



2013

ANNUAL REPORT

OUR NUMBERS ARE MORE THAN JUST LUCKY.



\$312.1 MILLION DELIVERED



TO THE GENERAL FUND IN 2013

FOR YEAR ENDED
JUNE 30, 2013
CONNECTICUT LOTTERY CORPORATION

2013 ANNUAL REPORT

Fiscal Year Ended June 30, 2013



CTLOTTERY.ORG

CONNECTICUT LOTTERY CORPORATION

(A Component Unit of the State of Connecticut)

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MISSION STATEMENT

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

VISION STATEMENT

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



INTRODUCTORY SECTION



May 9, 2014

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

We are pleased to transmit to you the Annual Report of the Connecticut Lottery Corporation (“CLC” or “Lottery”) for the fiscal year ended June 30, 2013. Responsibility for the accuracy of the financial data, as well as the completeness and fairness of the presentation, including all disclosures, rests with management of the CLC. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations, and cash flows of the CLC. We have included all disclosures necessary to enable the reader to gain an understanding of the CLC’s financial activities.

We present this report in four sections: the introductory section, the financial section, the statistical section and the compliance section. The introductory section includes this transmittal letter, a list of principal officials, an organizational chart, our current lottery games, and significant events of the past fiscal year. The financial section begins with the report of independent auditors, followed by management’s discussion and analysis of fiscal 2013, the comparative financial statements of the CLC, the related notes to the financial statements and supplemental schedules. The statistical section, which is unaudited, provides additional information concerning the Lottery’s revenues and expenses. The compliance section contains the independent auditors’ report on internal control over financial reporting and on compliance with Connecticut General Statutes.

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

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 6 numbers for a chance at winning a minimum jackpot prize of \$1,000,000.

April 1992: The Lottery launches “Cash Lotto,” where players select 5 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 as a major retail supplier.

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.

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. For financial reporting purposes, the CLC is considered a component unit of the State of Connecticut. With more than forty-one years of continuous operation, the CLC is one of the oldest lotteries in the United States. From its inception to June 30, 2013, the Lottery has generated total sales of approximately \$23.6 billion and has paid approximately \$7.9 billion to the state's General Fund. The General Fund is used to fund a wide variety of state services that benefit Connecticut residents, including health and hospitals, education, road maintenance and public safety.

HIGHLIGHTS OF THE PAST YEAR

In fiscal 2013, the CLC, once again, achieved record sales and returned a record sum to the General Fund. Sales for fiscal 2013 totaled \$1.123 billion, an increase of \$41.0 million from fiscal 2012 and payments to the state's General Fund totaled \$312.1 million, an increase of \$2.1 million over the prior year. (For a more complete overview of the financial highlights of fiscal 2013, 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.)

A number of other significant events occurred during the year ended June 30, 2013. Some of these are highlighted below:

The CLC offered a new game, a variation of its Super Draw game, called "50/50 Super Draw." This game awarded one prize worth 50% of total sales for the game.

The CLC launched its social media presence on both Facebook and Twitter, and continued to build its YouTube channel as a means to communicate with consumers and the public. Information regarding games, prizes, social responsibility, corporate initiatives and upcoming events were included in the social media efforts for the Corporation. In fiscal 2014, the CLC will continue to grow its social media communications using a variety of platforms that promote the Lottery's mission to raise revenue for the General Fund with integrity and for the public good.

A total of forty-seven Instant games were printed for sale in fiscal 2013. CLC's own game team developed three distinct instant games: "Pink," "Pearls," and "Platinum." The games featured unique and proprietary artwork as well as an increasing popular trend of bundling price points within one marketing campaign. In fiscal 2014, the CLC will continue to evaluate and implement this concept.

The CLC continued to pursue programs and projects to prepare for Level 3 Responsible Gaming Framework accreditation of the World Lottery Association. The Lottery expanded its responsible gambling programs into a robust cross-disciplinary initiative with an emphasis on employee training and community wide messaging. For the second year in a row, the Lottery was awarded the Best U.S. Holiday Campaign Award by the National Council on Responsible Gambling and the International Centre for Youth Gambling Problems and High Risk Behaviors at McGill University. In a survey by the North American Association of State and Provincial Lotteries (NASPL), the Lottery achieved highest overall ranking for contributing the most resources of the twenty-nine U.S. lotteries that participated, regardless of the size of the population.

The CLC formally launched its corporate social responsibility program comprised of Responsible Gambling and Supplier Diversity initiatives, a commitment to “green” practices and a business friendly culture. Details of the program are available on the Lottery’s website.

The CLC continued to work with Connecticut-based Winston Strategic Partners, LLC, on its Supplier Diversity program with a final conclusive report due in fiscal 2014. Accomplishments in fiscal 2013 included an internet-based portal for vendor registration and an open house for minority contractors.

At the conclusion of fiscal 2013, the Connecticut legislators passed PA 13-184, authorizing the CLC to sell Keno pending an agreement between the Office of Policy and Management (“OPM”), the Mohegan Tribe of Indians and the Mashantucket Pequot Tribe, and subject to regulatory and board approval. In addition, PA 13-247 increased the CLC’s contribution to DMHAS’s Chronic Gambler’s Rehabilitation Fund by \$400,000, raising the CLC’s annual commitment to \$2.3 million.

FUTURE PROJECTS

In fiscal 2014, 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.

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.

While the Lottery is not presently authorized to engage in traditional e-commerce, the corporation 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 we look to the future, we will continue to work with our brick and mortar retailers across this state who provide a valuable and reliable partnership for the sale of lottery tickets.

FINANCIAL OPERATIONS

ENTERPRISE OPERATION: The CLC operates as an enterprise activity; sales of lottery tickets to the general public sustain the prize and retailer commission structure, all lottery-related support operations, and contributions to the Connecticut General Fund. The CLC utilizes the accrual basis of accounting, in accordance with generally accepted accounting principles. 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 2,800 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 2013 and 2012 have been completed in conformity with generally accepted auditing standards. The unqualified opinion of the independent auditors on the CLC financial statements is included in the financial section of this report.

ECONOMIC CONDITIONS

The economic environment throughout fiscal 2013 continued to suffer from the slow recovery from the effects of the global recession that began in fiscal 2008. The continuing issues of high unemployment, poor growth in the housing sector and significant credit risk with mortgage holdings of financial institutions have impaired economic growth, both

for Connecticut and the nation. However, economic growth has slowly picked up and a moderate labor-market recovery continues in its fourth year. There were 5.3 million more jobs nationwide as of June 2013 than in June 2009, when the economic recovery officially started. The unemployment rate in Connecticut stood at 7.6% in June 2013, and 36.7% of the unemployed had been out of work for at least six months.

The forecast is for very gradual economic improvement over the 2014 fiscal year. The Federal Reserve continues to maintain interest rates at historic lows and is forecasted at its current level through the fourth quarter of 2015. In addition, provided that there is more stability on the fiscal front, the Federal Reserve will be able to taper its asset purchase program. The strength in job growth was the main factor cited by the Federal Reserve in support of the reduction in asset purchases.

While tapering may exert some upward pressure on yields, the upward adjustment that has already occurred in 2013 in anticipation of the shift in policy should mean less of an increase in yields in 2014. The Consumer Price Index increased by 2.0% between June 2012 and June 2013 and the majority of economic forecasts conclude that significant time remains before the economy is fully recovered and unemployment levels are significantly reduced. Consensus estimates project economic growth to accelerate from 1.8% in 2013 to 2.7% in 2014 and further to 3.1% in 2015.

Although the economy has been slow to recover from the downturn in 2008, the lottery industry and the CLC recorded record sales and record General Fund transfers during fiscal 2013, capitalizing on large jackpots and favorable weather conditions.

We believe that overall improvement in the economy, increased economic certainty, and return of consumer confidence 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 find ways to be as innovative and efficient as possible in order to maximize the transfers to the General Fund.

