
47	62	86	190	1,966
62	389	111	686	6,205
31	11	35	(35)	7,428
12,491	16,334	25,285	48,890	659,273
\$ 10,285	\$ 14,052	\$ 16,086	\$ 43,862	\$ 297,753
100.0%	100.0%	100.0%	100.0%	100.0%
48.6%	52.9%	55.6%	50.0%	62.3%
(0.8%)	(9.2%)	(1.7%)	(4.5%)	(1.8%)
0.0%	2.1%	0.0%	0.0%	0.1%
47.8%	45.8%	53.9%	45.5%	60.6%
5.4%	5.4%	5.6%	5.2%	5.6%
1.1%	1.1%	1.1%	1.1%	1.1%
0.2%	0.2%	0.2%	0.2%	0.2%
0.3%	1.3%	0.2%	0.7%	0.6%
0.1%	0.0%	0.1%	0.0%	0.8%
54.9%	53.8%	61.1%	52.7%	68.9%
45.1%	46.2%	38.9%	47.3%	31.1%





# STATISTICAL SECTION



## CONNECTICUT LOTTERY CORPORATION

### Schedule of Revenues, Expenses and Changes in Net Assets

Actual vs. Budget (\$000's), Year Ended June 30, 2008

	Actual	Budget	Over/(Under) Budget	% Change
SALES	\$ 1,001,196	\$ 993,800	\$ 7,396	0.7%
Less sales returns, cancellations and promotion	(3,048)	–	(3,048)	N/A
<i>Total sales</i>	998,148	993,800	4,348	0.4%
<b>COST OF SALES</b>				
Prize expense	608,218	606,779	1,439	0.2%
Retailer commissions	55,950	56,129	(179)	(0.3%)
On-line systems	11,584	12,540	(956)	(7.6%)
Marketing, advertising and promotion	9,780	9,960	(180)	(1.8%)
Production expenses	6,750	7,603	(853)	(11.2%)
<i>Total cost of sales</i>	692,282	693,011	(729)	(0.1%)
<b>OPERATING EXPENSES</b>				
Salaries and benefits	13,874	14,162	(288)	(2.0%)
Other operating expenses	2,691	2,921	(230)	(7.9%)
Depreciation and amortization	832	781	51	6.5%
Bad debt expense	128	100	28	28.0%
Division of Special Revenue, regulatory purposes	3,093	2,808	285	10.1%
Chronic Gamblers' Fund	1,900	1,900	–	–
<i>Total operating expenses</i>	22,518	22,672	(154)	(0.7%)
OTHER OPERATING INCOME	207	143	64	44.8%
<i>Operating income</i>	283,555	278,260	5,295	1.9%
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income from investments on annuities	17,051	–	17,051	N/A
Interest income	1,522	1,290	232	18.0%
Interest expense on annuity payments	(17,051)	–	(17,051)	N/A
Annuity assignment	6	–	6	N/A
<i>Total nonoperating revenues</i>	1,528	1,290	238	18.4%
<b>CHANGE IN NET ASSETS AVAILABLE</b>				
<b>BEFORE PAYMENTS TO GENERAL FUND</b>	285,083	279,550	5,533	2.0%
<b>NONOPERATING PAYMENTS TO THE</b>				
<b>STATE OF CONNECTICUT</b>	283,000	278,539	4,461	1.6%
<i>Change in net assets</i>	\$ 2,083	\$ 1,011	\$ 1,072	N/A

**CONNECTICUT LOTTERY CORPORATION**  
**Schedule of Revenues, Expenses and Changes in Net Assets**  
**by Game Type (\$000's), Year Ended June 30, 2008**

