



# 2014

## ANNUAL REPORT

OUR GAMES BENEFIT EVERYONE.



**\$319.5 MILLION DELIVERED**



**TO THE GENERAL FUND IN 2014**

FOR YEAR ENDED

**JUNE 30, 2014**

CONNECTICUT LOTTERY CORPORATION

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# 2014 ANNUAL REPORT

Fiscal Year Ended June 30, 2014



**CTLOTTERY.ORG**

**CONNECTICUT LOTTERY CORPORATION**

(A Component Unit of the State of Connecticut)

# TABLE OF CONTENTS

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## CONNECTICUT LOTTERY CORPORATION 2014 ANNUAL REPORT

**1 MISSION STATEMENT**

**1 VISION STATEMENT**

**3 INTRODUCTORY SECTION**

- 5 Letter of Transmittal
- 10 State of Connecticut List of Principal State Officers
- 10 Connecticut Lottery Corporation Board of Directors
- 11 Connecticut Lottery Corporation Organizational Chart
- 12 Scratch Games
- 12 Daily Games
- 13 Lotto<sup>®</sup>
- 13 Cash5
- 13 Powerball<sup>®</sup>
- 14 Mega Millions<sup>®</sup>
- 14 Lucky for Life<sup>®</sup>
- 15 Connecticut Super Draw
- 15 5 Card Cash<sup>™</sup>
- 16 Look Who's Winning!
- 19 Corporate Responsibility

**23 FINANCIAL SECTION**

- 25 Report of Independent Auditors
- 27 Management's Discussion and Analysis, June 30, 2014 and 2013

**FINANCIAL STATEMENTS**

- 34 Statements of Net Position
- 36 Statements of Revenues, Expenses, and Changes in Net Position
- 38 Statements of Cash Flows
- 40 Notes to Financial Statements, June 30, 2014 and 2013

**53 COMPLIANCE SECTION**

- 55 Report of Independent Auditors 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*

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**CONNECTICUT LOTTERY CORPORATION**  
**2014 ANNUAL REPORT**

**57 SUPPLEMENTAL SCHEDULES**

- 58 Schedule of Profit Margins by Game Type, Year ended June 30, 2014
- 60 Schedule of Profit Margins by Game Type, Year ended June 30, 2013

**63 STATISTICAL SECTION**

- 65 Schedule of Revenues, Expenses and Changes in Net Position, Actual vs. Budget  
Year ended June 30, 2014
- 66 Schedule of Revenues, Expenses and Changes in Net Position by Game Type  
Year ended June 30, 2014
- 68 Chart: Revenue by Game
- 68 Chart: General Fund Payments by Game
- 69 Chart: Distribution of Expenses and Payments as a Percentage of Total Revenue
- 69 Chart: State Services Supported by Lottery Payments to the General Fund
- 70 Chart: Revenues for the Last Ten Fiscal Years
- 70 Chart: Payments to the General Fund for the Last Ten Fiscal Years
- 72 Schedule of Revenues by Game Type, Related Expenses and Payments to the  
General Fund (\$000's) for the Last Ten Fiscal Years
- 74 Comparative Industry Statistics





## MISSION STATEMENT

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The mission of the Connecticut Lottery Corporation is to raise revenue in an entrepreneurial manner for the State of Connecticut, consistent with the highest standards of good public policy and social responsibility, by offering products to our players that are fun and entertaining and by ensuring the public's trust through integrity and honesty.

## VISION STATEMENT

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The Connecticut Lottery Corporation will be recognized as a leader in the lottery industry, committed to helping the State of Connecticut achieve its revenue raising objectives. Furthermore, it is the Connecticut Lottery Corporation's charge to address problem and underage gambling by taking proactive measures to implement and support responsible gaming initiatives.







# INTRODUCTORY SECTION





June 22, 2015

The Honorable Dannel P. Malloy, Governor of Connecticut,  
The Connecticut Lottery Corporation Board of Directors,  
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, 2014.

This report includes four sections: the introductory section, the financial section, the compliance section and the statistical section. The introductory section includes this transmittal letter, a list of principal officials, an organizational chart, our current lottery games, and significant events of the past fiscal year. The financial section begins with the Report of Independent Auditors, followed by management's discussion and analysis of fiscal year 2014, the comparative financial statements of the CLC, the related notes to the financial statements and supplemental schedules. The compliance section contains the independent auditors' report on internal control over financial reporting and on compliance with Connecticut General Statutes. The statistical section, which is unaudited, provides additional information concerning the Lottery's revenues and expenses.

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. 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 the MD&A and should be read in conjunction with it. The CLC's MD&A can be found immediately following the Report of Independent Auditors in the financial section.

The CLC is considered a component unit of the State of Connecticut for financial reporting purposes. With more than forty-two years of continuous operation, the CLC is one of the oldest lotteries in the United States. From its inception to June 30, 2014, the Lottery has generated total sales of approximately \$24.7 billion and has paid approximately \$8.2 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.

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. 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.

## HISTORICAL OVERVIEW OF THE CONNECTICUT LOTTERY CORPORATION

**June 1971:** To generate revenue for the state, Governor Thomas J. Meskill signs Public Act No. 865 to create the Connecticut State Lottery.

**February 1972:** The Connecticut State Lottery begins as the fourth in the nation. Sales commence at approximately 3,000 retailer locations statewide, offering one game called “The Lottery.” Tickets cost 50¢ each with a weekly drawing top prize of \$5,000.

**September 1975:** “Instant Match,” the first scratch game in Connecticut goes on sale. Top Prize: \$10,000.

**March 1977:** “The Daily Numbers” game begins: match three digits, or variations on the combination, to win up to \$2,500 per ticket. Drawings are held daily.

**October 1980:** “Play 4” begins: match four digits, or variations on the combination, and win up to \$25,000 per ticket. Drawings are initially held once a week.

**November 1983:** “Lotto” is introduced. For just \$1 per play, players choose six numbers for a chance at winning a minimum jackpot prize of \$1,000,000.

**April 1992:** The Lottery launches “Cash Lotto,” where players select five numbers from 1 to 35. The game’s top prize is \$100,000.

**November 1995:** Connecticut joins the multi-state draw game, “Powerball®,” which features a double matrix and a minimum jackpot prize of \$5,000,000.

**July 1996:** The Connecticut State Lottery becomes a quasi-public agency named the Connecticut Lottery Corporation, reflecting its “business” orientation and entrepreneurial mission.

**February 1998:** “Mid-Day3” and “Mid-Day4” daily drawings begin.

**March 2009:** “Lucky-4-Life” draw game begins. The game includes a double matrix, with a top prize of up to \$2,000 a week for life.

**January 2010:** Connecticut joins the multi-state lottery draw game, “Mega Millions® with Megaplier,” which includes a double matrix and a minimum jackpot prize of \$12,000,000.

**October 2010:** The “Super Draw” draw game is launched. This game guarantees a top prize winner from a limited pool of tickets sold.

**February 2011:** The Connecticut Lottery Corporation becomes a member of the World Lottery Association and meets the criteria for achieving Level 1 Responsible Gaming Framework accreditation.

**November 2011:** The largest prize in the CT Lottery's history is claimed by the Putnam Avenue Family Trust, a Powerball jackpot ticket worth \$254.2 million.

**January 2012:** Powerball game is revised with a new matrix, higher minimum jackpots, more prizes of \$1,000,000, and a new price point of \$2.

**March 2012:** Lucky-4-Life ends and the six New England states join together to launch a regional version of the Connecticut draw game called "Lucky for Life®," offering a top prize of up to \$1,000 a day for life!

**July 2012:** The Connecticut Lottery Corporation meets the criteria for achieving Level 2 Responsible Gaming Framework accreditation from the World Lottery Association.

**January 2013:** "50/50 Super Draw" launches. The game's jackpot prize is determined by player participation – one winning ticket receives 50% of the total ticket sales generated during the game's limited time availability.

**May 2014:** "5 Card Cash™" launches. This new draw game gives players two chances to win on one ticket. Consumers can win instantly, up to \$5,555, and can also win up to \$255,555 in the game's daily drawing.

## FINANCIAL HIGHLIGHTS OF THE PAST YEAR

In fiscal year 2014, the CLC generated \$1.1 billion in sales revenue and returned a record sum of \$319.5 million to the General Fund. The CLC introduced a new lottery game, 5 Card Cash, in May 2014, which provided an additional revenue stream. Overall sales revenue declined \$10.3 million from the prior fiscal year chiefly due to softening demand for instant tickets and lower sales of multi-state lottery games.

Total cost of sales, including prizes, was \$759.6 million in fiscal year 2014 compared to \$789.8 million in fiscal year 2013. Operating expenses were \$20.8 million for fiscal year 2014 compared to \$19.9 million in fiscal year 2013. Payments to the State's General Fund totaled a record \$319.5 million in fiscal year 2014, an increase of \$7.4 million, or 2.4%, from the prior fiscal year total of \$312.1 million. For a more complete overview of the financial highlights of fiscal year 2014, 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.

## FINANCIAL OPERATIONS

**ENTERPRISE OPERATION:** The CLC operates as an enterprise fund; 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, problem gambling and regulatory fees. The CLC utilizes the accrual basis of accounting, in accordance with GAAP. No general government functions or fiduciary operations are managed by the CLC.

INTERNAL CONTROL & SECURITY 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 prize winners 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 one 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 A-"

The CLC collects cash from sales of lottery games from approximately 2,900 retailers on a weekly basis. Funds are electronically swept from the retailers' designated bank accounts, and weekly transfers of estimated 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 invests its excess cash 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 2014 and 2013 have been completed in conformity with generally accepted auditing standards. The unmodified opinion of the independent auditors on the CLC financial statements is included in the financial section of this report.

The Auditors of Public Accounts for the State of Connecticut also audit the CLC.

## FUTURE PROJECTS

In fiscal year 2015, the CLC will continue with initiatives to promote steady growth and increased transfers to the General Fund, including the introduction and modification of draw games, as well as an expansion of its social media presence and the development of a mobile application for consumer use.

The CLC will remain engaged in business partnerships and multi-jurisdictional arrangements that ensure the Lottery's mission to raise revenue for the state in a responsible manner.

The CLC will begin planning for the execution of contract requirements necessary to operate its wagering system.

Planning of a conversion of the CLC's financial management system will begin in fiscal year 2015; this conversion will upgrade and increase efficiency in all areas related to financial responsibilities.

The CLC will continue to foster its Corporate Responsibility programs that focus on responsible gambling, workplace supplier inclusion, as well as pro-business and green initiatives. While the CLC is not presently authorized to engage in traditional e-commerce, it will continue to look for ways to leverage technology to bring lottery products to existing and new customers in a manner that is both responsible and responsive to changing demographics and buying patterns. As the CLC looks to the future, it will continue to work with its brick and mortar retailers across this state who provide a valuable and reliable partnership for the sale of lottery tickets.

## ECONOMIC CONDITIONS

The economic environment improved slightly from the prior year. The Federal Reserve continues to maintain interest rates at historic lows, but it is forecasted to raise interest rates in calendar year 2015 for the first time since 2008. Economic conditions notwithstanding, the lottery industry and the CLC recorded strong sales and record General Fund transfers during fiscal year 2014. We believe that further improvement in the economy, increased economic certainty, and lower unemployment rates could increase the prospects for further gains in sales and profits. Our players will evaluate their own current financial condition and continue to adjust their spending habits to the evolving economic climate. Management will continue to monitor economic developments and will re-evaluate its business plans and products accordingly.

We look forward to the coming year and continuing to diversify products and distribution channels to maximize transfers to the General Fund.

Respectfully Submitted,



Anne M. Noble  
President & CEO



## STATE OF CONNECTICUT LIST OF PRINCIPAL STATE OFFICERS, AS OF JUNE 30, 2014

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**Dannel P. Malloy**, Governor  
**Nancy Wyman**, Lieutenant Governor

Denise W. Merrill	Secretary of the State
Denise L. Nappier	State Treasurer
Kevin Lembo	State Comptroller
George Jepsen	Attorney General



## CONNECTICUT LOTTERY CORPORATION BOARD OF DIRECTORS, AS OF JUNE 30, 2014

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**Frank A. Farricker**, Chairman

Benjamin Barnes	Secretary, Office of Policy and Management
Robert S. Dakers	Designee of Secretary, Office of Policy and Management
Denise L. Nappier	State Treasurer
Robert C. Morgan	Designee of State Treasurer
Gale A. Mattison	Vice Chairman
Steven A. Bafundo	
Patrick M. Birney	
James N. Farrell	
Margaret L. Morton	
Natasha M. Pierre	
Michael P. Thompson	
Jennifer J. Hamilton	
Kia Murrell	





## CONNECTICUT LOTTERY CORPORATION

### ORGANIZATIONAL CHART, AS OF JUNE 30, 2014

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#### EXECUTIVE

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Anne M. Noble	President & Chief Executive Officer
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#### OPERATIONS & ADMINISTRATION

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Michael J. Hunter	Chief Information Officer
Steven Wagner	Director, Information Technology
John J. Gasparini	Manager, Application & Internet Development
Steven J. Fox	Manager, Vendor Compliance
Solomon Ramsey	Director, Recruitment & Retailer Relations

#### MARKETING & SALES

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Diane Patterson	Vice President, Marketing & Sales
Linda Tarnowski	Director, Communications & Public Relations
Carlos Rodriguez	Director, Lottery Games
Thomas J. Trella	Director, Portfolio, Strategy & Analysis
Joel Kalinowski	Director, Social Media
Theresa Scott	Director, Lottery Sales Operations

#### FINANCE

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Paul A. Granato	Chief Financial Officer
Barry L. Sheftel	Lottery Financial Manager

#### GOVERNMENT AFFAIRS

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Chelsea E. Turner	Director, Government Regulatory & Operational Affairs
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#### LEGAL

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Lana Glovach	General Counsel
Andrew E. Walter	Counsel

#### HUMAN RESOURCES

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Jane M. Rooney	Director, Human Resources
Jennifer Hunter	Assistant Director, Human Resources

#### SECURITY

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Alfred W. DuPuis, Jr.	Director, Security
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## SCRATCH GAMES

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### FISCAL YEAR 2014 STATISTICS:



**\$137.1 million** in General Fund payments

- 45 scratch games launched
- 59.4% of total net sales
- 42.9% of General Fund payments

Scratch games are easy to play and provide players with instant entertainment. By removing the scratch-off coating on the ticket face, players can visually discover in an instant if they've won, and the amount of their prize.