Respectfully Submitted,



Anne M. Noble
President & CEO



STATE OF CONNECTICUT LIST OF PRINCIPAL STATE OFFICERS, AS OF JUNE 30, 2013

Dannel P. Malloy, Governor
Nancy Wyman, Lieutenant Governor

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



CONNECTICUT LOTTERY CORPORATION BOARD OF DIRECTORS, AS OF JUNE 30, 2013

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	



CONNECTICUT LOTTERY CORPORATION

ORGANIZATIONAL CHART, AS OF JUNE 30, 2013

EXECUTIVE

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

OPERATIONS & ADMINISTRATION

Michael J. Hunter	Chief Information Officer
Steven Wagner	Director, Information Technology
John J. Gasparini	Manager, Application and Internet Development
Steven J. Fox	Manager, Vendor Compliance

MARKETING & SALES

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

FINANCE

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

GOVERNMENT AFFAIRS

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

Lana Glovach	General Counsel
Andrew E. Walter	Counsel

HUMAN RESOURCES

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

SECURITY

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

FISCAL YEAR 2013 STATISTICS:



\$144.6 million in General Fund payments

47 scratch games launched

59.4% of total net sales

46.3% of General Fund payments

Scratch games are easy to play and provide instant entertainment for players. 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 the 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

FISCAL YEAR 2013 STATISTICS:

\$80.7 million in General Fund payments



Play3 Day: 4.5% of total net sales
6.2% of General Fund payments



Play4 Day: 3.8% of total net sales
5.2% of General Fund payments



Play3 Night: 6.7% of total net sales
10.1% of General Fund payments



Play4 Night: 5.8% of total net sales
4.4% 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” – help us make sure that we've got your numbers! 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.

CASH5

FISCAL YEAR 2013 STATISTICS:



\$11.2 million in General Fund payments

2.9% of total net sales

3.6% of General Fund payments

“Cash5” is Connecticut’s daily game with a chance to win up to \$100,000. For \$1, players get to choose 5 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.

LOTTO®

FISCAL YEAR 2013 STATISTICS:



\$5.0 million in General Fund payments

2.0% of total net sales

1.6% 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 still 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.

FISCAL YEAR 2013 STATISTICS:



\$45.8 million in General Fund payments

9.6% of total net sales

14.7% 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 5 white balls and one red ball (“Match 5+1”) to the winning numbers drawn from the two pools of numbers. When players activate the Power Play feature for an additional \$1 per play, the third through seventh prize levels are multiplied up to four times their original value. With Power Play, the \$1,000,000 “Match 5” prize is always \$2,000,000. Powerball drawings are held twice weekly, on Wednesday and Saturday nights.

In fiscal 2014, a varying Power Play number feature will be added to the game, which will allow winners to receive 2, 3, 4 or 5 times the prize won from the third through seventh prize level of the game.

MEGA MILLIONS®

FISCAL YEAR 2013 STATISTICS:



\$9.2 million in General Fund payments

2.1% of total net sales

2.9% of General Fund payments

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

Mega Millions with Megaplier 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. Jackpots in the game start at \$12,000,000 and grow until they are won, making this game attractive to players who enjoy the chance to play big!

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

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

In fiscal 2014, the game matrix will change to 75 white balls and 15 yellow balls. The prize values won when the Megaplier is added will increase up to \$5,000,000 for prizes won from the second through ninth prize level.

FISCAL YEAR 2013 STATISTICS:



\$14.4 million in General Fund payments

2.7% of total net sales

4.6% of General Fund payments

New England's "Lucky for Life" regional draw game began on March 11, 2012, with tickets sold in Connecticut, Rhode Island, Massachusetts, New Hampshire, Vermont and Maine. Lucky's main attraction is the "For Life" top prize worth up to \$1,000 a day, paid every week, for the rest of a winner's natural life with a guaranteed 20-year minimum payout of \$7,300,000.

For each \$2 play, players pick six numbers from two separate pools of numbers – 5 of 40 balls and 1 of 21 balls selected during each drawing of the game. The top prize is won by matching all six numbers drawn. Besides the top prize, there are 9 other ways to win prizes in the game. Drawings are held twice weekly, on Monday and Thursday nights.

In fiscal 2014, a second "For Life" prize level of \$25,000 a year will be added to the game.

CONNECTICUT SUPER DRAW

FISCAL YEAR 2013 STATISTICS:



\$1.2 million in General Fund payments

0.5% of total net sales

0.4% of General Fund payments

Ticket sales for Connecticut's "Super Draw" game began on October 1, 2010. Unlike other draw games, Super Draw is offered only "periodically," rather than daily or weekly, as other draw games are. Sales are limited to a specific period of time, generally 3 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, six Super Draw games have been held in Connecticut, including three in fiscal year 2013:

- 4th of July Super Draw (drawing July 4, 2012, top prize \$1,000,000, ticket price \$10);
- New Year's Super Draw (drawing January 1, 2013, top prize \$1,000,000, ticket price \$10);
- 50/50 Super Draw (drawing March 17, 2013, top prize 50% of sales, ticket price \$5).

In fiscal 2014, Super Draw will be offered for sale at varying points during the year.

CONNECTICUT LOTTERY CORPORATION

LOOK WHO'S WINNING!

Torrington Newlywed Wins \$100,000 Prize—Instantly!

May 8, 2013 – Newlywed Tina Maritano of Torrington stopped for gas while out enjoying a beautiful, sunny drive with her family. Tina's husband, Dominic, pumped the gas while she went inside to pay. "I asked the clerk for a \$10 scratch ticket—any ticket—and he gave me a 'Pinball Wizard,'" Maritano said. "I got back to the car and scratched the ticket. We both started crying when we saw I won \$100,000."

"We just got married 7 months ago. This will help pay off my student loans, put a down payment on a house...and finally take a honeymoon!"

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

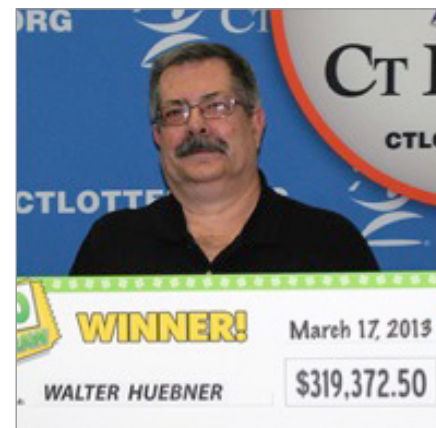


Seymour Man Wins CT's First "50/50 Super Draw" Top Prize

March 20, 2013 - Leprechauns weren't the only ones who were lucky on Saint Patrick's Day. While visiting family in North Carolina, Walter Huebner of Seymour checked the CT Lottery website and discovered that he had the top prize ticket number for the Lottery's first "50/50 Super Draw" drawing held on March 17, 2013. Huebner's ticket number – 002288 – was randomly selected from a pool of 127,749 tickets sold, winning the single top prize worth 50% of the game's total sales – \$319,372.50.

"The prize came at just the right time," Huebner said. "We're selling our house to move down south and this will be part of our retirement."

Retailer: Stop & Shop, 15 Franklin Street, Seymour



Middletown Couple Claims \$3,800,000 "Lotto" Jackpot

March 1, 2013 - After the "Lotto" jackpot rolled to an impressive \$3,800,000, Gregory and Glenda Hilt of Middletown compared the game's winning numbers found in the morning newspaper to those that appeared on their Lotto "Quick Pick" ticket and discovered an unbelievable and perfect six number match.

"When I saw that we had six numbers, I started screaming...I couldn't even get the words out to tell Greg we won," Glenda said. The Hilt's future plans included buying new cars, planning a family vacation and the possibility of Glenda joining Greg in retirement.

Retailer: Sunoco – A Plus, 519 Washington Street, Middletown



Middlebury Mom Wins “Once in a Blue Moon” \$250,000 Mega Millions® Prize

September 5, 2012 - Krista Carroll of Middlebury, experienced her very own “once in a blue moon” event when the numbers on her Mega Millions® “Quick Pick” ticket for the August 31 drawing perfectly matched the first five numbers drawn on that date. The prize for such luck was a whopping \$250,000.

“I scanned my ticket in the Ticket Checker and it said it was a \$250,000 winner, but I didn’t believe it...I thought it was a mistake,” Carroll said. “When the clerk confirmed I really won, a nearby customer had to help me sit down—I thought I was going to faint.”