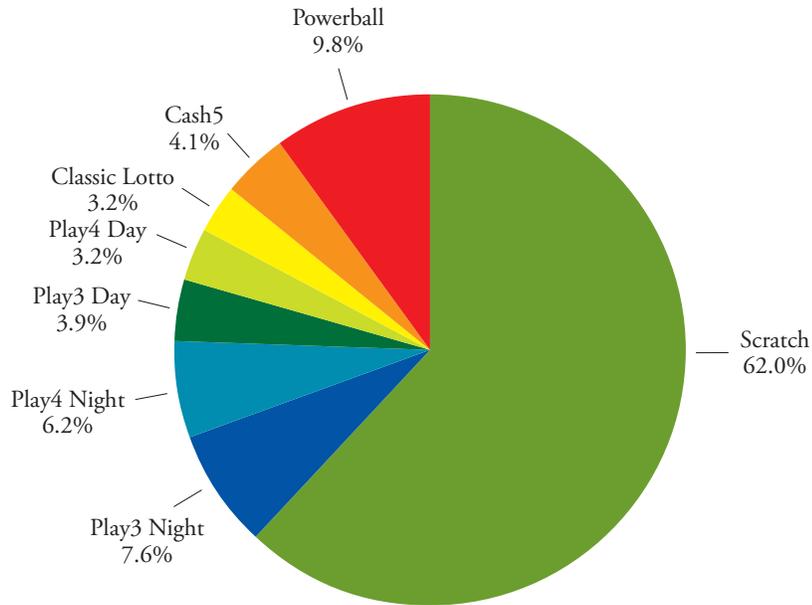
	Scratch	Play3 Night	Play4 Night
SALES	\$ 618,971	\$ 76,335	\$ 62,671
Less sales returns, cancellations and promotion	(1)	(1,063)	(914)
<i>Total sales</i>	618,970	75,272	61,757
<b>COST OF SALES</b>			
Prize expense	416,047	36,146	30,374
Retailer commissions	35,429	4,138	3,325
On-line systems	7,162	874	718
Marketing, advertising and promotion	7,405	294	196
Production expenses	6,502	39	39
<i>Total cost of sales</i>	472,545	41,491	34,652
<b>OPERATING EXPENSES</b>			
Salaries and benefits	8,395	624	728
Other operating expenses	1,626	121	140
Depreciation and amortization	503	38	44
Bad debt expense	75	9	8
Division of Special Revenue, regulatory purposes	1,914	233	191
Chronic Gamblers' Fund	1,187	148	121
<i>Total operating expenses</i>	13,700	1,173	1,232
<b>OTHER OPERATING INCOME</b>			
	135	14	12
<i>Operating income</i>	132,860	32,622	25,885
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income from investments on annuities	511	–	–
Interest income	670	82	67
Interest expense on annuity payments	(511)	–	–
Annuity assignment	2	–	–
<i>Total nonoperating revenues</i>	672	82	67
<b>CHANGE IN NET ASSETS AVAILABLE</b>			
<b>BEFORE PAYMENTS TO GENERAL FUND</b>	133,532	32,704	25,952
<b>NONOPERATING PAYMENTS TO THE</b>			
<b>STATE OF CONNECTICUT</b>	132,583	32,459	25,757
<i>Change in net assets</i>	\$ 949	\$ 245	\$ 195

Play3 Day	Play4 Day	Classic Lotto	Cash5	Powerball	Total
\$ 39,275 (539)	\$ 32,300 (447)	\$ 32,222 (21)	\$ 41,189 (30)	\$ 98,233 (33)	\$ 1,001,196 (3,048)
38,736	31,853	32,201	41,159	98,200	998,148
20,779	19,446	16,740	22,065	46,621	608,218
2,151	1,734	1,694	2,284	5,195	55,950
447	394	384	477	1,128	11,584
274	196	559	120	736	9,780
49	49	17	35	20	6,750
23,700	21,819	19,394	24,981	53,700	692,282
520	624	936	798	1,249	13,874
100	120	179	153	252	2,691
31	37	56	48	75	832
5	4	4	5	18	128
120	98	100	127	310	3,093
75	62	63	81	163	1,900
851	945	1,338	1,212	2,067	22,518
7	6	8	8	17	207
14,192	9,095	11,477	14,974	42,450	283,555
-	-	16,540	-	-	17,051
42	35	35	45	546	1,522
-	-	(16,540)	-	-	(17,051)
-	-	3	-	1	6
42	35	38	45	547	1,528
14,234	9,130	11,515	15,019	42,997	285,083
14,129	9,061	11,429	14,907	42,675	283,000
\$ 105	\$ 69	\$ 86	\$ 112	\$ 322	\$ 2,083