There's a play style for everyone – from the crossword action of “Cashword” to the excitement of revealing an “X” game prize multiplier, like those found in “10X Cash.” 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 ticket prices range from \$1 to \$30, with set prizes from a FREE \$1 scratch ticket up to \$3,000,000! With such a variety of games, it's easy to see why scratch games are the play of choice for many consumers.

## DAILY GAMES

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### FISCAL YEAR 2014 STATISTICS:



**\$102.7 million** in General Fund payments

- Play3 Day:  
4.7% of total net sales  
6.5% of General Fund payments



- Play4 Day:  
3.8% of total net sales  
6.5% of General Fund payments



- Play3 Night:  
6.8% of total net sales  
10.0% of General Fund payments



- Play4 Night:  
6.0% of total net sales  
9.1% of General Fund payments

Four times each 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.”

To win, players select three or four digits from 0 through 9, choose a wager style, and pick a wager between 50¢ and \$5 per play. Prize amounts are based on the wager style and amount, and range from a modest \$25 up to an exciting \$25,000 per play.

## FISCAL YEAR 2014 STATISTICS:



*\$7.4 million in General Fund payments*

1.9% of total net sales

2.3% of General Fund payments

Drawn on Tuesday and Friday nights, the “Lotto” game has been a part of Connecticut’s play of choice since November 1983. Tickets cost \$1 per play. On March 10, 2013, Classic Lotto was given a new name, simply called LOTTO! Twice each week, players can win up to \$1,000,000 (or more) with Lotto. Lotto initially began with a 6 of 36 matrix, and today sports a 6 of 44 mix. Although the game has gone through several enhancements over the years, 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.

## CASH5

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## FISCAL YEAR 2014 STATISTICS:



*\$11.1 million in General Fund payments*

2.9% of total net sales

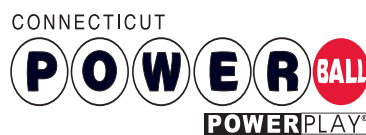
3.5% of General Fund payments

“Cash5” is Connecticut’s daily draw game with a chance to win up to \$100,000. For \$1, players get to choose five different numbers between 1 and 35. By adding the “Kicker” feature for just 50¢, players increase their chance to win more often and win more prize levels. Prizes can be won seven different ways and range from \$2 up to \$100,000 per ticket. With more than 1,000,000 winning tickets sold in this game each year, Cash5 is a proven favorite with Connecticut’s players.

## POWERBALL®

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## FISCAL YEAR 2014 STATISTICS:



*\$34.0 million in General Fund payments*

7.4% of total net sales

10.6% of General Fund payments

The current format of “Powerball” began in January 2012, with 59 white balls and 35 red balls, and a starting jackpot of \$40 million. The cost of a basic ticket is \$2. A jackpot win requires matching five white balls and one red ball (“Match 5+1”) to the winning numbers drawn from the two pools of numbers.

On January 22, 2014, the varying Power Play number multiplier returned to the game, replacing the previously used “set prize” Power Play payouts. When players activate the Power Play feature for an additional \$1 per play, winners will receive 2, 3 or 4 times the prize won from the third through seventh prize levels of the game.

With Power Play, the “Match 5” prize is always \$2,000,000. Powerball drawings are held twice weekly, on Wednesday and Saturday nights.

## MEGA MILLIONS®

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### FISCAL YEAR 2014 STATISTICS:



*\$14.3 million in General Fund payments*

3.4% of total net sales

4.5% of General Fund payments

On January 31, 2010, the CLC, along with 22 other lottery jurisdictions in the United States, joined the “Mega Millions with Megaplier” game as part of an historic cross-selling agreement between the industry’s two largest drawing games, Mega Millions and Powerball.

Mega Millions broke all previous records for the largest jackpot ever won in North American history on March 30, 2012, when a \$656 million prize was split between three winning tickets sold in Kansas, Illinois and Maryland.

On October 19, 2013, the Mega Millions matrix changed and added several new game features, all for the same \$1 basic ticket price. Jackpots in the game now start at \$15,000,000 and grow by at least \$5,000,000 after each drawing in which the jackpot is not won; the second prize increased to \$1,000,000 for matching the first five numbers, and the Megaplier multiplier option was expanded to include a 5X (five times) multiplier.

Purchasers may pick six numbers from two separate pools of numbers – 5 of 75 white balls and 1 of 15 yellow balls selected during each drawing of the game, or play the easy way by asking for a “Quick Pick.” The jackpot is won by matching all six numbers drawn. Besides the jackpot, there are eight other ways to win prizes in the game.

By choosing to activate the Megaplier feature for an additional \$1 per play, players can increase the value of their prize by as much as 2, 3, 4 or 5 times. With Megaplier, players that correctly match five white ball numbers can now win up to \$5,000,000! Drawings are held twice weekly on Tuesday and Friday nights.

## LUCKY FOR LIFE®

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### FISCAL YEAR 2014 STATISTICS:



*\$10.6 million in General Fund payments*

2.3% of total net sales

3.3% of General Fund payments

New England’s “Lucky for Life” regional draw game began on March 11, 2012 with tickets sold for \$2 each in Connecticut, Rhode Island, Massachusetts, New Hampshire, Vermont and Maine. Lucky’s main attraction is a top prize worth up to \$1,000 a day, and paid every week, for the rest of a winner’s natural life with a guaranteed 20-year minimum payout of \$7,300,000. Drawings are held twice weekly, on Monday and Thursday nights.

On September 17, 2013, the Lucky for Life game matrix changed. For the same \$2 ticket price, players pick six numbers from two separate pools of numbers – 5 of 43 balls, and one “Lucky Ball” number between 1 and 43, or they can ask for a “Quick Pick.” The top prize is won by matching all six numbers drawn. There are also nine other ways to win prizes in the game.

At the same time, a new “For Life” second prize worth \$25,000 a year for life with a guaranteed 20-year minimum payout of \$500,000 was added to the game. Winners were also provided with the choice of a new payment option to claim their “For Life” prizes in a Cash Lump Sum.

## CONNECTICUT SUPER DRAW

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### FISCAL YEAR 2014 STATISTICS:



***\$1.1 million*** in General Fund payments

**0.4%** of total net sales

**0.4%** of General Fund payments

Ticket sales for Connecticut’s “Super Draw” game began on October 1, 2010. Unlike daily or weekly draw games, Super Draw is only offered periodically. Sales are limited to a specific period of time, generally three months or less, and may or may not offer a finite number of tickets for sale. Ticket prices may also vary and have been set at \$10 or \$5.

Since the game’s introduction, nine Super Draw games have been held in Connecticut, including three in fiscal year 2014:

- Summertime Super Draw (drawing July 6, 2013, top prize \$1,000,000, ticket price \$10)
- New Year’s Super Draw (drawing January 1, 2014, top prize \$1,000,000, ticket price \$10)
- 50/50 Super Draw (drawing March 17, 2014, top prize 50% of sales, ticket price \$5)

In fiscal 2015, Super Draw will be offered for sale at varying points during the year.

## 5 CARD CASH™

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### FISCAL YEAR 2014 STATISTICS:



***\$1.2 million*** in General Fund payments

**1.1%** of total net sales

**0.4%** of General Fund payments

On May 4, 2014, ticket sales began for Connecticut’s exciting, new “5 Card Cash” daily draw game. The first 5 Card Cash daily drawing was held on May 5. Unlike any other draw game, 5 Card Cash offers players two chances to win – on the same ticket – by combining “Instant Win” fun with the excitement of a daily drawing. Easy to play, 5 Card Cash requires no playslip, playing skills or poker knowledge.

Each \$2 play includes a hand of five randomly selected playing card symbols from a standard “deck” of 52 cards. Players can win instantly if the hand on their ticket matches one of the ten winning hands for the game, up to \$5,555! Players can win again, up to \$255,555, if three or more of their cards match those drawn in the daily drawing.

**Stratford Pharmacy Tech Wins \$50,000  
“Super Cashword 16” Top Prize**

August 8, 2013 -- Debbie Gospodinoff of Stratford was full of energy when she arrived at Lottery headquarters to claim a \$50,000 top prize she won playing the “Super Cashword 16” instant game. “I’ve been playing ‘Cashword’ and I’ve wanted to win ‘The Big One’ for a long time,” said Gospodinoff, with an infectious laugh. “Now, I have!”

Gospodinoff was so excited with each new word match; she virtually stopped scratching her ticket. “I was playing the ticket and thought, ‘Wow, I have a lot of words.’ I just couldn’t wait anymore, so I scanned the ticket and saw all these zeros. Then I had the clerk scan it for me. I was so excited! I won \$50,000!”

“I’ve never had this much money in my life,” said Gospodinoff while claiming her \$50,000 prize at Lottery headquarters. “Now that I have the check, I’m going to put it in the bank for a while and let it simmer.”

**Retailer:** Pineridge Shell, 1036 E. Main Street, Torrington



**New Haven Bus Operator Picks Up “Bingo”  
Ticket for a \$25,000 Prize Win**

October 25, 2013 – During a visit with his brother, Frank Davis of Hamden mentioned that he wanted to pick up a CT Lottery Bingo ticket to play. His brother, who had purchased an extra “Bonus Ball Bingo” ticket earlier that day, gave it to Frank to play. When Frank scratched the ticket, he revealed the “X” needed to win the game’s \$25,000 top prize.

“When I saw what I won, I had to look at it again and again. I couldn’t believe it,” Davis said.

Davis, who has been employed by the CT Transit as a bus operator for the last 32 years, said he was “still in awe” when he claimed his \$25,000 prize. “There are a few things that I need to do around my house, but the rest of the prize money I’ll be sharing with my brother and my family.”

**Retailer:** Krauszer’s Food Stores, 911 Campbell Avenue, West Haven



### Shelton Man Claims \$1,000,000 Mega Millions Prize from Dec. 10 Draw

December 13, 2013 -- Driving home from work, Robert Rich of Shelton pulled into a gas station so that the friend he was traveling with could buy some lottery tickets. Rich bought a scratch ticket, but was urged on by his buddy to also buy a Mega Millions ticket. He bought five Mega Millions "Quick Pick" tickets—a fortunate choice that resulted in a five number match and a \$1,000,000 prize win.

"If it wasn't for my friend, I would have never even thought to play. Now I can pay off the mortgage, pay off the student loans, and definitely take a family vacation. It certainly makes life a little easier," said Rich.

**Retailer:** Howe Avenue Sunoco, 276 Howe Avenue, Shelton



### Happy Birthday Numbers are a Lucky Match for "\$25,000 a Year for Life" Prize Win

January 24, 2014 -- While getting ready for work at his second job, Michael Samlidis of Norwalk asked his wife, Helen, to check the Lottery's website for the winning Lucky for Life numbers. "When she gave me the piece of paper with the numbers she wrote down, my heart nearly jumped out of my chest! I couldn't believe it," Samlidis said with a laugh.

Samlidis' Lucky for Life ticket for the January 23rd drawing missed the Lucky Ball number, 19, but matched five of the winning numbers drawn; 12-14-19-20-21, for the game's \$25,000 a year for life 2nd prize. "These are all family's birthday numbers. I've been playing them for years," Samlidis said.

Samlidis opted to collect his \$25,000 a year for life 2nd prize in a one-time cash lump-sum of \$390,000. "This prize will make life a little bit easier," Samlidis said. "We'll be able to help our kids, our grandchildren, and maybe take a vacation back to Greece, my homeland."

**Retailer:** Hills Confectionery, 57 Stevens Street, Norwalk



**Oh, Baby—Manchester Couple Wins \$30,000 Powerball Prize!**

February 20, 2014 -- A last minute stop for road salt paved the way for Jeffrey Baker's purchase of five Powerball tickets for the Feb. 19, 2014 drawing. "My wife, Heather, and I are expecting our first child, and I didn't want to risk her falling on our icy driveway," said Manchester resident. "It turns out the store was out of salt, but since I was already there, I decided to buy some Powerball tickets."