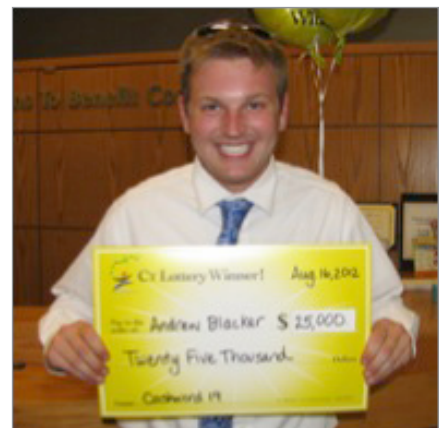
Retailer: Stop & Shop, 763 Straits Turnpike, Watertown



Noank Resident Wins \$25,000 Lottery Prize on a “WHIM”

August 17, 2012 - During a recent trip to the grocery store, Andrew Blacker of Noank purchased a “Cashword 19” instant ticket. Scratching the letters on his Cashword puzzle, Blacker uncovered an “H” revealing the word “WHIM” for his tenth word and one of the game’s \$25,000 top prizes. “My roommate and I were both speechless,” Blacker said. “I just started a new job, so this is going to be a big help with getting a new apartment...and a couple of new suits!”

Retailer: Stop & Shop, 91 Voluntown Road, Stonington



Hartford Man Quenches His Thirst with \$5,000 a Month for Life Prize

July 18, 2012 - When Orlando Pereira of Hartford saw the CT Lottery’s “Win for Life” commercials on TV, he wondered; what would it be like to win \$5,000 a month for life?

On July 9, Pereira found out. Pereira’s stop to purchase a Gatorade® drink and a “Win for Life, Edition 18” instant ticket turned out to be a top prize winning experience. The top prize is worth \$5,000 a month, every month, for life.

Pereira noted, “I’m going to buy a house, a new car, and will help my family out.”

Retailer: Flatbush Market, 273 Hillside Avenue, Hartford



RESPONSIBLE GAMBLING



On July 20, 2012, the CLC achieved Level 2 Certification, for its Responsible Gambling Program by the World Lottery Association (“WLA”), an international professional association. Currently, the Lottery is one of only eight U.S. lotteries to have achieved this distinction.

The Level 2 Certification demonstrates the Lottery’s commitment to meeting the highest standards in the lottery industry for corporate and social responsibility. This commitment also helps ensure that the Lottery meets its mission to raise money for the state while also safeguarding the interests of those who choose to play the lottery.

As part of the Level 3 accreditation process, the Lottery will continue to build and improve upon its numerous responsible gambling efforts, which will include employee and retailer training, advertising and communication efforts, player education, stakeholder engagement, and reporting and measuring our progress.

As part of our continued efforts to help educate lottery employees and to provide responsible gambling training for our staff, the CT Lottery:

- Hosted Lesa Densmore, a former member of the USA National Field Hockey Team, in October, 2012, as guest speaker at the Lottery’s Responsible Gambling Speakers Series held at Lottery headquarters in Rocky Hill. As a person in recovery, Lesa has paved her way as a public speaker and educator on the issue of problem gambling and is respected in the field as a professional resource in providing support services and personal assistance that helps promote sustained recovery from problem gambling and gambling addiction.
- Held a special screening of an award-winning 30-minute short film, “*Paulina*,” written and directed by Chapman University graduate student, Caylee So, in March 2013. The story portrays the life of Paulina, a 17 year old Cambodian-American girl, who grows up in a community of gamblers in Southern California and struggles with the realities of gambling addiction. The film was followed by a question and answer session, led by Lori Ruggle, Director of Problem Gambling Services at the state of Connecticut’s Department of Mental Health and Addiction Services (“DMHAS”).



RAISING REVENUE RESPONSIBLY

During fiscal 2013, the CLC supported and financed social responsibility through the CT Partnership for Responsible Gambling, a coalition of the Connecticut Lottery Corporation, the Department of Mental Health and Addiction Services and the CT Council on Problem Gambling. The Lottery has also supported multiple responsible play initiatives which included:

- Participating and contributing to the CT Council on Problem Gambling Annual Conference, October 2012.
- Participating in the National Council on Problem Gambling and the International Centre for Youth Gambling Problems and High Risk Behaviors at McGill University Holiday Campaign program, November through December 2012.
- Reminding educators and parents of the impact that gambling problems can have on families through the Lottery's 2012 Holiday Campaign.
- Creating a special marketing campaign to educate consumers that lottery tickets are not a suitable gift for children under 18 years of age, and receiving the "North American 2012 Holiday Campaign Award" for the second consecutive year by the National Council on Problem Gambling and McGill University.
- Actively supporting and promoting "National Problem Gambling Awareness Week" ("NPGAW") from March 3, 2013 through March 9, 2013 by:
 - Adopting a resolution at the Connecticut Lottery Corporation Board of Directors meeting, February 2013, to honor and endorse NPGAW in Connecticut.
 - Replacing most traditional lottery sales ads with responsible gambling Public Service Announcements (PSAs) on television and radio.
 - Featuring the "Gambling is Not Child's Play" message on our electronic billboards.
 - Showcasing a message that "Lottery Tickets are Not a Suitable Gift for Children Under 18 Years of Age" on the XL Center Marquee in Hartford.
 - Featuring responsible play messages on in-store customer service monitors and on the Lottery website, which reminded everyone that lottery tickets are not suitable gifts for youth.
 - Displaying PSAs on a TV in the Lottery lobby next to "Gambling is Not Child's Play" signage.
 - Receiving an official proclamation from Governor Dannel P. Malloy on behalf of the CT Lottery, the CT Department of Mental Health and Addiction Services, the CT Council on Problem Gambling, Mohegan Sun Casino and Foxwoods Casino, declaring NPGAW.
 - Sending a letter from the Lottery President and CEO to lottery retailers to remind them about NPGAW and encouraging them to help promote awareness.
- Broadcasting responsible play PSAs throughout the year on radio and television.
- Additional responsible gambling training for Lottery managers from the Camelot Operation, the UK National Lottery, May 2012.

The CT Lottery's responsible gambling alliances include:

- CT Partnership for Responsible Gambling
- CT Council on Problem Gambling
- CT Department of Mental Health & Addiction Services
- CT Women's Problem Gambling Project
- Connecticut Committee for Gambling Awareness

SUPPLIER DIVERSITY PROGRAM

In August 2012, the CLC formally announced its partnership with Winston Strategic Partners, LLC, a Norwalk-based business strategy and communications consulting firm to support the Lottery's efforts to further develop and formalize an increasingly robust Supplier Diversity Program, and to also help ensure Connecticut's small, minority-owned businesses have an equal opportunity to bid on the products and services that the CLC procures. Additionally, as an active member in the Greater New England Minority Supplier Development Council, the CLC participated in that group's quarterly meetings, its Awards Gala and Annual Meeting, and its Fall New England Trade Show.

CORPORATE RESPONSIBILITY PROGRAM EXPANSION

- The CLC's corporate responsibility umbrella opened wider during fiscal 2013 to support four areas of focus: Responsible Gambling, Pro Business, Inclusion and Green Initiatives.
- An interdepartmental Corporate Responsibility Team was formalized, which continues to grow in participation.
- Significant work occurred on the development of a new section on the Lottery's website dedicated to Corporate Responsibility.
- Steps were also taken towards the development of a new Corporate Responsibility Newsletter, "Chatter That Matters™."



FINANCIAL SECTION

REPORT OF INDEPENDENT AUDITORS

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, 2013 and 2012, 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 audit in accordance with auditing standards generally accepted in 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, 2013 and 2012, and the changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

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.

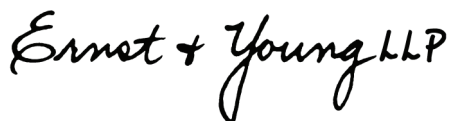
Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 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, 2013 and 2012 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, 2013 and 2012 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, 2013 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, 2013

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

CONNECTICUT LOTTERY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2013 AND 2012

The following Management's Discussion and Analysis (MD&A) provides an overview of the Connecticut Lottery Corporation's financial performance for the fiscal year ended June 30, 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 (the "State") created to generate revenues for the State's General Fund through the operation of a lottery. The Lottery activities are accounted for as an enterprise fund using the accrual basis of accounting, similar to a private business entity.

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

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

FINANCIAL HIGHLIGHTS OF FISCAL 2013

- Total net sales (operating revenue) were \$1,122.7 million, an increase of \$41 million, or 3.8%, from fiscal 2012. This represents the third consecutive year 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 0.7%, compared to the prior fiscal year, and also a new record for the Lottery.
- Annuities payable and related investments for prizes increased in fiscal year 2013 by \$9.5 million or 7%. The increase was the result of the timing of "for life" annuity purchases in fiscal years 2013 and 2012. Typically, approximately six annuities are purchased per year. During fiscal year 2013, thirteen "for life" annuities, including the first new Lucky for Life game winner in Connecticut, were recorded. In contrast, no "for life" annuity purchases were recorded during fiscal year 2012.