## SALES BY GAME

Fiscal Year 2008 Total Sales: \$998,147,892

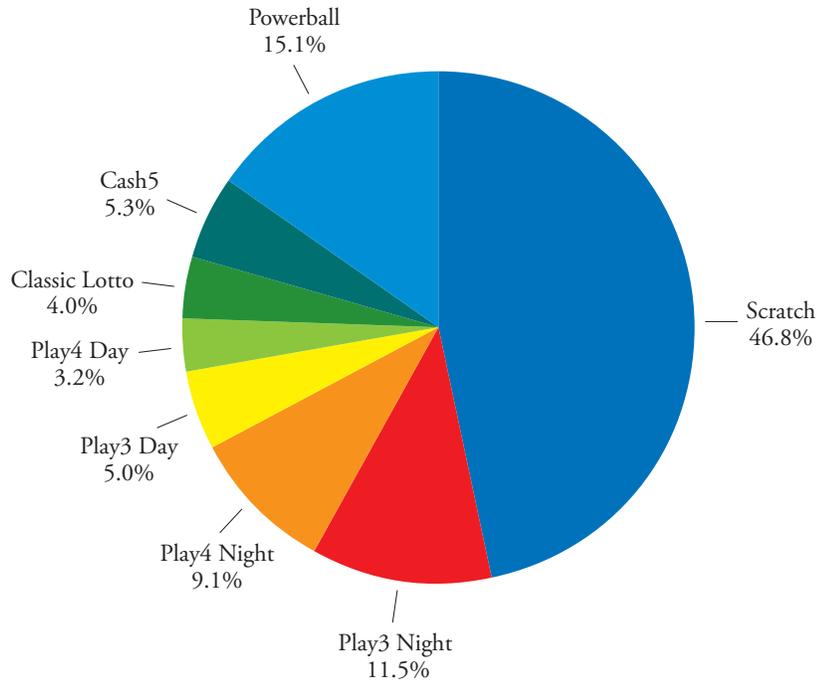
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## GENERAL FUND PAYMENTS BY GAME

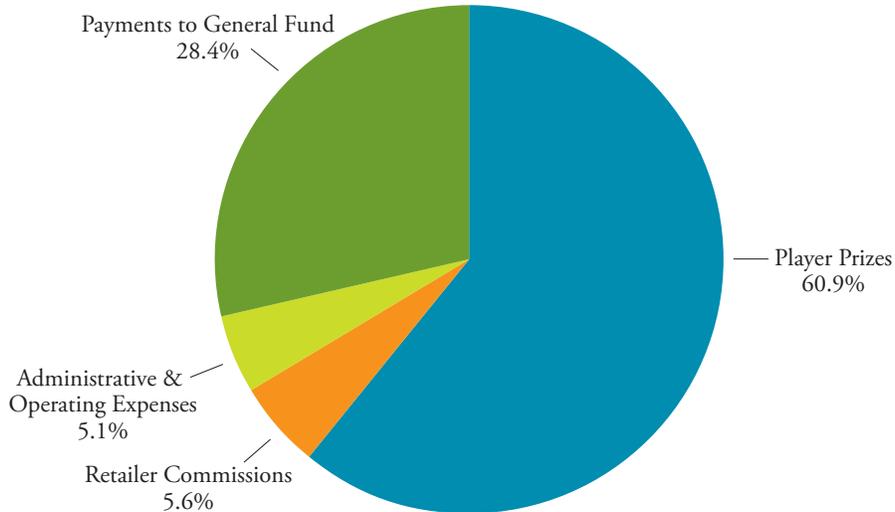
Fiscal Year 2008 Total Payments: \$283,000,000

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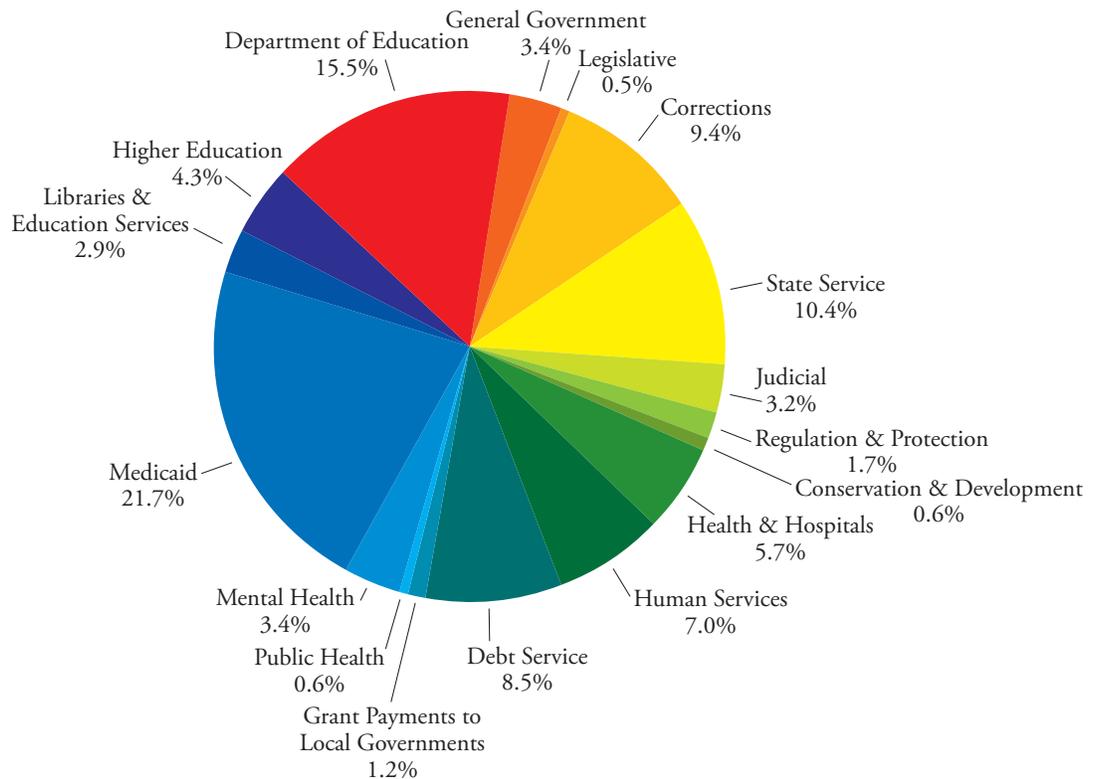
## DISTRIBUTION OF EXPENSES AND PAYMENTS AS A PERCENTAGE OF TOTAL SALES