Later that evening, one of Baker's "Quick Pick" tickets matched four of the five numbers drawn, plus the Powerball number. The Power Play multiplier was 3. Because Baker Power Played his ticket, his \$10,000 prize was automatically tripled to \$30,000.

"I paused the TV with the winning numbers frozen on the screen. I knew we won, but it didn't seem real until we waited a bit and checked the winning numbers on the Lottery's website," Baker said.

Still bubbling over with excitement, the happy couple claimed their \$30,000 prize. "This money is a blessing in disguise," Baker told lottery officials. "It's going to be able to give us some breathing room with the new baby coming."

**Retailer:** Manchester Irving, 318 Adams Street, Manchester.



**Woman Wins First \$255,555 "5 Card Cash" Top Prize for May 9th Drawing**

May 12, 2014 -- The tables were turned midway through a very busy Mother's Day shift when Rachel Cisinski, 22, of Vernon, was served up with the most delicious news—her "5 Card Cash" ticket was a \$255,555 top prize winner.

Cisinski's 5 Card Cash ticket for May 9 made history as the first perfect match to the winning card symbols drawn: JS, 8D, 10D, AH, 4S.

With an ear-to-ear smile, Cisinski accepted a prize check from Lottery officials for \$174,545 (value after taxes). "I'm going to be smart," said Cisinski. "I'm going to put the money in the bank and take my time to decide the best way to use it."

**Retailer:** S&O Petroleum, 1292 Hartford Turnpike, Vernon





## CORPORATE RESPONSIBILITY

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The CT Lottery has a robust commitment to corporate responsibility that includes four primary areas: responsible gambling, pro-business programs, supplier diversity and inclusion, and green initiatives. Twenty-nine employees, representing all levels and departments of the corporation, volunteer to be a part of these endeavors. Together, they produce a quarterly corporate responsibility newsletter, *Chatter That Matters*<sup>™</sup>. The CLC received the 2014 national award from the National Council on Problem Gambling (NCPG) for the best newsletter with responsible gambling content. Below is an overview of the corporate responsibility efforts during fiscal year 2014.

### Responsible Gambling

- **Holiday Responsible Gambling Campaign.** Each December, the CLC participates in the NCPG and McGill University’s International Centre for Youth Gambling Problems and High-Risk Behaviors campaign to educate adults that lottery tickets are not suitable gifts for children. “Gift Responsibly” marketing messages were out-of-home and in-store, on a banner displayed on the Department of Administrative Services’ (DAS) sidewalk wall, on CLC’s website, through social media and in state employee pay inserts. Ads were also placed in the CT Association of Boards of Education’s magazine, *The Advisor*, and in *CT Parent Magazine*.



*Payroll insert*

- **Problem Gambling Awareness Month (PGAM).** Each March, extra marketing efforts promote responsible gambling and the Problem Gambling Helpline number. This includes: a board resolution, a letter from the CLC President to all employees, an employee and retailer online training session, out-of-home and in-store marketing, public service announcement broadcasts, a banner displayed on the DAS sidewalk wall, development of a multiple-language retailer training video, a “Know Your Limit, Stay Within It!” social media campaign, an educational display created by employees and state employee pay inserts. An ad was also placed in the CT Association of Boards of Education’s magazine, *The Advisor*.
- **Beginning and End of the School Year.** During September and June, the CLC promotes awareness of the Problem Gambling Helpline number through the CT Association Boards of Education’s magazine, *The Advisor*, and the CT Association of Public School Superintendents’ email system.
- **CT Partnership for Responsible Gambling.** The CT Partnership for Responsible Gambling is a 16-year coalition between the CLC, the Department of Mental Health and Addiction Services’ Problem Gambling Services Unit, and the CT Council on Problem Gambling (CCPG). This group’s primary objective has been to share ideas and collaborate on methods to inform the public about the risks caused by excessive gambling.

## CORPORATE RESPONSIBILITY

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- **Gambling Awareness for All CT:** This group, formerly the CT Women’s Problem Gambling Project, includes responsible gambling advocates, mental health clinicians and lottery representatives and meets quarterly to exchange information and learn how problem gambling can affect vulnerable populations.
- **Employee Training:** In addition to its online responsible gambling training, the CLC held a training for its employees on October 29, 2013. Keith Whyte, Executive Director of NCPG, and Mary Drexler, Executive Director of CCPG, discussed best practices and current trends of responsible gambling programs, the Problem Gambling Helpline and also provided statistical information about problem gamblers in Connecticut.
- **National Association of State and Provincial Lotteries (NASPL) Responsible Gambling Committee:** The CLC is part of this committee, which focuses on developing responsible gambling accreditation standards for U.S. lotteries, developing a speaker’s bureau, and creating a tool kit for lotteries to use as they develop their responsible gambling programs.

### Pro-Business

- **Corporate Member of the Week:** In both August and September 2013, the CLC was recognized as the “Corporate Member of the Week” by the Greater New England Minority Supplier Development Council (GNEMSDC).
- **GNEMSDC Tradeshow:** In September 2013, the CLC participated in the GNEMSDC tradeshow at the CT Convention Center. CLC employees interacted with potential suppliers at its booth and in a matchmaking session.
- **Supplier Diversity Training:** In October 2013, Winston Strategic Partners (WSP) presented four sessions of diversity training to all CLC employees.
- **First Annual Supplier Diversity Open House:** In October 2013, the CLC held its first annual open house for diverse suppliers. Fifty-eight regional minority suppliers attended and learned about how to do business with the CLC. A networking session followed. The State Department of Administrative Services (DAS), GNEMSDC, and the Women’s Business National Enterprise Council (WBENC) attended and supported minority vendors in their efforts to become certified.
- **Working Towards “Best in Class:”** In January 2014, the CLC’s work with WSP concluded. During the prior year and a half, the CLC worked closely with WSP to build its supplier diversity program, develop a policy statement on supplier diversity, and build a section on its website to reach out to diverse suppliers.



## CORPORATE RESPONSIBILITY

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The CLC also held an employee training session, held its first supplier diversity open house, added language to its request for proposals to encourage diverse suppliers to apply, and created a blueprint for the future.

- **US SBA Matchmaker Conference:** In June 2014, CLC employees participated in the United States Small Business Administration's Matchmaker Conference at the University of Hartford to engage with new and diverse suppliers.
- **Members of GNEMSDC and WBENC:** The CLC regularly attends and participates in regional GNEMSDC and WBENC meetings and events.

### Inclusion

- **Affirmative Action:** The CLC is an Affirmative Action/Equal Opportunity Employer.
- **Life Reimagined for Work:** The CLC signed the American Association of Retired Persons (AARP) Campaign's "Life Reimagined for Work" pledge, which reaffirms the CLC's commitment that employment opportunities at the CLC are open to all workers, regardless of age.

### Green Initiatives

- **Lighting:** The CLC replaced all of its parking lot lights with energy-efficient LEDs. A CL&P rebate program covered over one-third of the cost. The CLC will recoup the remaining cost within three years and save approximately \$7,000 annually thereafter. The CLC anticipates additional cost savings due to reduced replacement needs. The CLC primarily uses T-8 fluorescent lighting which are energy-efficient and cost-effective.
- **Paper vs. Poly envelopes:** The CLC issued an Invitation to Bid (ITB) for poly envelopes used to ship instant tickets to its retail partners and learned such bags are not 100% recyclable. As a result, the CLC made a decision to continue to use 100% recyclable paper envelopes.
- **Plant a Tree Program:** The CLC participates in Dell's "Plant a Tree" Program. For each computer purchased through this program, money is donated towards planting trees to offset the carbon footprint left behind by electronic devices.
- **Instant Tickets and Instant Ticket Recycling Dispenser Program:** The vast majority of CLC's instant tickets are printed on 100% recyclable paper. CLC recycles the clear acrylic ticket dispensers whenever possible by refurbishing and reusing them. This initiative is "green" and has generated substantial annual savings.
- **Other Recycling Initiatives:** The CLC utilizes a specialized electronic recycling vendor to dispose of computers, monitors, printers and other electronic equipment. Its warehouse staff also works with a local business to recycle pallet crates. Additionally, the CLC routinely recycles paper, aluminum cans and batteries.





# FINANCIAL SECTION





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## Report of Independent Auditors

The Management and Board of Directors  
Connecticut Lottery Corporation

### Report on the Financial Statements

We have audited the accompanying financial statements of the Connecticut Lottery Corporation (the Lottery), a component unit of the State of Connecticut, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lottery as of June 30, 2014 and 2013, and the changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

## ***Required Supplementary Information***

U.S. generally accepted accounting principles require that Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Lottery's basic financial statements. The Schedule of Profit Margins by Game Type is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Profit Margins by Game Type for the years ended June 30, 2014 and 2013, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the Schedule of Profit Margins by Game Type for the years ended June 30, 2014 and 2013, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our report dated September 18, 2014 on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lottery's internal control over financial reporting and compliance.

September 18, 2014

*Ernst + Young LLP*



## CONNECTICUT LOTTERY CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2014 AND 2013

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The following Management's Discussion and Analysis (MD&A) provides an overview of the Connecticut Lottery Corporation's financial performance for the fiscal years ended June 30, 2014 and 2013. The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements and notes to financial statements.

#### FINANCIAL STATEMENTS PRESENTED IN THIS REPORT

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

The financial statements are comprised of three components:

- **Statements of Net Position** reflect the Lottery's financial position as of June 30, 2014 and 2013.
- **Statements of Revenues, Expenses and Changes in Net Position** report the revenues and expenses for the periods June 30, 2014 and 2013.
- **Statements of Cash Flows** reconcile the changes in cash and cash equivalents with the activities of the Lottery for the periods presented. The activities are classified as to operating, investing, capital financing and non-capital financing.

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

#### FINANCIAL HIGHLIGHTS OF FISCAL 2014

- Total sales revenue were \$1,112.4 million, a decline of \$10.3 million, or 0.9%, from fiscal 2013. Net sales surpassed the billion dollar mark for the fourth consecutive year.
- Transfers to the State's General Fund were \$319.5 million, an increase of \$7.4 million, or 2.4%, compared to the prior fiscal year, a new record for the Lottery.

#### FINANCIAL HIGHLIGHTS OF FISCAL 2013

- Total sales revenue amounted to \$1,122.7 million, an increase of \$41 million, or 3.8%, from fiscal 2012. This represented the third consecutive year that operating revenue surpassed the billion dollar mark and is the highest sales level ever achieved.
- Transfers to the State's General Fund were \$312.1 million, an increase of \$2.1 million, or 0.6%, compared to the prior fiscal year, and also a new record for the Lottery.

# CONNECTICUT LOTTERY CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2014 AND 2013

### CONDENSED FINANCIAL INFORMATION

#### *Net Position and Changes in Net Position*

Net position represents the assets of the Lottery less the liabilities owed to third parties. The net position is restricted for promotional purposes, augmenting prizes or increasing payments to the State's General Fund. Net position increased \$7.7 million in fiscal 2014 and decreased \$3.8 million in fiscal 2013.

Listed below is a summary of the key components of net position. The Lottery transfers net position to the State's General Fund; therefore, the change in net position does not reflect the results of the Lottery's operating activities.

#### *Net Position (in thousands)*

	2014	Increase (Decrease)	2013	Increase (Decrease)	2012
Current assets	\$ 57,580	\$ (11,622)	\$ 69,202	\$ (23,201)	\$ 92,403
Investments and other non-current assets	131,014	(2,833)	133,847	12,617	121,230
Capital assets (net of accumulated depreciation)	1,388	(297)	1,685	(426)	2,111
<b>Total assets</b>	189,982	(14,752)	204,734	(11,010)	215,744
Current liabilities	52,540	(19,148)	71,688	(19,801)	91,489
Long-term liabilities	125,967	(3,323)	129,290	12,596	116,694
<b>Total liabilities</b>	178,507	(22,471)	200,978	(7,205)	208,183
Net investment in capital assets	1,388	(297)	1,685	(426)	2,111
Restricted net position	10,087	8,016	2,071	(3,379)	5,450
<b>Total net position</b>	\$ 11,475	\$ 7,719	\$ 3,756	\$ (3,805)	\$ 7,561

**CONNECTICUT LOTTERY CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2014 AND 2013**

*Changes in Net Position*  
*(in thousands)*

	2014	Increase (Decrease)	2013	Increase (Decrease)	2012
Total game sales, net	\$ 1,112,405	\$ (10,290)	\$ 1,122,695	\$ 40,955	\$ 1,081,740
Other operating income	51	(24)	75	3	72
Non-operating revenues:					
Interest income	7,683	(717)	8,400	(1,138)	9,538
Other	7	–	7	1	6
<b><i>Total revenues</i></b>	<b>1,120,146</b>	<b>(11,031)</b>	<b>1,131,177</b>	<b>39,821</b>	<b>1,091,356</b>
Total cost of sales	759,564	(30,257)	789,821	41,748	748,073
Total operating expenses	20,775	912	19,863	932	18,931
Non-operating expense:					
Interest expense	7,667	(689)	8,356	(1,149)	9,505
<b><i>Total costs and expenses</i></b>	<b>788,006</b>	<b>(30,034)</b>	<b>818,040</b>	<b>41,531</b>	<b>776,509</b>
Change in net position before payments to State Funds	332,140	19,003	313,137	(1,710)	314,847
Payments to Chronic Gamblers' Fund	2,300	400	1,900	–	1,900
Payments to General Fund	319,500	7,400	312,100	2,100	310,000
Payments to Department of Consumer Protection	2,621	(321)	2,942	42	2,900
<b><i>Change in net position</i></b>	<b>7,719</b>		<b>(3,805)</b>		<b>47</b>
Total net position, beginning balance	3,756		7,561		7,514
Total net position, ending balance	\$ 11,475		\$ 3,756		\$ 7,561

## CONNECTICUT LOTTERY CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2014 AND 2013

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#### OVERVIEW OF FINANCIAL POSITION

Total assets were \$190.0 million as of June 30, 2014, a decline of \$14.8 million compared to the prior fiscal year. Current assets totaled \$57.6 million, comprised primarily of cash and cash equivalents of \$7.7 million, accounts receivable of \$30.7 million, and annuity contracts of \$13.9 million. Non-current assets totaled \$132.4 million, consisting of investments for prize payments (at present value) and prize reserves.