FINANCIAL HIGHLIGHTS OF FISCAL 2012

- Total net sales (operating revenue) were \$1,081.7 million, an increase of \$65.1 million, or 6.4%, from fiscal 2011. This represents the second consecutive year operating revenue surpassed the billion dollar mark.
- Transfers to the State's General Fund were \$310.0 million, an increase of \$20.7 million, or 7.2%, compared to the prior fiscal year.

- Annuities payable and related investments for prizes decreased due to fewer winners selecting long-term installment payment options and continued amortization of older annuities. Long-term annuities payable and long-term investments for prizes decreased \$18.8 million, or 14%.
- In March 2012, the six New England states joined together to launch a regional version of the Connecticut Lucky-4-Life game. The new game, "Lucky for Life," offers an annuitized top prize of \$1,000 a day (\$7,000 weekly) for life. There was one claimed top prize winner from Connecticut and two claimed top prize winners from Massachusetts during fiscal 2012. Each lottery sells its game tickets through its retailers. The Multi-State Lottery Association, ("MUSL" – also see *Note 6, Participation in Multi-State Lottery Association*) collects the sales and prize data for each state and is responsible for transferring or receiving top prize liability funds. MUSL aggregates each drawing sales, prizes won, and allocations and balances of prize expenses and liabilities for each lottery and provides each state with a prize settlement activity report. Expenses are shared on a pro-rata basis with all lotteries. Annually, the directors of the lotteries approve a budget for shared operating expenses. Expenses are allocated to each lottery in proportion to its percentage of Lucky for Life game sales.

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 decreased \$3.8 million, for fiscal 2013 and increased \$47,000, for fiscal 2012. Listed in Table 1 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. Listed in Table 2 below is a summary of the key components of revenues, expenses and changes in net position.

CONNECTICUT LOTTERY CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2013 AND 2012

TABLE 1
Net Position
(in thousands)

	2013	Increase (Decrease)	2012	Increase (Decrease)	2011
Current assets	\$ 69,202	\$ (23,201)	\$ 92,403	\$ 19,564	\$ 72,839
Investments and other non-current assets	133,847	12,617	121,230	(18,547)	139,777
Capital assets (net of accumulated depreciation)	1,685	(426)	2,111	(420)	2,531
<i>Total assets</i>	204,734	(11,010)	215,744	597	215,147
Current liabilities	71,688	(19,801)	91,489	19,373	72,116
Long-term liabilities	129,290	12,596	116,694	(18,823)	135,517
<i>Total liabilities</i>	200,978	(7,205)	208,183	550	207,633
Net investment in capital assets	1,685	(426)	2,111	(420)	2,531
Restricted net position	2,071	(3,379)	5,450	467	4,983
<i>Total net position</i>	\$ 3,756	\$ (3,805)	\$ 7,561	\$ 47	\$ 7,514

CONNECTICUT LOTTERY CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2013 AND 2012

TABLE 2

Changes in Net Position
(in thousands)

	2013	Increase (Decrease)	2012	Increase (Decrease)	2011
Total game sales, net	\$1,122,695	\$ 40,955	\$1,081,740	\$ 65,126	\$1,016,614
Other operating income	75	3	72	(6)	78
Non-operating revenues:					
Interest income	8,400	(1,138)	9,538	(1,559)	11,097
Other	7	1	6	1	5
<i>Total revenues</i>	1,131,177	39,821	1,091,356	63,562	1,027,794
Total cost of sales	789,821	41,748	748,073	44,846	703,227
Total operating expenses	19,863	932	18,931	(402)	19,333
Non-operating expense:					
Interest expense	8,356	(1,149)	9,505	(1,559)	11,064
<i>Total costs and expenses</i>	818,040	41,531	776,509	42,885	733,624
Change in net position before payments to State Funds	313,137	(1,710)	314,847	20,677	294,170
Payments to Chronic Gamblers' Fund	1,900	–	1,900	–	1,900
Payments to General Fund	312,100	2,100	310,000	20,700	289,300
Payments to Department of Consumer Protection	2,942	42	2,900	27	2,873
<i>Change in net position</i>	(3,805)		47		97
Total net position, beginning balance	7,561		7,514		7,417
Total net position, ending balance	\$ 3,756		\$ 7,561		\$ 7,514

OVERVIEW OF FINANCIAL POSITION

Total assets decreased in fiscal 2013 by \$11.0 million which was the result of a decrease in the cash balance from fiscal year 2012. The reduction of the cash balance was primarily due to the purchase of a significant number of annuity contracts for “for life” grand prize winners during fiscal year 2013. No “for life” annuity contracts were purchased in fiscal 2012.

In fiscal 2012, total assets increased \$0.6 million. Current assets increased approximately \$19.6 million while non-current assets decreased \$19.0 million. Non-current assets largely consist of investments for prize payments. Long-term liabilities consist primarily of annuities payable to lottery winners with prizes payable over several years. The increase in the long-term asset account, *Investment for prize payments*, and in the long-term liability account, *Long-term annuities payable* for fiscal 2013, totaled \$12.6 million or 10.9%. In fiscal 2012, these accounts decreased \$18.8 million, or 14.0%.

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

CONNECTICUT LOTTERY CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2013 AND 2012

TABLE 3

Sales and Related Expenses
(in thousands)

	Increase (Decrease)			Increase (Decrease)			2011
	2013	\$	%	2012	\$	%	
SALES							
Instant games	\$ 667,256	\$ 13,946	2.1%	\$ 653,310	\$ 42,742	7.0%	\$ 610,568
Daily games	233,618	13,558	6.2%	220,060	(5,321)	(2.4%)	225,381
Multi-State games ^(a)	161,542	19,761	13.9%	141,781	21,444	20.9%	117,280
Lotto	22,150	(5,222)	(19.1%)	27,372	3,031	12.5%	24,341
Cash5	32,564	(1,217)	(3.6%)	33,781	(462)	(1.3%)	34,243
CT Super Draw	5,564	128	2.4%	5,436	635	13.2%	4,801
<i>Total sales</i>	\$1,122,695	\$ 40,955	3.8%	\$1,081,740	\$ 62,069	6.4%	\$1,016,614
RELATED EXPENSES							
Prize Expense	\$ 699,063	\$ 39,165	5.9%	\$ 659,898	\$ 39,764	6.4%	\$ 620,134
Retailer commissions	\$ 62,765	\$ 2,025	3.3%	\$ 60,740	\$ 3,776	6.6%	\$ 56,964
On-line systems	\$ 9,984	\$ 128	1.3%	\$ 9,856	\$ 566	6.1%	\$ 9,290
Production expenses	\$ 7,390	\$ 337	4.8%	\$ 7,053	\$ 826	13.3%	\$ 6,227

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

CONNECTICUT LOTTERY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2013 AND 2012

Total sales for fiscal 2013 increased by \$41.0 million, or 3.8%, from the prior fiscal year. Multi-state games had the largest increase over fiscal 2012, increasing by \$19.8 million or 14.8% (includes Lucky for Life and Lucky-4-Life sales in fiscal 2012 for comparative purposes). The multi-state games increase was attributable to an increase in Powerball sales of \$33.1 million or 44.6% and Lucky for Life which increased \$3.5 million or 13%, while Mega Millions decreased \$16.9 million or 41.6%. In addition, Instant games and Daily games increased almost \$14 million each which represents 2.1% and 6.2% respectively. Classic Lotto and Cash5 both decreased from fiscal 2012. Classic Lotto decreased \$5.2 million or 19.1% while Cash5 decreased \$1.2 million or 3.6%. In fiscal 2012, Instant game sales, Powerball, Mega Millions, Classic Lotto and Lucky for Life game sales were the categories with the largest increases while Daily game sales decreased. Instant games increased by \$42.7 million, or 7.0%. The multi-state games of Powerball, Mega Millions and Lucky for Life increased a combined \$24.5 million, or 20.9%.

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

Prize expense has the greatest impact on gross margin for the various games and has demonstrated the variability noted above and in prior financial statement reports. For fiscal 2013, prize expense increased \$39.2 million, or 5.9%. For fiscal 2012, prize expense increased \$39.8 million, or 6.4%.