Fiscal Year 2008 Total Sales: \$998,147,892



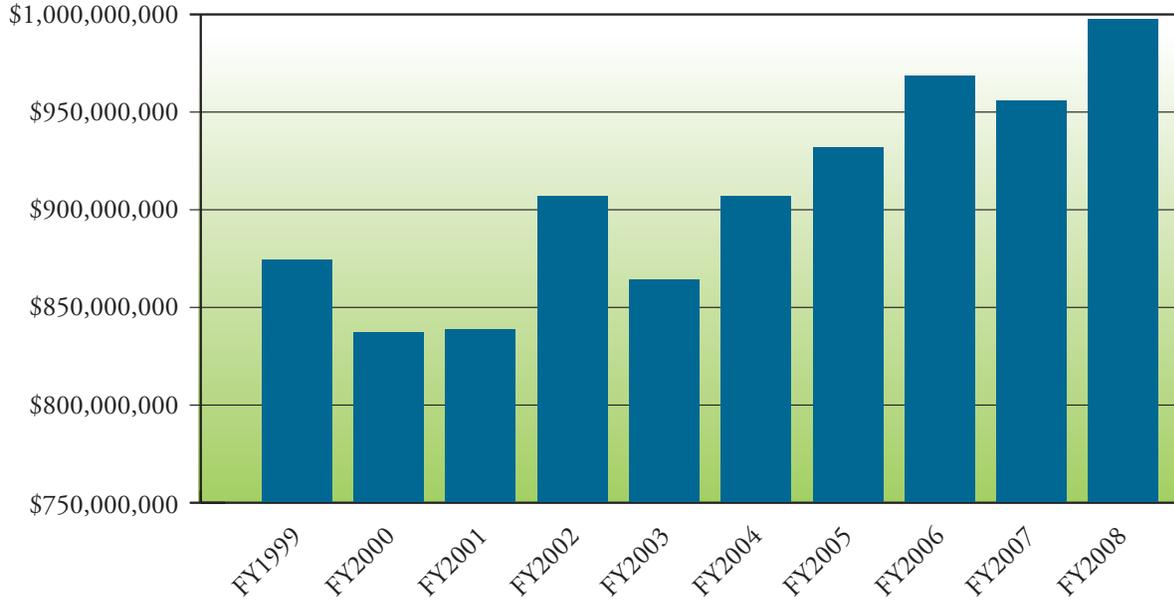
## STATE SERVICES SUPPORTED BY LOTTERY PAYMENTS TO THE GENERAL FUND