Total assets were \$204.7 million as of June 30, 2013, a decline of \$11.0 million compared to the prior fiscal year. Current assets totaled \$69.2 million, comprised primarily of cash and cash equivalents of \$11.2 million, accounts receivable of \$34.5 million, and annuity contracts of \$18.4 million. Non-current assets totaled \$135.5 million, consisting of investments for prize payments (at present value) and prize reserves.

Investments for prize payments consist of annuity contracts from qualified life insurance companies in equal amounts and with the same maturities as the prizes payable to the lottery winners. The annuity contracts provide payments required to meet the obligations of Lottery prize disbursements.

**CONNECTICUT LOTTERY CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2014 AND 2013**

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

	Increase (Decrease)			Increase (Decrease)			2012
	2014	\$	%	2013	\$	%	
<b>SALES</b>							
Instant games	\$ 660,230	\$ (7,026)	(1.1%)	\$ 667,256	\$ 13,946	2.1%	\$ 653,310
Daily games	235,883	2,265	1.0%	233,618	13,558	6.2%	220,060
Multi-State games <sup>(a)</sup>	145,387	(16,155)	(10.0%)	161,542	19,761	13.9%	141,781
Lotto	21,591	(559)	(2.5%)	22,150	(5,222)	(19.1%)	27,372
Cash5	32,318	(246)	(0.8%)	32,564	(1,217)	(3.6%)	33,781
5 Card Cash	12,641	12,641	100.0%	–	–	N/A	–
CT Super Draw	4,355	(1,209)	(21.7%)	5,564	128	2.4%	5,436
<b>Total sales</b>	<b>\$1,112,405</b>	<b>\$ (10,289)</b>	<b>(0.9%)</b>	<b>\$1,122,694</b>	<b>\$ 40,954</b>	<b>3.8%</b>	<b>\$1,081,740</b>
<b>RELATED EXPENSES</b>							
Prize Expense	\$ 668,792	\$ (30,271)	(4.3%)	\$ 699,063	\$ 39,165	5.9%	\$ 659,898
Retailer commissions	\$ 62,077	\$ (688)	(1.1%)	\$ 62,765	\$ 2,025	3.3%	\$ 60,740
On-line systems	\$ 10,345	\$ 361	3.6%	\$ 9,984	\$ 128	1.3%	\$ 9,856
Marketing & advertising	\$ 11,455	\$ 835	7.9%	\$ 10,620	94	0.9%	\$ 10,526
Production expenses	\$ 6,895	\$ (495)	(6.7%)	\$ 7,390	\$ 337	4.8%	\$ 7,053

*(a) Includes sales from Powerball, Mega Millions and Lucky for Life games.*

## CONNECTICUT LOTTERY CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2014 AND 2013

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Sales revenue totaled \$1,112.4 million for fiscal year 2014. The daily numbers games sales revenue totaled \$235.9 million and increased \$2.3 million, or 1.0% from the prior fiscal year. The Lottery introduced a new game in fiscal 2014, 5 Card Cash, which contributed sales revenue of \$12.6 million. Instant ticket games sales revenue declined \$7.0 million, or 1.1% and the multi-state games sales revenue declined \$16.2 million, or 10.0% from the prior fiscal year. The remaining games had modest declines in revenue compared to fiscal year 2013.

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

Prize expense for the instant ticket platform is certain since the instant ticket prize structure is developed using certain parameters. Prize expense for online draw games will have differences due to the probability of random drawings. Total prize expense for the period ending June 30, 2014 amounted to \$668.8 million compared to \$699.1 million in the prior year primarily resulting from lower payout percentages on certain lottery drawings.

Retailer commissions totaled \$62.1 million compared to \$62.8 million in the prior year. Percentage changes in retailer commissions vary slightly from sales percentage changes, due to incremental incentive compensation earned by retailers for promotions offered by the Lottery to promote selected games.

Vendor fees for online systems and network administration expenses totaled \$10.3 million compared to \$10.0 million in the prior year. Production expenses were \$6.9 million compared to \$7.4 million in the prior year. Production expenses include: the production costs of instant tickets, royalty fees associated with licensed games, studio costs for drawing broadcasts and courier costs to deliver the tickets to the retailers.

Marketing and advertising expenses generally do not vary in proportion to sales. 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 and advertising expense totaled \$11.5 million in fiscal year 2014 compared to \$10.6 million for the same period in the prior year.

## CONNECTICUT LOTTERY CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2014 AND 2013

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Operating expenses totaled \$20.8 million for the year ending June 30, 2014 compared to \$19.9 million in the prior year.

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

Payments to the State's General Fund totaled \$319.5 million compared to \$312.1 million in the prior year. Payments to the General Fund reflect the net earnings of the Lottery that are transferred to the State's General Fund.

#### **BUDGETARY COMPARISONS**

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

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

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

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

**CONNECTICUT LOTTERY CORPORATION**  
**STATEMENTS OF NET POSITION**

	<b>June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,703,433	\$ 11,163,687
Accounts receivable, net of allowance for doubtful accounts	30,736,003	34,497,710
Prepaid annuities for prizes	13,863,543	18,448,868
Accrued interest receivable	2,208,845	2,808,573
Ticket inventory, net of allowance	2,562,102	2,082,854
Prepaid expenses	505,592	200,377
<i>Total current assets</i>	57,579,518	69,202,069
NON-CURRENT ASSETS		
Investments for prize payments at present value	125,384,680	128,583,612
Prize reserves held by Multi-State Lottery Association	5,379,412	5,063,840
Capital assets, net	1,388,147	1,684,712
Advances to high-tier claim centers	250,000	200,000
<i>Total non-current assets</i>	132,402,239	135,532,164
<i>Total assets</i>	\$ 189,981,757	\$ 204,734,233



	June 30	
	2014	2013
<b>LIABILITIES AND NET POSITION</b>		
CURRENT LIABILITIES		
Annuities payable	\$ 14,134,357	\$ 19,140,744
Prizes payable	23,334,788	33,373,826
Accrued interest payable	2,208,845	2,808,573
Accounts payable and accrued expenses	10,581,723	14,227,034
Due to Regional Games	911,913	–
Due to the Multi-State Lottery Association	512,868	1,416,788
Unearned revenue	855,370	721,539
<i>Total current liabilities</i>	52,539,864	71,688,504
LONG-TERM LIABILITIES		
Long-term annuities payable, at present value	125,384,680	128,583,612
Deferred rent	582,674	621,721
Long-term salaries and benefits payable	–	84,695
<i>Total long-term liabilities</i>	125,967,354	129,290,028
<i>Total liabilities</i>	178,507,218	200,978,532
NET POSITION		
Net investment in capital assets	1,388,147	1,684,712
Restricted	10,086,392	2,070,989
<i>Total net position</i>	11,474,539	3,755,701
<i>Total liabilities and net position</i>	\$ 189,981,757	\$ 204,734,233

See accompanying notes.

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

	Years ended June 30	
	2014	2013
SALES		
OPERATING REVENUE		
Instant game sales	\$ 660,230,730	\$ 667,256,434
On-line game sales	309,763,538	297,281,232
Multi-State game sales	145,552,293	161,584,529
	1,115,546,561	1,126,122,195
Less sales returns, cancellations and promotions	(3,142,027)	(3,427,245)
<i>Total operating revenue</i>	1,112,404,534	1,122,694,950
COST OF SALES AND OPERATING EXPENSES		
COST OF SALES		
Prize expense	668,791,859	699,062,914
Retailer commissions	62,077,095	62,765,221
On-line systems	10,344,624	9,983,643
Marketing, advertising and promotion	11,455,102	10,619,925
Production expenses	6,895,442	7,389,680
<i>Total cost of sales</i>	759,564,122	789,821,383
OPERATING EXPENSES		
Salaries and benefits	17,139,804	15,749,208
Other operating expenses	3,216,384	3,709,924
Depreciation and amortization	376,949	426,474
Bad debt expense	41,907	(22,483)
<i>Total operating expenses</i>	20,775,044	19,863,123
OTHER OPERATING INCOME	51,125	74,566
<i>Operating income</i>	\$ 332,116,493	\$ 313,085,010

	<b>Years ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest income from investments on annuities	\$ 7,667,291	\$ 8,356,174
Interest income	15,859	44,557
Interest expense on annuity payments	(7,667,291)	(8,356,174)
Annuity assignment	7,000	7,000
<i>Total non-operating revenues</i>	22,859	51,557
<b>CHANGE IN NET POSITION AVAILABLE BEFORE PAYMENTS TO STATE FUNDS</b>	332,139,352	313,136,567
<b>NON-OPERATING PAYMENTS TO STATE OF CONNECTICUT FUNDS</b>		
Chronic Gamblers' Fund	2,300,000	1,900,000
Department of Consumer Protection	2,620,514	2,942,050
General Fund	319,500,000	312,100,000
<i>Change in net position</i>	7,718,838	(3,805,483)
TOTAL NET POSITION, beginning	3,755,701	7,561,184
TOTAL NET POSITION, ending	\$ 11,474,539	\$ 3,755,701

*See accompanying notes.*

# CONNECTICUT LOTTERY CORPORATION

## STATEMENTS OF CASH FLOWS

	Years ended June 30	
	2014	2013
<b>OPERATING ACTIVITIES</b>		
Receipts from sale of game tickets	\$ 1,116,258,163	\$ 1,122,536,740
Receipts from other operating income	51,125	74,566
Payments for prizes	(679,138,475)	(704,080,847)
Payments to retailers	(62,077,095)	(62,765,221)
Payments to suppliers	(33,124,941)	(39,388,246)
Payments to employees	(17,224,499)	(15,821,938)
Payments for other expenses	(3,305,431)	(3,633,345)
<i>Net cash provided by operating activities</i>	321,438,847	296,921,709
<b>INVESTING ACTIVITIES</b>		
Receipts of principal from annuities	18,545,326	22,047,532
Receipts of interest from annuities	8,267,018	8,944,988
Receipts of interest from cash equivalents	15,859	44,557
Purchase of insurance annuities	(9,519,188)	(30,946,045)
<i>Net cash provided by investing activities</i>	17,309,015	91,032
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	(80,384)	-
<i>Net cash used in capital financing activities</i>	(80,384)	-
<b>NON-CAPITAL FINANCING ACTIVITIES</b>		
Payment of principal on long-term annuities	(18,966,387)	(22,043,466)
Payment of interest on long-term annuities payable	(8,267,018)	(8,944,988)
Annuity assignment	7,000	7,000
Payments to the General Fund	(319,500,000)	(312,100,000)
Payments to the Chronic Gamblers' Fund	(2,300,000)	(1,900,000)
Payment to Department of Consumer Protection	(2,620,514)	(2,942,050)
Additions to long-term annuities payable	9,519,187	30,946,045
<i>Net cash used in non-capital financing activities</i>	\$ (342,127,732)	\$ (316,977,459)

	Years ended June 30	
	2014	2013
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	\$ (3,460,254)	\$ (19,964,719)
CASH AND CASH EQUIVALENTS, Beginning	11,163,687	31,128,405
CASH AND CASH EQUIVALENTS, Ending	\$ 7,703,433	\$ 11,163,687
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 332,116,493	\$ 313,085,010
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	376,949	426,474
Bad debt expense	41,907	(22,483)
Changes in operating assets and liabilities:		
Accounts receivable	3,719,800	(226,411)
Accounts payable and accrued expenses	(3,645,311)	(11,216,997)
Ticket inventory	(479,248)	(119,925)
Prepaid expenses	(305,215)	(58,075)
Prize reserves	(315,572)	(24,428)
Advances	(50,000)	-
Prizes payable	(10,039,038)	(5,143,387)
Due (from) to Multi-State Lottery Association	(903,920)	149,881
Due to regional games	911,913	-
Deferred revenue	133,831	68,202
Deferred rent liability	(39,047)	76,578
Deferred retiree salaries and benefits payable	(84,695)	(72,730)
<i>Net cash provided by operating activities</i>	\$ 321,438,847	\$ 296,921,709

*See accompanying notes.*

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

**A. REPORTING ENTITY**

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

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

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

**B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

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

The Lottery's activities are accounted for using the economic resources measurement focus and the accrual basis of accounting. In its accounting and financial reporting, the Lottery follows the pronouncements of the Governmental Accounting Standards Board (GASB). All assets and liabilities, net position, revenues and expenses are accounted for in an enterprise fund with revenues recorded when earned and expenses recorded when the related liability is incurred.