Retailer commissions increased \$2.0 million, or 3.3%, in fiscal 2013 and increased \$3.8 million, or 6.6%, in fiscal 2012. Percentage changes in retailer commissions vary slightly from sales percentage changes, due to incremental incentive compensation earned by retailers for promotions offered by the Lottery to promote selected games.

On-line system expenses increased \$0.1 million, or 1.3% in fiscal 2013 and \$0.6 million, or 6.1% in fiscal 2012.

Production expenses increased by \$0.3 million, or 4.8% in fiscal 2013 and \$0.8 million, or 13.3% in fiscal 2012. 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.

Other costs and expenses do not vary directly with total sales. These include marketing, advertising and promotion expenses and operating expenses. Management budgets these items based upon current business plans and economic conditions and continuously monitors actual results to determine whether adjustments are required to meet overall business objectives. For fiscal 2013 and 2012, marketing, advertising and promotion expenses remained essentially the same at \$10.6 million and \$10.5 million respectively.

Total operating expenses for fiscal 2013 increased \$0.9 million, or 0.4% while fiscal 2012 decreased by \$0.4 million, or 0.2%.

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.

CONNECTICUT LOTTERY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2013 AND 2012

Interest income from short-term investments of surplus cash increased by \$11,500 to \$44,500 in fiscal 2013 and was essentially unchanged in fiscal 2012 at \$33,000 as compared to fiscal 2011. The changes in rate of return to the Lottery were consistent with the changes in the general market rates for this period.

Payments to the State's General Fund totaled \$312.1 million, and increased \$2.1 million, or 0.7% for fiscal 2013. For fiscal 2012, total contributions were \$310.0 million, and increased \$20.7 million, or 7.2%. Contributions 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, deferred rent and long-term retirement benefits. For more detailed information on capital asset activity and long-term liabilities, please read the disclosures included in the notes to the financial statements.

CONNECTICUT LOTTERY CORPORATION
STATEMENTS OF NET POSITION

	June 30	
	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 11,163,687	\$ 31,128,405
Accounts receivable, net of allowance for doubtful accounts	34,497,710	34,248,815
Prepaid annuities for prizes	18,448,868	21,516,664
Accrued interest receivable	2,808,573	3,403,384
Ticket inventory, net of allowance	2,082,854	1,962,929
Prepaid expenses	200,377	142,302
<i>Total current assets</i>	69,202,069	92,402,499
NON-CURRENT ASSETS		
Investments for prize payments at present value	128,583,612	115,991,058
Prize reserves held by Multi-State Lottery Association	5,063,840	5,039,411
Capital assets, net	1,684,712	2,111,186
Advances to high-tier claim centers	200,000	200,000
<i>Total non-current assets</i>	135,532,164	123,341,655
<i>Total assets</i>	\$ 204,734,233	\$ 215,744,154

	June 30	
	2013	2012
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Annuities payable	\$ 19,140,744	\$ 22,204,473
Prizes payable	33,373,826	38,517,211
Accrued interest payable	2,808,573	3,403,384
Accounts payable and accrued expenses	14,227,034	25,444,031
Due to the Multi-State Lottery Association	1,416,788	1,266,907
Deferred revenue	721,539	653,338
<i>Total current liabilities</i>	71,688,504	91,489,344
LONG-TERM LIABILITIES		
Long-term annuities payable, at present value	128,583,612	115,991,058
Deferred rent	621,721	545,143
Long-term salaries and benefits payable	84,695	157,425
<i>Total long-term liabilities</i>	129,290,028	116,693,626
<i>Total liabilities</i>	200,978,532	208,182,970
NET POSITION		
Net investment in capital assets	1,684,712	2,111,186
Restricted	2,070,989	5,449,998
<i>Total net position</i>	3,755,701	7,561,184
<i>Total liabilities and net position</i>	\$ 204,734,233	\$ 215,744,154

See accompanying notes.

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

	Years ended June 30	
	2013	2012
SALES		
OPERATING REVENUE		
Instant game sales	\$ 667,256,434	\$ 653,311,182
On-line game sales	297,281,232	316,505,530
Multi-State game sales	161,584,529	114,937,406
	1,126,122,195	1,084,754,118
Less sales returns, cancellations and promotions	(3,427,245)	(3,014,052)
<i>Total operating revenue</i>	1,122,694,950	1,081,740,066
COST OF SALES AND OPERATING EXPENSES		
COST OF SALES		
Prize expense	699,062,914	659,897,816
Retailer commissions	62,765,221	60,740,189
On-line systems	9,983,643	9,856,375
Marketing, advertising and promotion	10,619,925	10,526,074
Production expenses	7,389,680	7,052,950
<i>Total cost of sales</i>	789,821,383	748,073,404
OPERATING EXPENSES		
Salaries and benefits	15,749,208	15,070,877
Other operating expenses	3,709,924	3,460,467
Depreciation and amortization	426,474	447,690
Bad debt expense	(22,483)	(48,080)
<i>Total operating expenses</i>	19,863,123	18,930,954
OTHER OPERATING INCOME	74,566	71,899
<i>Operating income</i>	\$ 313,085,010	\$ 314,807,607

	Years ended June 30	
	2013	2012
NON-OPERATING REVENUES (EXPENSES)		
Interest income from investments on annuities	\$ 8,356,174	\$ 9,505,366
Interest income	44,557	33,024
Interest expense on annuity payments	(8,356,174)	(9,505,366)
Annuity assignment	7,000	6,500
<i>Total non-operating revenues</i>	51,557	39,524
CHANGE IN NET POSITION AVAILABLE BEFORE PAYMENTS TO STATE FUNDS	313,136,567	314,847,131
NON-OPERATING PAYMENTS TO STATE OF CONNECTICUT FUNDS		
Chronic Gamblers' Fund	1,900,000	1,900,000
Department of Consumer Protection	2,942,050	2,900,229
General Fund	312,100,000	310,000,000
<i>Change in net position</i>	(3,805,483)	46,902
TOTAL NET POSITION, beginning	7,561,184	7,514,282
TOTAL NET POSITION, ending	\$ 3,755,701	\$ 7,561,184

See accompanying notes.

CONNECTICUT LOTTERY CORPORATION

STATEMENTS OF CASH FLOWS

	Years ended June 30	
	2013	2012
OPERATING ACTIVITIES		
Receipts from sale of game tickets	\$ 1,122,536,740	\$ 1,071,030,552
Receipts from other operating income	74,566	71,899
Payments for prizes	(704,080,847)	(653,603,467)
Payments to retailers	(62,765,221)	(60,740,189)
Payments to suppliers	(39,388,246)	(8,892,719)
Payments to employees	(15,821,938)	(15,152,562)
Payments for other expenses	(3,633,345)	(3,383,888)
<i>Net cash provided by operating activities</i>	296,921,709	329,329,626
INVESTING ACTIVITIES		
Receipts of principal from annuities	22,047,532	26,662,548
Receipts of interest from annuities	8,944,988	10,231,103
Receipts of interest from cash equivalents	44,557	33,024
Purchase of insurance annuities	(30,946,045)	(2,113,600)
<i>Net cash provided by investing activities</i>	91,032	34,813,075
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	-	(27,902)
<i>Net cash used in capital financing activities</i>	-	(27,902)
NON-CAPITAL FINANCING ACTIVITIES		
Payment of principal on long-term annuities	(22,043,466)	(26,690,856)
Payment of interest on long-term annuities payable	(8,944,988)	(10,231,103)
Annuity assignment	7,000	6,500
Payments to the General Fund	(312,100,000)	(310,000,000)
Payments to the Chronic Gamblers' Fund	(1,900,000)	(1,900,000)
Payment to Department of Consumer Protection	(2,942,050)	(2,900,229)
Additions to long-term annuities payable	30,946,045	2,113,600
<i>Net cash used in non-capital financing activities</i>	\$ (316,977,459)	\$ (349,602,088)

	Years ended June 30	
	2013	2012
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	\$ (19,964,719)	\$ 14,512,711
CASH AND CASH EQUIVALENTS, Beginning	31,128,405	16,615,694
CASH AND CASH EQUIVALENTS, Ending	\$ 11,163,687	\$ 31,128,405
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 313,085,010	\$ 314,807,607
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	426,474	447,690
Bad debt expense	(22,483)	(48,080)
Changes in operating assets and liabilities:		
Accounts receivable	(226,411)	(10,560,906)
Due from Multi-State Lottery Association	-	261,356
Accounts payable and accrued expenses	(11,216,997)	18,626,498
Ticket inventory	(119,925)	(95,343)
Prepaid expenses	(58,075)	11,527
Prize reserves	(24,428)	(271,738)
Prizes payable	(5,143,387)	5,037,825
Due to Multi-State Lottery Association	149,881	1,266,907
Deferred revenue	68,202	(148,610)
Deferred rent liability	76,578	76,578
Deferred retiree salaries and benefits payable	(72,730)	(81,685)
<i>Net cash provided by operating activities</i>	<i>\$ 296,921,709</i>	<i>\$ 329,329,626</i>

See accompanying notes.