Fiscal Year 2008 Payments to the General Fund: \$283,000,000

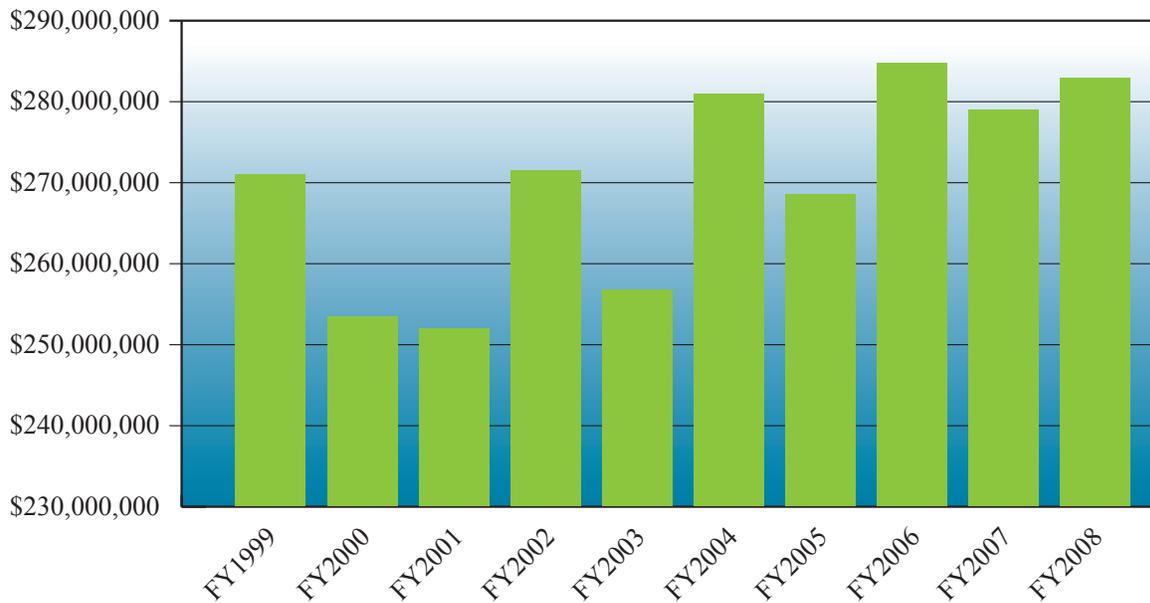


Based on Fiscal Year 2007 General Fund Percentages Appropriated by the Legislature. Source: Connecticut State Budget 2005-2008.

## SALES FOR THE LAST 10 FISCAL YEARS



## PAYMENTS TO THE GENERAL FUND FOR THE LAST 10 FISCAL YEARS





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

	1999	2000	2001	2002
Sales				
Scratch	\$ 474,032	\$ 516,625	\$ 522,394	\$ 533,068
Daily <sup>(1)</sup>	172,720	172,550	178,015	179,608
Lotto	51,307	47,332	37,219	54,078
Cash5	48,360	44,521	41,820	42,050
Powerball	124,498	56,482	54,322	88,926
Instant Powerball	–	–	5,941	10,173
Total Sales	870,917	837,510	839,711	907,903
Prize expense	517,307	502,494	507,864	546,095
Retailer commissions	47,103	45,716	45,368	51,684
On-line systems	10,341	10,388	10,290	10,997
Other cost of sales	11,945	12,220	11,660	12,286
Total cost of sales	586,696	570,818	575,182	621,062
PAYMENTS TO THE GENERAL FUND	\$ 271,308	\$ 253,598	\$ 252,003	\$ 271,510

## Notes:

<sup>(1)</sup> Daily refers to the total for the daily games: Play3 Night, Play4 Night, Play3 Day, and Play4 Day.

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2003	2004	2005	2006	2007	2008
\$ 522,396	\$ 551,885	\$ 592,266	\$ 587,559	\$ 594,930	\$ 618,970
181,810	178,304	184,713	187,223	197,587	207,618
36,676	34,200	35,614	32,261	30,386	32,201
41,154	41,281	40,781	41,351	41,371	41,159
74,956	95,857	79,560	121,933	92,752	98,200
8,297	6,129	–	–	–	–
865,289	907,656	932,934	970,327	957,026	998,148
523,900	538,331	573,000	587,388	579,854	608,218
48,360	50,499	51,691	54,051	53,597	55,950
10,609	11,207	11,401	12,248	12,189	11,584
12,103	11,807	12,226	13,965	13,633	16,530
594,972	611,844	648,318	667,652	659,273	692,282
\$ 256,815	\$ 280,763	\$ 268,515	\$ 284,865	\$ 279,000	\$ 283,000

## CONNECTICUT LOTTERY CORPORATION

### Comparative Industry Statistics

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Based upon data published in La Fleur's 2008 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 2007, included data from lotteries in 42 states plus the District of Columbia (D.C.). Top performing lotteries in key categories are presented below:

#### A. SALES PER CAPITA:

State/District	Population (Millions)	Ticket Sales (Millions \$)	Sales Per Capita (Dollars)
1 Massachusetts	6.4	\$ 4,436.5	\$ 693.20
2 D.C.	0.6	\$ 256.8	\$ 428.03
3 New York	19.3	\$ 6,652.4	\$ 344.69
4 Georgia	9.5	\$ 3,178.4	\$ 334.57
5 Maryland	5.6	\$ 1,577.3	\$ 281.66
<b>6 Connecticut</b>	<b>3.5</b>	<b>\$ 957.0</b>	<b>\$ 273.44</b>
7 New Jersey	8.7	\$ 2,351.3	\$ 270.26
8 Pennsylvania	12.4	\$ 3,076.3	\$ 248.09
9 Michigan	10.1	\$ 2,342.6	\$ 231.94
10 Florida	18.3	\$ 4,122.1	\$ 225.25

#### B. NET INCOME PER CAPITA:

State/District	Population (Millions)	Net Income (Millions \$)	Net Income Per Capita (Dollars)
1 Massachusetts	6.4	\$ 892.2	\$ 139.41
2 D.C.	0.6	\$ 65.4	\$ 109.05
3 New York	19.3	\$ 2,040.7	\$ 105.74
4 New Jersey	8.7	\$ 826.1	\$ 94.95
5 Georgia	9.5	\$ 856.1	\$ 90.11
6 Maryland	5.6	\$ 481.3	\$ 85.94
<b>7 Connecticut</b>	<b>3.5</b>	<b>\$ 278.3</b>	<b>\$ 79.52</b>
8 Pennsylvania	12.4	\$ 949.1	\$ 76.54
9 Michigan	10.1	\$ 756.5	\$ 74.90
10 Florida	18.3	\$ 1,256.3	\$ 68.65

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C. OPERATING EXPENSES AS PERCENTAGE OF SALES

State/District	Ticket Sales (Millions \$)	Operating Expenses <sup>(1)</sup> (Millions \$)	Expense %
1 Massachusetts	\$ 4,436.5	\$ 91.9	2.1%
2 West Virginia	\$ 192.7	\$ 5.4	2.8%
3 Maryland	\$ 1,577.3	\$ 54.8	3.5%
4 New Jersey	\$ 2,351.3	\$ 81.8	3.5%
5 Florida	\$ 4,122.1	\$ 151.3	3.7%
6 Rhode Island	\$ 244.9	\$ 9.6	3.9%
7 New York	\$ 6,652.4	\$ 264.1	4.0%
8 Georgia	\$ 3,178.4	\$ 129.0	4.1%
9 Missouri	\$ 934.3	\$ 40.9	4.4%
10 Michigan	\$ 2,342.6	\$ 108.3	4.6%
11 South Carolina	\$ 988.2	\$ 45.7	4.6%
<b>12 Connecticut</b>	<b>\$ 957.0</b>	<b>\$ 45.4</b>	<b>4.7%</b>
13 Texas	\$ 3,774.2	\$ 182.6	4.8%
14 North Carolina	\$ 861.7	\$ 41.7	4.8%
15 Ohio	\$ 2,259.4	\$ 109.8	4.9%

<sup>(1)</sup> 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 (a component unit of the State of Connecticut) as of and for the year ended June 30, 2008, and have issued our report thereon dated September 24, 2008. 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 Connecticut Lottery Corporation to comply with regulations concerning affirmative action, personnel practice, the purchase of goods and services, the use of surplus funds, and the distribution of loans, grants and other financial assistance.

**Internal Control Over Financial Reporting**

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Connecticut Lottery Corporation's ability to initiate, authorize, record, process, or report financial data reliably

in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the Connecticut Lottery Corporation's financial statements that is more than inconsequential will not be prevented or detected by the Connecticut Lottery Corporation's internal control.

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

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

### **Compliance and Other Matters**

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

This report is intended for the information and use of the Board of Directors, management, and Division of Special Revenue, 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 UHY LLP is written in a stylized, cursive font. The letters 'UHY' are larger and more prominent, with 'LLP' following in a smaller, similar script.

Hartford, Connecticut  
September 24, 2008



**Connecticut Lottery Corporation** | 2008 Annual Report

777 Brook Street | Rocky Hill, Connecticut 06067 | Telephone (860) 713-2000 | Facsimile (860) 713-2805

*The 2008 Annual Report is available at [www.ctlottery.org/proceeds.htm](http://www.ctlottery.org/proceeds.htm)*