**C. SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

**Ticket Inventory**— Instant game tickets are purchased from printing vendors. Unsold tickets are held in inventory and valued at the lower of cost or market using the specific identification method. Inventories are reported at their gross amount, reduced by the estimated portion that is provided for scrapped instant inventory tickets. The cost of tickets is recorded as cost of sales. The cost of unissued tickets and returned tickets are written off at year-end as an adjustment to inventory.

**Capital Assets**— The capitalization threshold for the purchase of equipment and leasehold improvements is \$5,000. Capital assets are reported at cost and are depreciated using the straight-line method over the following estimated useful lives:

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

**Prizes Payable**— The prizes payable account represents the difference between the prize liability and the actual prizes redeemed. The Lottery honors winning lottery tickets for up to 180 days after the drawing in which the prizes are won for draw game prizes or the official end of game for instant game prizes. After 180 days, the liability is extinguished and the related income is added to net position 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.

**NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

***Revenue Recognition*** —

- *Instant game tickets* – Packs of instant games are consigned to retail sales agents and revenue is recognized when the pack is sold.
- *Draw game tickets* – Tickets for draw games are sold through electronic terminals at retail sales locations and revenue is recognized on the date of the drawing, with the exception of the CT Super Draw game. Revenue for CT Super Draw is recognized as tickets are sold by the retail agents.

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

***Prize Expense*** — Prize expense for instant 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 draw games is recognized at the time of actual drawings with the exception of the CT Super Draw game. Prize expense for CT Super Draw is recognized based upon the actual relationship of the predetermined prize structure to the number of tickets sold in order to properly match revenues and expenses. Prizes may be claimed up to 180 days after the official end of the game for instant games and up to 180 days after the draw date for draw games. Because winning tickets may be lost, destroyed or not redeemed for other reasons, there will be differences between amounts accrued and the amounts actually paid. Those differences, called unclaimed prizes, are recognized as a reduction of expense 181 days after the end of the instant game or drawing date, as appropriate (see Unclaimed Prizes). Powerball and Mega Millions prize expense is recognized in accordance with the Multi-State Lottery Association agreement (see Note 6).

***Unclaimed Prizes*** — As noted above, prizes must be claimed within 180 days from the date of the official end of the game for instant games and date of the drawing for draw 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% of gross annual revenue must be paid as prizes. For the fiscal years ended June 30, 2014 and 2013, the prize expense amounted to 60.1% and 62.3% of Lottery sales, respectively.

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

***Payments to the State of Connecticut*** — The Lottery transfers excess funds to contribute to the general revenues of the State of Connecticut. The Lottery also reimburses the Department of Consumer Protection for the expenses incurred for the costs of regulation and provides funds for the chronic gamblers' treatment rehabilitation account.



## CONNECTICUT LOTTERY CORPORATION

### NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2014 AND 2013

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#### NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

**Net Position** — Restricted net position represents 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. Net investment in capital assets represents resources net of accumulated depreciation invested in capital assets.

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

**Recent Accounting Pronouncements** — In March 2012, GASB issued Statement No. 66, *Technical Corrections—2012* (GASB No. 66). The objective of this Statement is to improve accounting and financial reporting by state and local governmental entities by resolving conflicting guidance that resulted from the issuance of two pronouncements—Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The implementation of this standard did not have an impact on the Lottery's financial statements.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (GASB No. 70). The objective of this Statement is to improve the comparability of financial statements among governments by requiring consistent reporting by those governments that extend and/or receive nonexchange financial guarantees. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. The implementation of this standard did not have an impact on the Lottery's financial statements.

**Upcoming Accounting Pronouncements** — In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB No. 68). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The Lottery will be required to record a liability and expense equal to its proportionate share of the collective net pension liability and expense for the State Employee's Retirement System cost sharing plan. The Lottery is in the process of assessing the impact of GASB No. 68 on its financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* (GASB No. 69). The objective of this Statement is to improve the accounting for mergers and acquisitions among state and local governments by providing guidance specific to the situations and circumstances encountered within the governmental environment. The provisions of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. The implementation of this standard will not have an impact on the Lottery's financial statements.

## CONNECTICUT LOTTERY CORPORATION

### NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2014 AND 2013

#### NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB 68*, (GASB No. 71). The objective of this Statement is to address an issue regarding application of the transition provisions of GASB No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The Lottery is in the process of assessing the impact of GASB No. 71 on its financial statements.

#### NOTE 2 – CASH, CASH EQUIVALENTS AND CREDIT RISK

Cash and cash equivalents are as follows:

	June 30	
	2014	2013
Cash in bank	\$ 4,634,378	\$ 4,701,208
Cash in transit	33,647	33,377
Short Term Investment Fund (“STIF”)	2,000,913	5,294,393
STIF (Retailer-security deposits)	1,026,495	1,126,709
Petty Cash	8,000	8,000
<b>Total cash and cash equivalents</b>	<b>\$ 7,703,433</b>	<b>\$ 11,163,687</b>

In accordance with Chapter 229a and Sections 3-20 and 3-27a of the 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 36a-353.

At June 30, 2014 and 2013, the carrying amounts of the Lottery’s deposits were \$4,634,378 and \$4,701,208, respectively. Bank deposits are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). At fiscal year-end, the Lottery’s bank balance was \$5,143,684. Of this amount \$250,000 was covered by the FDIC and \$4,893,684 was collateralized with securities held by the pledging financial institution at the Federal Reserve Bank under the name of the State Commissioner of Banking.

**CONNECTICUT LOTTERY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2014 AND 2013**

**NOTE 2- CASH, CASH EQUIVALENTS AND CREDIT RISK (CONTINUED)**

At June 30, 2014 and 2013, the Lottery also had uninsured and uncollateralized investments of \$3,027,408 and \$6,421,102, respectively, in the State Treasurer's Short-Term Investment Fund (STIF). Cash invested in STIF is classified as pooled investments and, therefore, not categorized by risk type. Standard & Poor's rated the STIF as AAAM for the last three fiscal years.

The Lottery's daily bank investments and short-term STIF investments are invested in highly liquid, short-term assets that create no interest rate risk for the Lottery. The average maturity of the underlying assets within the STIF investments is 40 days. The Lottery's stated policy is to invest in highly liquid, short-term assets.

**NOTE 3- INVESTMENTS AND CREDIT RISK**

The Lottery had the following investments as of:

	<u>June 30, 2014</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>
Annuity contracts (at present value, discounted at approximately 5.4%)	\$ 139,248,223	\$ 139,248,223

	<u>June 30, 2013</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>
Annuity contracts (at present value, discounted at approximately 5.6%)	\$ 147,032,480	\$ 147,032,480

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

	<u>June 30</u>	
<u>Insurance Company</u>	<u>2014</u>	<u>2013</u>
Ohio National Life Insurance	\$ 43,505,268	\$ 45,155,245
Metropolitan Life	32,092,401	27,787,113
John Hancock Life Insurance	16,307,008	19,109,137
New York Life Insurance	13,674,764	18,225,627
Savings Bank Life Insurance Co. of Massachusetts	21,282,673	17,303,571

As of June 30, 2014 and 2013, the Lottery's investments with the above institutions had ratings by A.M. Best Company ranging between A+ and A++.

All annuity contracts are purchased through a formal proposal process administered by the Lottery. Insurance company qualifications are reviewed by the Connecticut Insurance Department.

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, 2014 AND 2013**

**NOTE 4 – CAPITAL ASSETS**

A summary of capital assets 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, 2012	1,031,475	1,459,380	2,939,448	5,430,303
Capital Additions	–	–	–	–
Disposals	–	–	–	–
Balance, June 30, 2013	1,031,475	1,459,380	2,939,448	5,430,303
Capital Additions	28,608	10,859	40,917	80,384
Disposals	–	–	–	–
Balance, June 30, 2014	1,060,083	1,470,239	2,980,365	5,510,687
<b>Accumulated Depreciation</b>				
Balance, June 30, 2012	(410,746)	(1,142,450)	(1,765,921)	(3,319,117)
Depreciation	(112,534)	(119,611)	(194,329)	(426,474)
Disposals	–	–	–	–
Balance, June 30, 2013	(523,280)	(1,262,061)	(1,960,250)	(3,745,591)
Depreciation	(71,449)	(102,584)	(202,916)	(376,949)
Disposals	–	–	–	–
Balance, June 30, 2014	(594,729)	(1,364,645)	(2,163,166)	(4,122,540)
<b>Net Book Value</b>	<b>\$ 465,354</b>	<b>\$ 105,594</b>	<b>\$ 817,199</b>	<b>\$ 1,388,147</b>

**CONNECTICUT LOTTERY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2014 AND 2013**

**NOTE 5 – LONG-TERM OBLIGATIONS**

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

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Amounts due within one year</b>
<b>Activity for fiscal 2014</b>	<b>\$ 147,724,356</b>	<b>\$ 10,761,068</b>	<b>\$ (18,966,387)</b>	<b>\$ 139,519,037</b>	<b>\$ 14,134,357</b>
Activity for fiscal 2013	\$ 138,195,531	\$ 31,572,291	\$ (22,043,466)	\$ 147,724,356	\$ 19,140,744

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>
2015	14,134,357	7,469,238
2016	9,751,019	6,628,418
2017	7,486,308	5,969,093
2018	5,106,100	5,490,568
2019	5,360,443	5,179,225
2020 – 2024	18,953,326	21,880,901
2025 – 2029	15,185,128	17,410,347
2030 – 2034	13,280,807	13,678,193
2035 – 2039	10,363,202	10,778,798
2040 – 2044	9,695,449	8,183,551
After 2044	30,202,898	15,675,727
	<b>\$ 139,519,037</b>	<b>\$ 118,344,059</b>

This debt represents periodic payments owed to lottery prize winners and is fully funded by investments in annuity contracts. Amounts due after 2034 represent estimates of long-term liabilities related to prizes payable over the recipients' natural lives.

As noted in Note 3 regarding investments, the annuity contracts used to fund periodic payments to 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.

**NOTE 6 – 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. During fiscal 2010, MUSL cross-licensed the Powerball game with a group of state lotteries that operate the Mega Millions game. Under the cross-license agreement, all state lotteries participating in MUSL and from the group

**NOTE 6 – PARTICIPATION IN MULTI-STATE LOTTERY ASSOCIATION (CONTINUED)**

operating Mega Millions are permitted to sell both multi-state jackpot games. The Lottery participates in both the Powerball game and the Mega Millions game.

Each lottery that is a member of MUSL and participates in a multi-state game sells game tickets through its retailers and makes weekly wire transfers to MUSL in an amount equivalent to the member lottery's share of the estimated grand prize for each multi-state game. Lower tier prizes are paid directly to the winners by each member lottery.

When winning grand prize tickets are drawn, the winner has the option of selecting a discounted lump sum cash payment or the full prize payment over future installments. If the winner selects the installment payments, MUSL purchases securities to fund the prize annuities for MUSL members or the Mega Millions group purchases securities if the prize winner(s) is from a Mega Millions state. The annuity installments are paid to the Lottery, which in turn pays the winners their annual installments. All such prizes are paid annually with the initial payment being made in cash, to be followed by the remaining payments funded by the securities.

As part of the agreement with MUSL, the Lottery is required to deposit with MUSL additional amounts held as prize reserve funds. 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 in full to the Lottery if MUSL disbands or if the Lottery leaves MUSL. Members leaving MUSL must wait one year before receiving their remaining share, if any, of the prize reserve funds. 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 at June 30, 2014 and 2013 were as follows:

	<b>2014</b>	<b>2013</b>
Prize reserve held by MUSL	\$ 5,379,412	\$ 5,063,840
Amounts due to MUSL	512,868	1,416,788
Investment income on MUSL Accounts	11,479	23,583

# CONNECTICUT LOTTERY CORPORATION

## NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2014 AND 2013

### NOTE 7 – PENSION PLAN

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

**Plan Description** — SERS is a cost sharing multiple employer defined benefit Public Employees' Retirement System (PERS) established in 1939 and governed by sections 5-152 to 5-192 of the Connecticut General Statutes. Employees are covered under one of three tiers. Tier I, Tier IIA and Tier III are contributory plans and Tier II is a noncontributory plan. Tier I Plan B and Plan C participants contribute 2% and 5% of their pay, respectively. Tier II Plan A and Tier III participants contribute 2% 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% of the annual average earnings (which are based on the three highest years of service) over \$4,800 plus 1% 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 1 1/3% of the average annual earnings in excess of the salary breakpoint in the year of retirement, for each year of credited service.

Tier III covers employees first hired on or after July 1, 2011. Tier III employees to retire at, or after age 63 with 25 years of service, or at age 65 with 10 years of service, or at age 58 with 10 years of service with reduced benefits are entitled to 1 and 1/3% of the average earnings in excess of the salary breakpoint in the year of retirement, for each year of credited service.