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

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

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

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

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

The Lottery’s activities are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, and liabilities, net 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 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.

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.

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Non-operating revenues are generally derived from interest earned on annuity contracts and accumulated cash balances. Non-operating 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 45.0% of gross annual revenue must be paid as prizes. For the fiscal years ended June 30, 2013 and 2012, the prize expense amounted to 62.3% and 61.0% of Lottery sales, respectively.

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

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

Retailer Commissions — Commissions are generally computed as 5.0% of ticket sales plus 1.0% of tickets cashed. Retailers may earn additional compensation through product promotions offered by the Lottery.

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 payments to the State’s General Fund. Net investment in capital assets represents resources net of debt and 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 2011, the Authority adopted Governmental Accounting Standards Board (“GASB”) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (“FASB”) and American Institute of Certified Public Accountants (“AICPA”) Pronouncements* (“GASB No. 62”). This Standard improves financial reporting by incorporating into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (“FASB”) and the AICPA pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB No. 62 superseded Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The adoption of this new standard did not have a significant impact on the Lottery.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* (“GASB No. 63”). The objective of this Statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position. Amounts that are required to be reported as deferred outflows should be reported in a statement of financial position in a separate section following assets. Similarly, amounts to be reported as deferred inflows of resources should be reported in a separate section following liabilities. The statement of net position should report the residual amount as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The adoption of this Statement resulted in a change in the presentation of the Statements of Net Assets to what is now referred to as the Statements of Net Position and the term “net assets” is changed to “net position” throughout the financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (“GASB No. 68”). The objective of this statement is to improve the information provided in government financial reports about pension-related financial support provided by certain non-employer entities that make contributions to pension plans that are used to provide benefits to the employees of other entities. 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. 68 on its financial statements.

Reclassifications — Certain reclassifications have been reflected to the prior year financial statements to conform to the current year’s presentation.

CONNECTICUT LOTTERY CORPORATION
NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2013 AND 2012

NOTE 2 – CASH, CASH EQUIVALENTS AND CREDIT RISK

Cash and cash equivalents are as follows:

	June 30	
	2013	2012
Cash in bank	\$ 4,701,208	\$ 8,974,523
Cash in transit	33,377	45,648
Short Term Investment Fund (“STIF”)	5,294,393	21,081,188
STIF (Retailer-security deposits)	1,126,709	1,021,546
Petty Cash	8,000	5,500
Total cash and cash equivalents	\$ 11,163,687	\$ 31,128,405

In accordance with Chapter 229a and Sections 3-20 and 3-27a of the Connecticut General Statutes (C.G.S.), 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, 2013 and 2012, the carrying amounts of the Lottery’s deposits were \$4,701,208 and \$8,974,523, respectively. The bank balances at June 30, 2013 and 2012 were \$5,852,843 and \$9,954,176, respectively, of which \$250,000 was covered by the Federal Deposit Insurance Corporation. The balances of these funds, \$5,602,843 and \$9,704,176, respectively, were uninsured and uncollateralized.

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

At June 30, 2013 and 2012, the Lottery also had uninsured and uncollateralized investments of \$6,421,102 and \$22,102,734, respectively, in the STIF account. 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 45 days. The Lottery’s stated policy is to invest in highly liquid, short-term assets.

CONNECTICUT LOTTERY CORPORATION
NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2013 AND 2012

NOTE 3 – INVESTMENTS AND CREDIT RISK

Investments— The Lottery had the following investments as of:

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

	June 30, 2012	
	Carrying Amount	Fair Value
Annuity contracts (at present value, discounted at approximately 6.0%)	\$ 137,507,722	\$ 137,507,722

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

	June 30	
Insurance Company	2013	2012
Ohio National Life Insurance	\$ 45,155,245	\$ 44,377,515
Metropolitan Life	27,787,113	17,730,990
John Hancock Life Insurance	19,109,137	25,363,524
New York Life Insurance	18,225,627	22,670,986
Savings Bank Life Insurance Co. of Massachusetts	17,303,571	–
Protective Life Insurance	6,914,518	9,048,775

As of June 30, 2013 and 2012, 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, 2013 AND 2012

NOTE 4 – CAPITAL ASSETS

A summary of capital assets is presented below:

	Leasehold Improvements	Computer Equipment	Furniture and Equipment	Total
Asset Cost				
Balance, June 30, 2011	\$ 1,003,573	\$ 1,485,915	\$ 2,939,448	\$ 5,428,936
Capital Additions	27,902	–	–	27,902
Disposals	–	(26,535)	–	(26,535)
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
Accumulated Depreciation				
Balance, June 30, 2011	(310,399)	(1,018,730)	(1,568,834)	(2,897,963)
Depreciation	(100,347)	(150,255)	(197,087)	(447,689)
Disposals	–	26,535	–	26,535
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)
Net Book Value	\$ 508,195	\$ 197,319	\$ 979,198	\$ 1,684,712

CONNECTICUT LOTTERY CORPORATION

NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2013 AND 2012

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.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts due within one year
Activity for fiscal 2013	\$ 138,195,531	\$ 31,572,291	\$ (22,043,466)	\$ 147,724,356	\$ 19,140,744
Activity for fiscal 2012	\$ 161,697,727	\$ 3,188,660	\$ (26,690,856)	\$ 138,195,531	\$ 22,204,473

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

Fiscal Years Ending June 30	Principal	Interest
2014	\$ 19,140,744	\$ 8,212,446
2015	12,522,524	7,053,702
2016	9,546,588	6,208,849
2017	7,269,079	5,562,322
2018	4,875,940	5,096,728
2019 – 2023	19,885,271	21,329,053
2024 – 2028	13,695,239	16,754,807
2029 – 2033	11,913,799	13,330,201
2034 – 2038	9,978,657	10,526,343
2039 – 2043	9,546,805	7,991,195
After 2043	29,349,710	15,910,580
	\$ 147,724,356	\$ 117,976,226

This debt represents periodic payments owed to lottery top prize winners and is fully funded by investments in annuity contracts. Amounts due after 2033 represent estimates of long-term liabilities related to prizes payable over the recipients' natural lives.

As noted in Note 3 regarding investments, the annuity contracts used to fund periodic payments to top prize winners match the amounts and terms of the annuity prize liabilities. Therefore, no interest rate risk results from the long-term debt and the Lottery maintains no stated policy regarding interest rate risk on debt.

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 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.

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

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. The prize pools for the multi-state games are based upon a percentage of each drawing period's sales with 50% collected by MUSL for Powerball and 51% collected for Mega Millions. Payments to both Powerball and Mega Millions are after a reduction for low tier prize expense. MUSL retains a percentage of each drawing period's sales. The retained percentage for Powerball equals 2%. Effective with the drawing of April 2, 2013 the percentage retained by MUSL for Mega Millions equals 1%. The prize reserve cap for the Powerball game and Mega Millions game is \$80,000,000 and \$45,000,000, respectively. After the total cap has been accumulated, the percentage of drawing period sales designated for the reserve funds becomes part of the prize pool. The prize reserve funds serve as a contingency reserve to protect MUSL from unforeseen prize liabilities and the money in this reserve fund is to be used at the discretion of the MUSL Board of Directors. The prize reserve fund monies are refundable to MUSL members if MUSL disbands or if a member leaves MUSL. Members leaving MUSL must wait one year before receiving their remaining share, if any, of the prize reserve funds.

When winning grand prize tickets are drawn, the winner has the option of selecting a discounted lump sum cash payment or the full prize payment over future annual installments. Powerball has 30 installments and Mega Millions has 26. 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.

Effective with the Powerball draw on January 18, 2012, the price of a Powerball game ticket increased to \$2.00 from \$1.00.

During each of the years ended June 30, 2013 and 2012, there was a Powerball grand prize winner in the State of Connecticut in the amount of \$60.0 and \$254.2 million, respectively. There were no grand prize winners in the State of Connecticut for Mega Millions during the years ended June 30, 2013 or 2012.