All Tier I, Tier II, Tier IIA and Tier III members are vested after ten years of service, and each plan provides for death and disability benefits.

**Contributions Made** — The Lottery's contribution is determined by applying a State mandated percentage to eligible salaries and wages. The mandated rate was 54.71 percent, 46.01 percent and 39.41 percent, during fiscal years 2014, 2013 and 2012, respectively. The contributions made compared to covered payroll follows:

	Years Ended June 30		
	2014	2013	2012
Total payroll covered by SERS	\$ 9,348,981	\$ 9,055,510	\$ 8,989,782
By employees	\$ 128,431	\$ 117,317	\$ 127,748
Percent of current year covered	1.37%	1.30%	1.37%
By the Lottery	\$ 5,086,428	\$ 4,161,025	\$ 3,651,160
Percent of current year covered	54.41%	45.95%	40.61%

The actual percentages are slightly different than those mandated as a result of payrolls at the beginning and end of fiscal years which include differing mandated percentages.

**NOTE 8 – POST EMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 7, 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, 35 retirees meet those eligibility requirements. When employees retire, the State pays up to 100% of their health care insurance premium cost (including dependent's coverage) depending upon the plan. The State currently pays up to 20% of the cost for retiree dental insurance (including dependant's coverage) depending upon the plan. In addition, the State pays 100% of the premium cost for a portion of the employees' life insurance continued after retirement. The amount of life insurance, continued at no cost to the retiree, is determined based on the number of years of service that the retiree had with the State at time of retirement as follows: a) if the retiree had 25 years or more of service, the amount of insurance will be one half of the amount of insurance for which the retiree was insured immediately prior to retirement, but the reduced amount cannot be less than \$10,000; (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.

In accordance with the Revised SEBAC 2011 Agreement between the State of Connecticut and the State Employees Bargaining Agent Coalition (SEBAC), all employees shall pay the three percent (3%) retiree health care insurance contribution for a period of ten (10) years or retirement, whichever is sooner. In addition, participants of Tier III shall be required to have fifteen (15) years of actual State service to be eligible for retirement health insurance. Deferred vested retirees who are eligible for retiree health insurance shall be required to meet the rule of seventy-five (75), which is the combination of age and actual State service equaling seventy-five (75) in order to begin receiving retiree health insurance based on applicable SEBAC agreement.

During the year ended June 30, 2009, several employees elected to retire under a 2009 Retirement Incentive Program (RIP) offered by the State of Connecticut effective July 1, 2009. The RIP allows for payment of accrued sick and vacation pay on a deferred basis that is treated as additional state service for retirement purposes. As of June 30, 2014, the total deferred payments were \$83,238, all of which is current. As of June 30, 2013, total deferred payments were \$169,390 of which \$84,695 was current and \$84,695 was long-term.

**NOTE 9 – LEASE COMMITMENTS**

The Lottery leases office and warehouse facilities under operating leases. These leases begin on July 1, 2014 and expire on June 30, 2018. The combined rental amount for these facilities is \$5,896 per month.

The Lottery offices are located in Rocky Hill under an operating lease that commenced on April 1, 2008 and extends through June 30, 2023. Monthly rents are approximately \$83,000 from July 1, 2014 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 and instant ticket vending machines under non-cancellable operating leases expiring on various dates through June 2016. All equipment lease obligations are payable in monthly installments.



## CONNECTICUT LOTTERY CORPORATION

### NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2014 AND 2013

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#### NOTE 9 – LEASE COMMITMENTS (CONTINUED)

Total lease expense for facilities and equipment was \$1,454,326 and \$1,975,620 for the fiscal years ended June 30, 2014 and 2013, respectively.

Future payments for the aforementioned leases are summarized as follows:

<b>Fiscal Years Ending June 30</b>	<b>Amount</b>
2015	\$ 1,181,769
2016	1,135,875
2017	1,135,875
2018	1,135,875
2019	1,040,625
Thereafter	4,162,500
	<u>\$ 9,792,519</u>

#### NOTE 10 – RISK MANAGEMENT

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

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

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

During each of the three years ended June 30, 2014, 2013, and 2012, there were no claims or settlements that have exceeded insurance coverage.

#### NOTE 11 – 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.





# COMPLIANCE SECTION





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**Report of Independent Auditors 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***

The Management and Board of Directors  
Connecticut Lottery Corporation

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Connecticut Lottery Corporation (the Lottery), a component unit of the State of Connecticut, which comprise the statement of net position as of June 30, 2014, and the related statements of revenues and expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 18, 2014. In connection with our audit, we have read the provisions of Connecticut Public Act No. 88-266 Section 41 (the Act) of the Connecticut General Assembly relating to quasi-public agencies (adopted January 1, 1989). The Act requires the Lottery to comply with regulations concerning affirmative action, personnel practice, the purchase of goods and services, the use of surplus funds, and the distribution of loans, grants and other financial assistance.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Lottery's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lottery's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

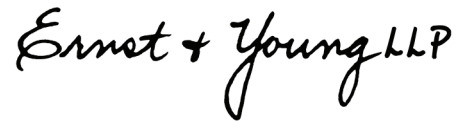
### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

September 18, 2014

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.



# SUPPLEMENTAL SCHEDULES

**CONNECTICUT LOTTERY CORPORATION**  
**SCHEDULE OF PROFIT MARGINS BY GAME TYPE, YEAR ENDED JUNE 30, 2014**

**PROFIT CONTRIBUTIONS (\$000's)**

	Instant	Play3 Night	Play4 Night	Play3 Day	Play4 Day
NET SALES	\$ 660,230	\$ 75,214	\$ 66,251	\$ 51,860	\$ 42,558
DIRECT COSTS					
Gross prize expense	456,878	36,204	31,545	25,941	17,364
Unclaimed prize credit	(7,580)	(582)	(895)	(302)	(290)
Use of unclaimed prize reserve	1	142	–	71	27
<i>Net prize expense</i>	449,299	35,764	30,650	25,710	17,101
Retailer commissions	37,696	4,175	3,562	2,891	2,275
On-line systems	6,132	700	617	483	396
Marketing, advertising and promotion	5,926	592	521	408	333
Production expenses	6,284	66	66	66	66
<i>Total direct costs</i>	505,337	41,297	35,416	29,558	20,171
GROSS PROFIT	\$ 154,893	\$ 33,917	\$ 30,835	\$ 22,302	\$ 22,387

**PROFIT MARGIN (% OF NET SALES)**

DIRECT COSTS					
Gross prize expense	69.2%	48.1%	47.6%	50.0%	40.8%
Unclaimed prize credit	(1.1%)	(0.8%)	(1.4%)	(0.6%)	(0.7%)
Use of unclaimed prize reserve	–	0.2%	–	0.1%	0.1%
<i>Net prize expense</i>	68.1%	47.5%	46.2%	49.5%	40.2%
Retailer commissions	5.7%	5.6%	5.4%	5.6%	5.3%
On-line systems	0.9%	0.9%	0.9%	0.9%	0.9%
Marketing, advertising and promotion	0.9%	0.8%	0.8%	0.8%	0.8%
Production expenses	1.0%	0.1%	0.1%	0.1%	0.2%
<i>Total direct costs</i>	76.6%	54.9%	53.4%	56.9%	47.4%
GROSS PROFIT	23.4%	45.1%	46.6%	43.1%	52.6%



Lotto	Cash5	Powerball	Mega Millions	Lucky for Life	CT Super Draw	5 Card Cash	Total
\$ 21,591	\$ 32,318	\$ 82,725	\$ 37,567	\$ 25,095	\$ 4,355	\$ 12,641	\$ 1,112,405
11,435	17,886	41,222	18,765	11,532	2,533	9,893	681,198
(221)	(444)	(1,309)	(542)	(553)	(27)	–	(12,745)
–	–	–	53	17	–	28	339
11,214	17,442	39,913	18,276	10,996	2,506	9,921	668,792
1,134	1,792	4,232	1,936	1,371	270	743	62,077
201	301	773	351	233	40	118	10,345
209	256	1,290	890	287	328	415	11,455
63	65	31	29	153	–	6	6,895
12,821	19,856	46,239	21,482	13,040	3,144	11,203	759,564
\$ 8,770	\$ 12,462	\$ 36,486	\$ 16,085	\$ 12,055	\$ 1,211	\$ 1,438	\$ 352,841
53.0%	55.3%	49.8%	50.0%	46.0%	58.2%	78.3%	61.2%
(1.0%)	(1.4%)	(1.6%)	(1.4%)	(2.2%)	(0.6%)	–	(1.1%)
–	–	–	0.1%	0.1%	–	0.2%	–
52.0%	53.9%	48.2%	48.7%	43.9%	57.6%	78.5%	60.1%
5.3%	5.5%	5.1%	5.2%	5.5%	6.2%	5.9%	5.6%
0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
1.0%	0.8%	1.6%	2.4%	1.1%	7.5%	3.3%	1.0%
0.3%	0.2%	–	0.1%	0.6%	–	–	0.6%
59.5%	61.3%	55.8%	57.3%	52.0%	72.2%	88.6%	68.2%
40.5%	38.7%	44.2%	42.7%	48.0%	27.8%	11.4%	31.8%

**CONNECTICUT LOTTERY CORPORATION**  
**SCHEDULE OF PROFIT MARGINS BY GAME TYPE, YEAR ENDED JUNE 30, 2013**

**PROFIT CONTRIBUTIONS (\$000's)**

	Instant	Play3 Night	Play4 Night	Play3 Day	Play4 Day
NET SALES	\$ 667,256	\$ 75,284	\$ 65,385	\$ 51,102	\$ 41,847
DIRECT COSTS					
Gross prize expense	462,305	38,326	47,088	27,705	22,483
Unclaimed prize credit	(7,185)	(545)	(637)	(276)	(340)
Use of unclaimed prize reserve	1	354	–	91	–
<i>Net prize expense</i>	455,121	38,134	46,450	27,520	22,143
Retailer commissions	38,088	4,183	3,602	2,855	2,250
On-line systems	5,930	670	581	455	372
Marketing, advertising and promotion	4,884	198	150	145	97
Production expenses	6,362	66	66	66	66
<i>Total direct costs</i>	510,384	43,251	50,850	31,040	24,928
GROSS PROFIT	\$156,871	\$ 32,033	\$ 14,536	\$ 20,062	\$ 16,920

**PROFIT MARGIN (% OF NET SALES)**

DIRECT COSTS					
Gross prize expense	69.3%	50.9%	72.0%	54.2%	53.7%
Unclaimed prize credit	(1.1%)	(0.7%)	(1.0%)	(0.5%)	(0.8%)
Use of unclaimed prize reserve	–	0.5%	–	0.2%	–
<i>Net prize expense</i>	68.2%	50.7%	71.0%	53.9%	52.9%
Retailer commissions	5.7%	5.6%	5.5%	5.6%	5.4%
On-line systems	0.9%	0.9%	0.9%	0.9%	0.9%
Marketing, advertising and promotion	0.7%	0.3%	0.2%	0.3%	0.2%
Production expenses	1.0%	0.1%	0.1%	0.1%	0.2%
<i>Total direct costs</i>	76.5%	57.5%	77.8%	60.7%	59.6%
GROSS PROFIT	23.5%	42.5%	22.2%	39.3%	40.4%

Lotto	Cash5	Powerball	Mega Millions	Lucky for Life	CT Super Draw	Total
\$ 22,150	\$ 32,564	\$ 107,383	\$ 23,727	\$ 30,432	\$ 5,564	\$ 1,122,695
11,961	18,781	53,572	11,801	13,048	2,795	709,865
(242)	(564)	(1,177)	(615)	(3,086)	(32)	(14,700)
1,916	–	–	–	1,519	17	3,898
13,635	18,217	52,395	11,186	11,481	2,780	699,063
1,281	1,813	5,474	1,222	1,668	328	62,765
198	290	955	212	271	49	9,984
972	98	1,090	639	1,208	1,139	10,620
62	65	449	33	155	–	7,390
16,149	20,483	60,364	13,293	14,783	4,295	789,821
\$ 6,001	\$ 12,082	\$ 47,019	\$ 10,434	\$ 15,649	\$ 1,269	\$ 332,874

54.0%	57.7%	49.9%	49.7%	42.9%	50.2%	63.2%
(1.1%)	(1.7%)	(1.1%)	(2.6%)	(10.1%)	(0.6%)	(1.3%)
8.7%	–	–	–	5.0%	0.3%	0.3%
61.6%	55.9%	48.8%	47.1%	37.7%	50.0%	62.3%
5.8%	5.6%	5.1%	5.2%	5.5%	5.9%	5.6%
0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
4.4%	0.3%	1.0%	2.7%	4.0%	20.5%	0.9%
0.3%	0.2%	0.4%	0.1%	0.5%	–	0.7%
72.9%	62.9%	56.2%	56.0%	48.6%	77.2%	70.4%
27.1%	37.1%	43.8%	44.0%	51.4%	22.8%	29.6%





# STATISTICAL SECTION



**CONNECTICUT LOTTERY CORPORATION**  
**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**ACTUAL VS. BUDGET (\$000'S), YEAR ENDED JUNE 30, 2014**

	Actual	Budget	Over/(Under) Budget	% Change
<b>SALES</b>				
OPERATING REVENUE	\$ 1,115,547	\$ 1,121,950	\$ (6,403)	(0.6%)
Less sales returns, cancellations and promotion	(3,142)	–	(3,142)	–
<i>Total operating revenue</i>	1,112,405	1,121,950	(9,545)	(0.9%)
<b>COST OF SALES AND OPERATING EXPENSES</b>				
<b>COST OF SALES</b>				
Prize expense	668,792	684,883	(16,091)	(2.3%)
Retailer commissions	62,077	63,077	(1,000)	(1.6%)
On-line systems	10,345	10,453	(108)	(1.0%)
Marketing, advertising and promotion	11,455	12,412	(957)	(7.7%)
Production expenses	6,895	7,200	(305)	(4.2%)
<i>Total cost of sales</i>	759,564	778,025	(18,461)	(2.4%)
<b>OPERATING EXPENSES</b>				
Salaries and benefits	17,140	17,623	(483)	(2.7%)
Other operating expenses	3,216	3,660	(444)	(12.1%)
Depreciation and amortization	377	397	(20)	(5.0%)
Bad debt expense	42	100	(58)	(58.0%)
<i>Total operating expenses</i>	20,775	21,780	(1,005)	(4.6%)
OTHER OPERATING REVENUE	51	58	(7)	(12.1%)
<i>Operating income</i>	332,116	322,203	9,913	3.1%
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest income from investments on annuities	7,667	–	7,667	
Interest income	16	33	(17)	(51.5%)
Interest expense on annuity payments	(7,667)	–	(7,667)	
Annuity assignment	7	2	5	250.0%
<i>Total non-operating revenues</i>	23	35	(12)	(34.3%)
<b>CHANGE IN NET POSITION BEFORE PAYMENTS TO STATE FUNDS</b>				
	332,139	322,238	9,901	3.1%
Payments to Chronic Gamblers' Fund	2,300	2,300	–	–
Payments to Department of Consumer Protection	2,621	2,621	–	–
Payments to State's General Fund	319,500	317,317	2,183	0.7%
<i>Change in net position</i>	\$ 7,719	\$ –	\$ 7,719	–

**CONNECTICUT LOTTERY CORPORATION**  
**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**BY GAME TYPE (\$000'S), YEAR ENDED JUNE 30, 2014**

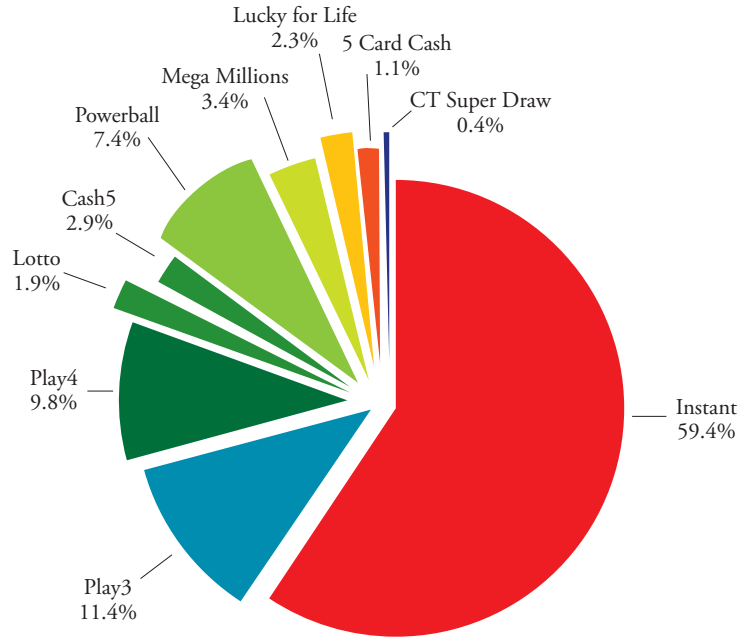
	Instant	Play3 Night	Play4 Night	Play3 Day
SALES	\$ 660,231	\$ 76,191	\$ 67,044	\$ 52,466
OPERATING REVENUE				
Less sales returns, cancellations and promotion	(1)	(977)	(792)	(606)
<i>Total operating revenue</i>	660,230	75,214	66,252	51,860
COST OF SALES AND OPERATING EXPENSES				
COST OF SALES				
Prize expense	449,299	35,764	30,650	25,710
Retailer commissions	37,696	4,175	3,562	2,891
On-line systems	6,132	700	617	483
Marketing, advertising and promotion	5,926	592	521	408
Production expenses	6,284	66	66	66
<i>Total cost of sales</i>	505,337	41,297	35,416	29,558
OPERATING EXPENSES				
Salaries and benefits	9,542	592	732	592
Other operating expenses	1,746	109	134	108
Depreciation and amortization	211	14	16	13
Bad debt expense	27	3	2	2
<i>Total operating expenses</i>	11,526	717	884	715
OTHER OPERATING INCOME	34	3	3	2
<i>Operating income</i>	143,401	33,203	29,955	21,589
NON-OPERATING REVENUES (EXPENSES)				
Interest income from investments on annuities	4,426	–	–	–
Interest income	4	–	–	–
Interest expense on annuity payments	(4,426)	–	–	–
Annuity assignment	5	–	–	–
<i>Total non-operating revenues</i>	9	–	–	–
<b>CHANGE IN NET POSITION BEFORE</b>				
<b>PAYMENTS TO STATE FUNDS</b>	143,410	33,202	29,955	21,589
Payments to Chronic Gamblers' Fund	1,403	164	143	113
Payments to Department of Consumer Protection	1,598	187	163	129
Payments to State's General Fund	137,085	32,073	28,945	20,842
<i>Change in net position</i>	\$ 3,324	\$ 778	\$ 704	\$ 505



Play4 Day	Lotto	Cash5	Powerball	Mega Millions	Lucky for Life	CT Super Draw	5Card Cash	Total
\$ 43,080	\$ 21,610	\$ 32,340	\$ 82,742	\$ 37,679	\$ 25,131	\$ 4,355	\$ 12,678	\$ 1,115,547
(522)	(19)	(22)	(18)	(112)	(36)	–	(37)	(3,142)
42,558	21,591	32,318	82,724	37,567	25,095	4,355	12,641	1,112,405
17,101	11,214	17,442	39,913	18,276	10,996	2,506	9,921	668,792
2,275	1,134	1,792	4,232	1,936	1,371	270	743	62,077
396	201	301	773	351	233	40	118	10,345
333	209	256	1,290	890	287	328	415	11,455
66	63	65	31	29	153	–	6	6,895
20,171	12,821	19,856	46,239	21,482	13,040	3,144	11,203	759,564
732	889	795	1,080	1,080	888	63	155	17,140
134	162	146	276	197	154	24	26	3,216
16	19	17	24	24	19	1	3	377
2	1	1	2	3	1	–	(2)	42
884	1,071	959	1,382	1,304	1,062	88	182	20,775
1	1	1	3	1	1	–	1	51
21,504	7,700	11,504	35,106	14,782	10,994	1,123	1,257	332,116
–	2,829	–	–	–	412	–	–	7,667
–	–	–	5	7	–	–	–	16
–	(2,829)	–	–	–	(412)	–	–	(7,667)
–	1	–	–	–	1	–	–	7
–	1	–	5	7	1	–	–	23
21,504	7,701	11,504	35,111	14,789	10,995	1,123	1,257	332,139
92	46	70	159	49	55	6	–	2,300
104	53	80	181	56	63	7	–	2,621
20,805	7,423	11,085	33,949	14,338	10,619	1,108	1,228	319,500
\$ 503	\$ 179	\$ 269	\$ 822	\$ 346	\$ 258	\$ 2	\$ 29	\$ 7,719

## REVENUE BY GAME

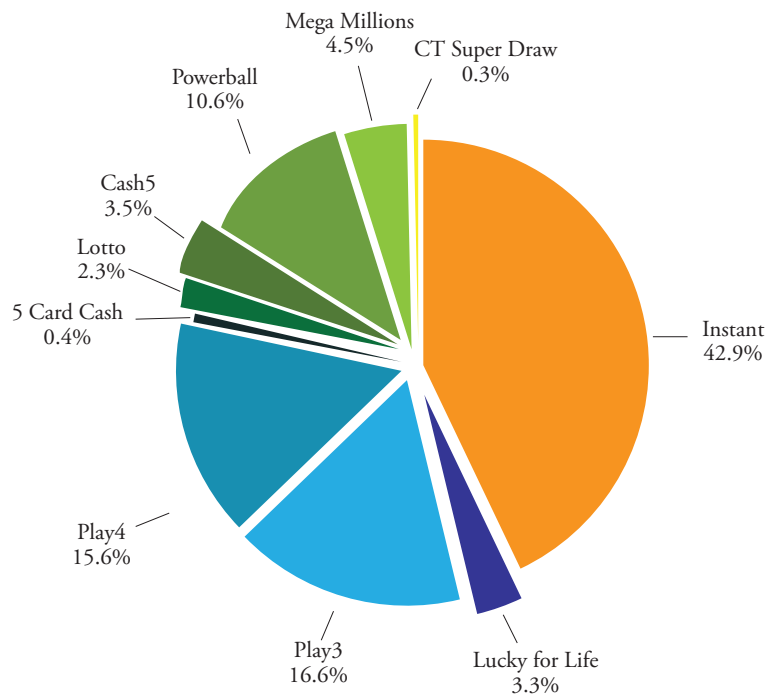
FISCAL YEAR 2014 TOTAL SALES: \$1,112,404,534



Note: "Play3" includes Play3 Day and Play3 Night; "Play4" includes Play4 Day and Play4 Night.

## GENERAL FUND PAYMENTS BY GAME

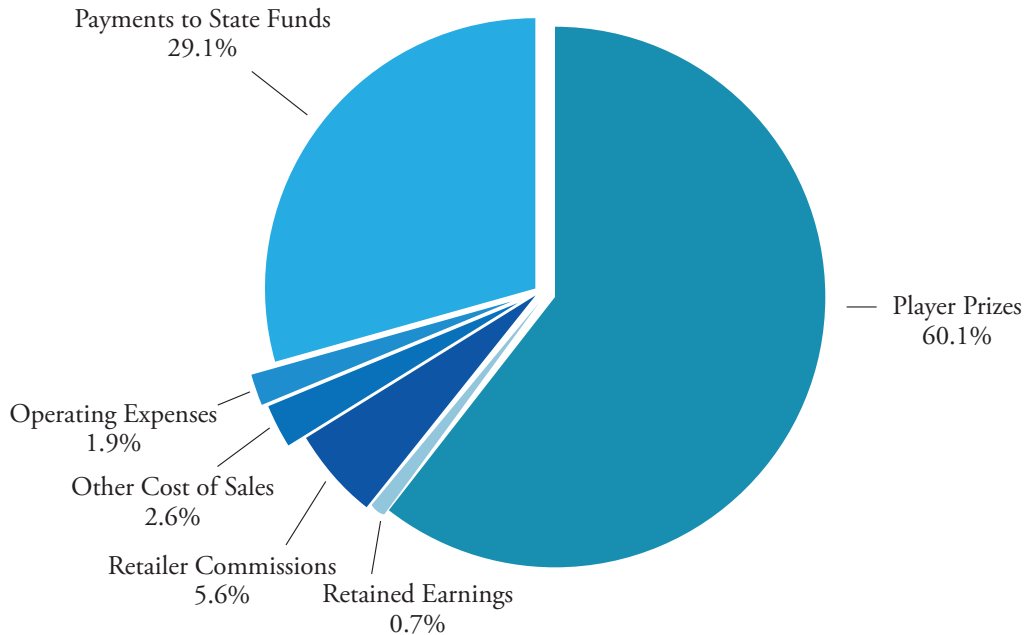
FISCAL YEAR 2014 TOTAL PAYMENTS: \$319,500,000



Note: "Play3" includes Play3 Day and Play3 Night; "Play4" includes Play4 Day and Play4 Night.