As part of the agreement with MUSL, the Lottery is required to deposit with MUSL additional amounts in the event the prize payout experience becomes greater than budgeted. These amounts are the property of the Lottery and would be returned in full in the event the Lottery exited the association. These amounts earn investment income at market rates, which is used to offset the Lottery's share of MUSL operating expenses for the year as follows:

	Years Ended June 30	
	2013	2012
Balances held by MUSL	\$ 5,063,840	\$ 5,039,411
Balances due to MUSL	1,416,788	1,266,907
Investment income on MUSL Accounts	23,583	5,077

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 accounting principles generally accepted in the United States of America are omitted. Information on the total plan funding status and progress, contribution required and trend information can be found in the State of Connecticut’s Comprehensive Annual Financial Report.

Plan Description — SERS is a cost sharing multiple employer defined benefit Public Employees’ Retirement System (PERS) established in 1939 and governed by sections 5-152 to 5-192 of the Connecticut General Statutes. Employees are covered under one of three tiers. Tier I, Tier IIA and Tier III are contributory plans. Tier II is a noncontributory plan. Tier I Plan B and Plan C participants contribute 2.0% and 5.0% of their pay, respectively. Tier II Plan A and Tier III participants contribute 2.0% 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 2.0% of the annual average earnings (which are based on the three highest years of service) over \$4,800 plus 1.0% 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 1.33% 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 who 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 1.33% 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 46.01%, 39.41% and 40.0%, during fiscal 2013, 2012 and 2011, respectively. The contributions made compared to covered payroll follows:

	Years Ended June 30		
	2013	2012	2011
Total payroll covered by SERS	\$ 9,055,510	\$ 8,989,782	\$ 8,897,944
By employees	\$ 117,317	\$ 127,748	\$ 121,559
Percent of current year covered	1.30%	1.37%	1.26%
By the Lottery	\$ 4,161,025	\$ 3,651,160	\$ 3,692,084
Percent of current year covered	45.95%	40.61%	41.49%

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 State of Connecticut and the State Employee's Bargaining Agent Coalition ("SEBAC") Revised SEBAC 2011 Agreement, all employees shall pay the 3% retiree health care insurance contribution for a period of ten years or retirement, whichever is sooner. This includes employees already paying the 3%, employees hired on or after July 1, 2011 and employees who are not paying the 3% on June 30, 2013. In addition, participants of Tier III shall be required to have fifteen 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, which is the combination of age and actual State service equaling seventy-five 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 offered by the State of Connecticut effective July 1, 2009. The retirement plan allows for payment of accrued sick and vacation pay on a deferred basis that will be treated as additional state service for retirement purposes. The total deferred payments as of June 30, 2013 under the 2009 Retirement Incentive Program offered by the State of Connecticut were \$169,390 of which \$84,695 is current and \$84,695 is long-term. As of June 30, 2012, total deferred payments were \$239,110 of which \$81,685 was current and \$157,425 was long-term.

NOTE 9 – LEASE COMMITMENTS

The Lottery leases office and warehouse facilities under operating leases. These leases will expire on July 31, 2013 and are on a month-to-month basis for a period of twelve months thereafter.

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

The Lottery leases equipment 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, 2013 AND 2012

NOTE 9 – LEASE COMMITMENTS (CONTINUED)

Total lease expense for facilities and equipment was \$1,975,620 and \$1,973,004 for the fiscal years ended June 30, 2013 and 2012, respectively.

Future payments for the aforementioned leases are summarized as follows:

Fiscal Years Ending June 30	Amount
2014	\$ 1,425,056
2015	1,084,081
2016	1,000,177
2017	994,375
2018	994,375
Thereafter	5,203,125
	<u>\$ 10,701,189</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, 2013, 2012 and 2011, 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

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*

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 Lottery Corporation (the “Lottery”), a component unit of the State of Connecticut, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, 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, 2013. 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.

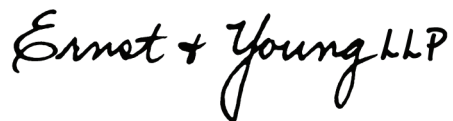
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

The logo for Ernst & Young LLP is written in a cursive, handwritten-style font. The letters are black and the overall appearance is that of a signature or a stylized brand mark.

September 18, 2013



SUPPLEMENTAL SCHEDULES

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)

	Instant	Play3 Night	Play4 Night	Play3 Day	Play4 Day
NET SALES	100.0%	100.0%	100.0%	100.0%	100.0%
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	0.0%	0.5%	0.0%	0.2%	0.0%
<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
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
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%	0.0%	0.0%	0.0%	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%	0.0%	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%

CONNECTICUT LOTTERY CORPORATION
SCHEDULE OF PROFIT MARGINS BY GAME TYPE, YEAR ENDED JUNE 30, 2012

PROFIT CONTRIBUTIONS (\$000's)

	Instant	Play3 Night	Play4 Night	Play3 Day	Play4 Day
NET SALES	\$ 653,310	\$ 73,881	\$ 61,139	\$ 47,642	\$ 37,399
DIRECT COSTS					
Gross prize expense	451,714	34,670	31,101	22,470	14,646
Unclaimed prize credit	(7,023)	(574)	(626)	(284)	(306)
Use of unclaimed prize reserve	1	89	5	83	–
<i>Net prize expense</i>	415,513	41,838	29,408	23,912	20,347
Retailer commissions	35,051	4,273	3,376	2,654	2,049
On-line systems	5,585	701	573	438	349
Marketing, advertising and promotion	7,203	162	130	100	78
Production expenses	5,740	71	71	71	71
<i>Total direct costs</i>	499,596	39,115	34,499	25,553	16,803
GROSS PROFIT	\$ 153,714	\$ 34,766	\$ 26,640	\$ 22,089	\$ 20,596

PROFIT MARGIN (% OF NET SALES)

	Instant	Play3 Night	Play4 Night	Play3 Day	Play4 Day
NET SALES	100.0%	100.0%	100.0%	100.0%	100.0%
DIRECT COSTS					
Gross prize expense	69.1%	46.9%	50.9%	47.2%	39.2%
Unclaimed prize credit	(1.1%)	(0.8%)	(1.0%)	(0.6%)	(0.8%)
Use of unclaimed prize reserve	0.0%	0.1%	0.0%	0.2%	0.0%
<i>Net prize expense</i>	68.0%	46.2%	49.9%	46.8%	38.4%
Retailer commissions	5.8%	5.5%	5.4%	5.5%	5.3%
On-line systems	0.9%	0.9%	0.9%	0.9%	0.9%
Marketing, advertising and promotion	0.8%	0.2%	0.2%	0.4%	0.2%
Production expenses	1.0%	0.1%	0.1%	0.1%	0.2%
<i>Total direct costs</i>	76.5%	52.9%	56.5%	53.7%	45.0%
GROSS PROFIT	23.5%	47.1%	43.5%	46.3%	55.0%

Lotto	Cash5	Powerball	Mega Millions	Lucky for Life*	CT Super Draw	Total
\$ 27,372	\$ 33,781	\$ 74,281	\$ 40,628	\$ 26,871	\$ 5,436	\$ 1,081,740
14,485	18,238	37,150	20,515	16,269	2,776	664,034
(296)	(491)	(2,180)	(440)	(422)	(94)	(12,736)
1,999	–	–	–	6,423	–	8,600
13,760	18,794	28,921	16,689	8,516	2,436	620,134
1,309	1,897	3,137	1,716	1,248	254	59,964
226	307	547	305	217	42	9,290
80	73	668	801	300	1,017	10,612
29	71	34	36	33	–	6,227
18,104	20,042	41,100	23,360	25,812	4,089	748,073
\$ 9,268	\$ 13,739	\$ 33,181	\$ 17,268	\$ 1,059	\$ 1,347	\$ 333,667
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
52.9%	54.0%	50.0%	50.5%	60.5%	51.1%	61.4%
(1.1%)	(1.5%)	(2.9%)	(1.1%)	(1.6%)	(1.7%)	(1.2%)
7.3%	0.0%	0.0%	0.0%	23.9%	0.0%	0.8%
59.1%	52.5%	47.1%	49.4%	82.8%	49.4%	61.0%
5.4%	5.5%	5.4%	5.1%	5.6%	5.6%	5.6%
0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
0.5%	0.2%	1.8%	2.0%	6.4%	19.4%	1.0%
0.2%	0.2%	0.2%	0.1%	0.2%	0.0%	0.7%
66.1%	59.3%	55.4%	57.5%	95.9%	75.3%	69.2%
33.9%	40.7%	44.6%	42.5%	4.1%	24.7%	30.8%

*“Lucky for Life” includes both the CT-only Lucky-4-Life game which ended in March, 2012 and the Lucky for Life game which began in March, 2012.