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

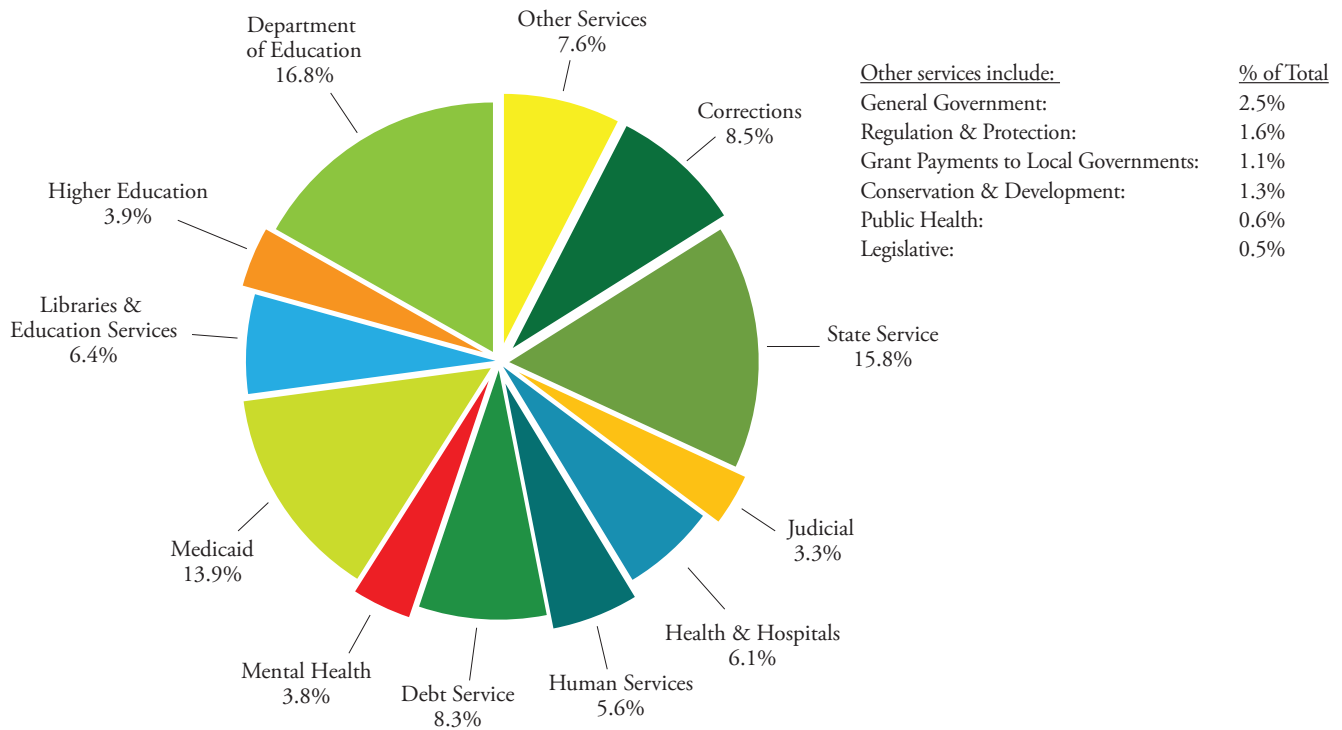
FISCAL YEAR 2014 TOTAL REVENUE: \$1,112,478,517



Note: Other Cost of Sales comprised of on-line systems, marketing, advertising and promotions and production expenses.

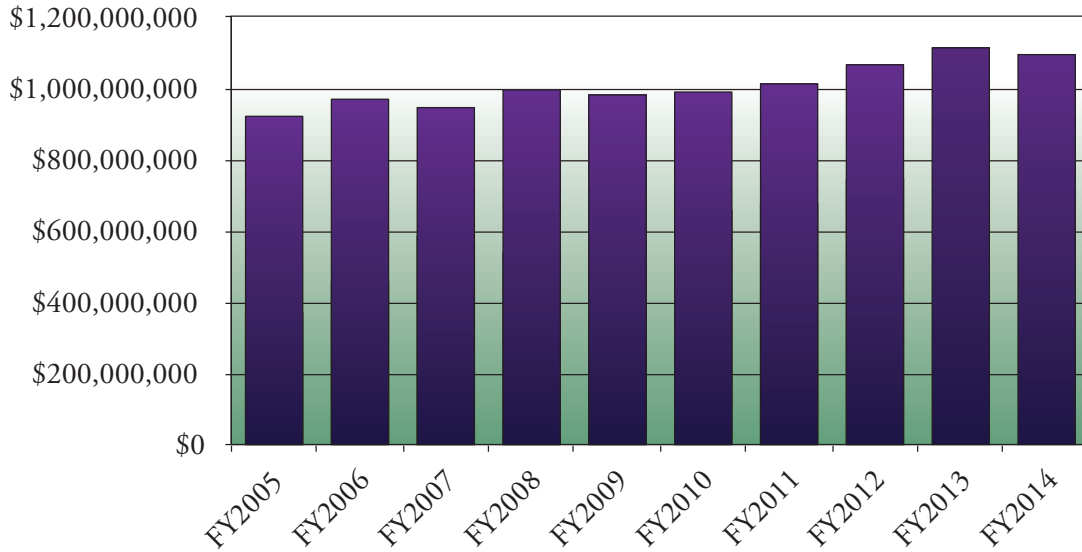
## STATE SERVICES SUPPORTED BY LOTTERY PAYMENTS TO THE GENERAL FUND

FISCAL YEAR 2014 PAYMENTS TO THE GENERAL FUND: \$319,500,000

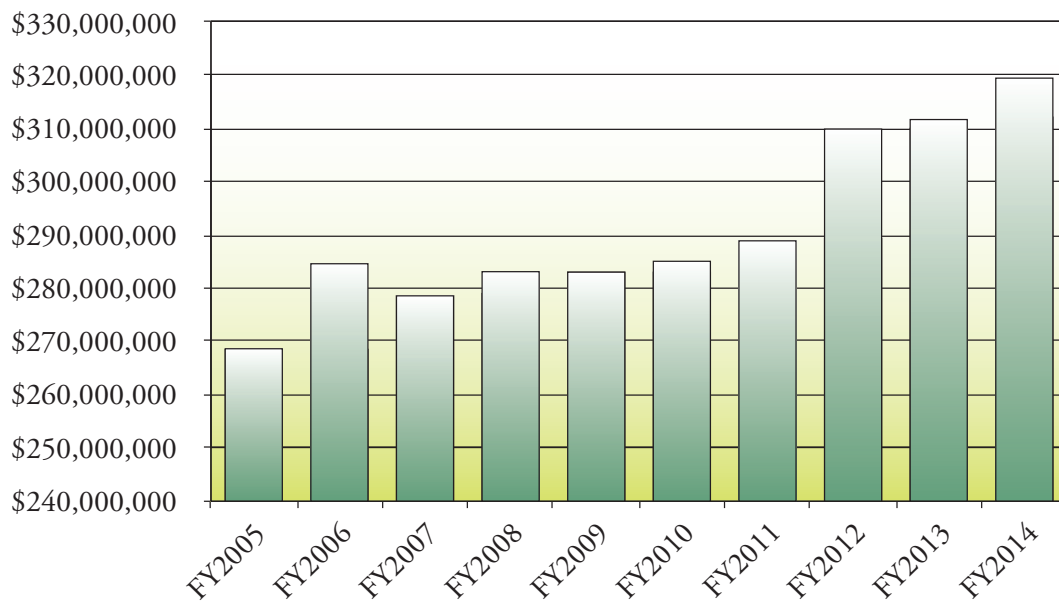


Based on Fiscal Year 2014 General Fund Percentages Appropriated by the Legislature. Source: Connecticut State Budget 2013-2015

## REVENUES FOR THE LAST TEN FISCAL YEARS



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





**CONNECTICUT LOTTERY CORPORATION**  
**SCHEDULE OF REVENUES BY GAME TYPE, RELATED EXPENSES AND**  
**PAYMENTS TO THE GENERAL FUND (\$000'S) FOR THE LAST TEN FISCAL YEARS**

	2005	2006	2007	2008
Operating Revenue				
Instant	\$592,266	\$587,559	\$594,930	\$618,970
Daily Games <sup>(1)</sup>	184,713	187,223	197,587	207,618
Lotto	35,614	32,261	30,386	32,201
Cash5	40,781	41,351	41,371	41,159
Powerball	79,560	121,933	92,752	98,200
Mega Millions	–	–	–	–
Lucky for Life <sup>(2)</sup>	–	–	–	–
CT Super Draw	–	–	–	–
5 Card Cash	–	–	–	–
<b>Total Operating Revenue</b>	<b>932,934</b>	<b>970,327</b>	<b>957,026</b>	<b>998,148</b>
Prizes	573,000	587,388	579,854	608,218
Retailer commissions	51,691	54,051	53,597	55,950
Other cost of sales <sup>(3)</sup>	23,627	26,213	25,822	28,114
<b>Total cost of sales</b>	<b>648,318</b>	<b>667,652</b>	<b>659,273</b>	<b>692,282</b>
<b>PAYMENTS TO STATE'S GENERAL FUND</b>	<b>\$268,515</b>	<b>\$284,865</b>	<b>\$279,000</b>	<b>\$283,000</b>

<sup>(1)</sup> “Daily Games” refers to Play3 Day, Play4 Day, Play3 Night and Play4 Night.

<sup>(2)</sup> “Lucky for Life” revenue includes “Lucky-4-Life” revenue for the years 2009 through 2012.

“Lucky for Life” began in 2012.

<sup>(3)</sup> “Other Cost of Sales” are comprised of on-line systems, marketing, advertising and promotions and production expenses.

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2009	2010	2011	2012	2013	2014
\$610,013	\$593,374	\$ 610,568	\$ 653,310	\$ 667,255	\$ 660,230
206,343	211,317	225,381	220,061	233,619	235,883
32,942	29,904	24,341	27,372	22,149	21,591
40,420	35,041	34,243	33,781	32,565	32,318
92,134	85,282	60,280	74,281	107,383	82,725
–	11,231	33,185	40,628	23,728	37,567
9,451	30,698	23,815	26,871	30,432	25,095
–	–	4,801	5,436	5,564	4,355
–	–	–	–	–	12,641
991,303	996,847	1,016,614	1,081,740	1,122,695	1,112,405
604,712	608,755	620,134	659,898	699,063	668,792
55,771	55,885	56,964	60,740	62,765	62,077
24,933	23,703	26,129	27,435	27,993	28,695
685,416	688,343	703,227	748,073	789,821	759,564
\$283,000	\$285,500	\$ 289,300	\$ 310,000	\$ 312,100	\$ 319,500

## CONNECTICUT LOTTERY CORPORATION COMPARATIVE INDUSTRY STATISTICS

Based upon data published in *La Fleur's 2014 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 2013, included data from lotteries in 42 states plus the District of Columbia (D.C.). Data from Illinois was unavailable. Top performing lotteries in key categories are presented below.

### A. SALES PER CAPITA - FY 2013:

State/District	Population (Millions)	Ticket Sales (Millions \$)	Sales Per Capita (Dollars)
1 Massachusetts	6.7	\$ 4,839.3	\$ 723.4
2 Maryland	5.9	\$ 2,316.8	\$ 390.7
3 D.C.	0.7	\$ 242.5	\$ 373.0
4 Georgia	10.0	\$ 3,635.9	\$ 364.0
5 New York	19.7	\$ 7,108.9	\$ 361.8
6 New Jersey	8.9	\$ 2,821.4	\$ 317.0
<b>7 Connecticut</b>	<b>3.6</b>	<b>\$ 1,122.7</b>	<b>\$ 311.9</b>
8 Pennsylvania	12.8	\$ 3,699.7	\$ 289.7
9 Florida	19.6	\$ 5,013.0	\$ 256.4
10 South Carolina	4.8	\$ 1,199.2	\$ 250.9

### B. NET INCOME PER CAPITA - FY 2013:

State/District	Population (Millions)	Net Income (Millions \$)	Net Income Per Capita (Dollars)
1 Maryland	5.9	\$ 914.6	\$ 155.0
2 Massachusetts	6.7	\$ 955.8	\$ 142.7
3 New Jersey	8.9	\$ 1,081.9	\$ 121.6
4 New York	19.7	\$ 2,217.5	\$ 112.6
5 D.C.	0.7	\$ 68.4	\$ 97.7
6 Georgia	10.0	\$ 909.8	\$ 91.0
<b>7 Connecticut</b>	<b>3.6</b>	<b>\$ 313.1</b>	<b>\$ 87.0</b>
8 Pennsylvania	12.8	\$ 1,067.4	\$ 83.4
9 Ohio	11.6	\$ 940.7	\$ 81.1
10 Michigan	9.9	\$ 722.8	\$ 73.0



C. OPERATING EXPENSES\* AS PERCENTAGE OF SALES - FY 2014:

State/District	Ticket Sales (Millions \$)	Operating Expenses (Millions \$)	Expense %
1 Massachusetts	\$ 4,839.3	\$ 94.3	1.9%
2 New Jersey	\$ 2,821.4	\$ 71.0	2.5%
3 Florida	\$ 5,013.0	\$ 147.9	3.0%
4 South Carolina	\$ 1,199.2	\$ 37.1	3.1%
5 Pennsylvania	\$ 3,699.7	\$ 138.9	3.8%
6 New York	\$ 7,108.9	\$ 284.4	4.0%
7 Georgia	\$ 3,635.9	\$ 147.3	4.1%
8 Texas	\$ 4,376.3	\$ 182.0	4.2%
9 Ohio	\$ 2,863.4	\$ 121.5	4.2%
10 Rhode Island	\$ 253.4	\$ 10.8	4.3%
<b>11 Connecticut</b>	<b>\$ 1,122.7</b>	<b>\$ 47.9</b>	<b>4.3%</b>
12 North Carolina	\$ 1,689.8	\$ 73.3	4.3%
13 Michigan	\$ 2,476.4	\$ 108.0	4.4%
14 Tennessee	\$ 1,275.3	\$ 57.1	4.5%
15 Missouri	\$ 1,140.8	\$ 53.0	4.6%

\*Operating expenses are comprised of on-line systems, marketing, advertising and promotion, production expenses, salaries and benefits, other operating expenses, depreciation and amortization and bad debt expense.



# CONNECTICUT LOTTERY CORPORATION

## 2014 ANNUAL REPORT



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The 2014 Annual Report is available at  
**CTLOTTERY.ORG**