STATISTICAL SECTION

CONNECTICUT LOTTERY CORPORATION
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
ACTUAL VS. BUDGET (\$000'S), YEAR ENDED JUNE 30, 2013

	Actual	Budget	Over/(Under) Budget	% Change
SALES				
OPERATING REVENUE	\$ 1,126,122	\$ 1,090,500	\$ 35,622	3.3%
Less sales returns, cancellations and promotion	(3,427)	–	(3,427)	
<i>Total operating revenue</i>	1,122,695	1,090,500	32,195	3.0%
COST OF SALES AND OPERATING EXPENSES				
COST OF SALES				
Prize expense	699,063	668,057	31,006	4.6%
Retailer commissions	62,765	61,316	1,449	2.4%
On-line systems	9,983	10,138	(155)	(1.5%)
Marketing, advertising and promotion	10,620	11,919	(1,299)	(10.9%)
Production expenses	7,390	7,017	373	5.3%
<i>Total cost of sales</i>	789,821	758,447	31,374	4.1%
OPERATING EXPENSES				
Salaries and benefits	15,749	16,568	(819)	(4.9%)
Other operating expenses	3,710	3,906	(196)	(5.0%)
Depreciation and amortization	426	433	(7)	(1.6%)
Bad Debt Expense	(22)	100	(122)	(122.0%)
<i>Total operating expenses</i>	19,863	21,007	(1,144)	(5.4%)
OTHER OPERATING REVENUE	74	63	11	17.5%
<i>Operating income</i>	313,085	311,109	1,976	0.6%
NON-OPERATING REVENUES (EXPENSES)				
Interest income from investments on annuities	8,356	0	8,356	
Interest income	45	36	9	25.0%
Interest expense on annuity payments	(8,356)	0	(8,356)	
Annuity assignment	7	2	5	
<i>Total non-operating revenues</i>	52	38	14	36.8%
CHANGE IN NET POSITION BEFORE PAYMENTS TO STATE FUNDS				
	313,137	311,147	1,990	0.6%
Payments to Chronic Gamblers' Fund	1,900	1,900	0	0.0%
Payments to Department of Consumer Protection	2,942	2,942	0	0.0%
Payments to State's General Fund	312,100	306,305	5,795	1.9%
<i>Change in net position</i>	\$ (3,805)	\$ –	\$ (3,805)	N/A

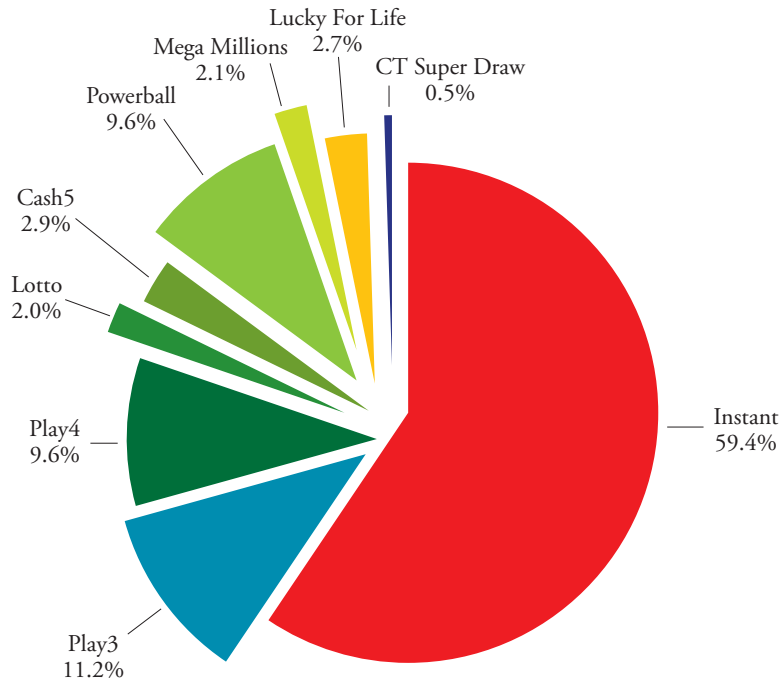
CONNECTICUT LOTTERY CORPORATION
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BY GAME TYPE (\$000'S), YEAR ENDED JUNE 30, 2013

	Instant	Play3 Night	Play4 Night	Play3 Day
SALES	\$ 667,256	\$ 76,284	\$ 66,214	\$ 51,719
OPERATING REVENUE				
Less sales returns, cancellations and promotion	(1)	(1,000)	(828)	(617)
<i>Total operating revenue</i>	667,255	75,284	65,386	51,102
COST OF SALES AND OPERATING EXPENSES				
COST OF SALES				
Prize expense	455,122	38,134	46,451	27,519
Retailer commissions	38,088	4,183	3,602	2,855
On-line systems	5,930	670	581	455
Marketing, advertising and promotion	4,884	198	150	145
Production expenses	6,362	66	66	66
<i>Total cost of sales</i>	510,386	43,251	50,850	31,040
OPERATING EXPENSES				
Salaries and benefits	8,830	551	669	551
Other operating expenses	2,046	128	155	128
Depreciation and amortization	240	15	18	15
Bad debt expense	(14)	(2)	(1)	(1)
<i>Total operating expenses</i>	11,102	692	841	693
OTHER OPERATING INCOME	45	5	5	3
<i>Operating income</i>	145,812	31,346	13,700	19,372
NON-OPERATING REVENUES (EXPENSES)				
Interest income from investments on annuities	4,334	0	0	0
Interest income	12	1	1	1
Interest expense on annuity payments	(4,334)	0	0	0
Annuity assignment	5	0	0	0
<i>Total non-operating revenues</i>	17	1	1	1
CHANGE IN NET POSITION BEFORE				
PAYMENTS TO STATE FUNDS	145,829	31,347	13,701	19,373
Payments to Chronic Gamblers' Fund	1,145	132	115	90
Payments to Department of Consumer Protection	1,799	207	178	141
Payments to State's General Fund	144,617	31,438	13,813	19,376
<i>Change in net position</i>	\$ (1,732)	\$ (430)	\$ (405)	\$ (234)

Play4 Day	Classic Lotto	Cash5	Powerball	Mega Millions	Lucky for Life	CT Super Draw	Total
\$ 42,332	\$ 22,581	\$ 32,587	\$107,406	\$ 23,737	\$ 30,442	\$ 5,564	\$1,126,122
(485)	(432)	(22)	(23)	(9)	(10)	0	(3,427)
41,847	22,149	32,565	107,383	23,728	30,432	5,564	1,122,695
22,143	13,635	18,217	52,395	11,186	11,481	2,780	699,063
2,250	1,282	1,813	5,474	1,222	1,668	328	62,765
372	198	290	955	212	271	49	9,983
97	972	98	1,090	639	1,208	1,139	10,620
66	62	65	449	33	155	0	7,390
24,928	16,149	20,483	60,363	13,292	14,783	4,296	789,821
669	827	748	1,024	1,024	827	29	15,749
155	191	173	315	236	166	17	3,710
18	22	20	28	27	22	1	426
(1)	0	(1)	(1)	0	(1)	0	(22)
841	1,040	940	1,366	1,287	1,014	47	19,863
3	1	2	7	1	2	0	74
16,081	4,961	11,144	45,661	9,150	14,637	1,221	313,085
0	3,621	0	0	0	401	0	8,356
1	0	1	26	1	1	0	45
0	(3,621)	0	0	0	(401)	0	(8,356)
0	1	0	0	0	1	0	7
1	1	1	26	1	2	0	52
16,082	4,962	11,145	45,687	9,151	14,639	1,221	313,137
73	41	57	147	55	43	2	1,900
114	63	89	190	87	66	8	2,942
16,097	5,023	11,193	45,779	14,412	9,146	1,206	312,100
\$ (202)	\$ (165)	\$ (194)	\$ (429)	\$ (5,403)	\$ 5,384	\$ 5	\$ (3,805)

REVENUE BY GAME

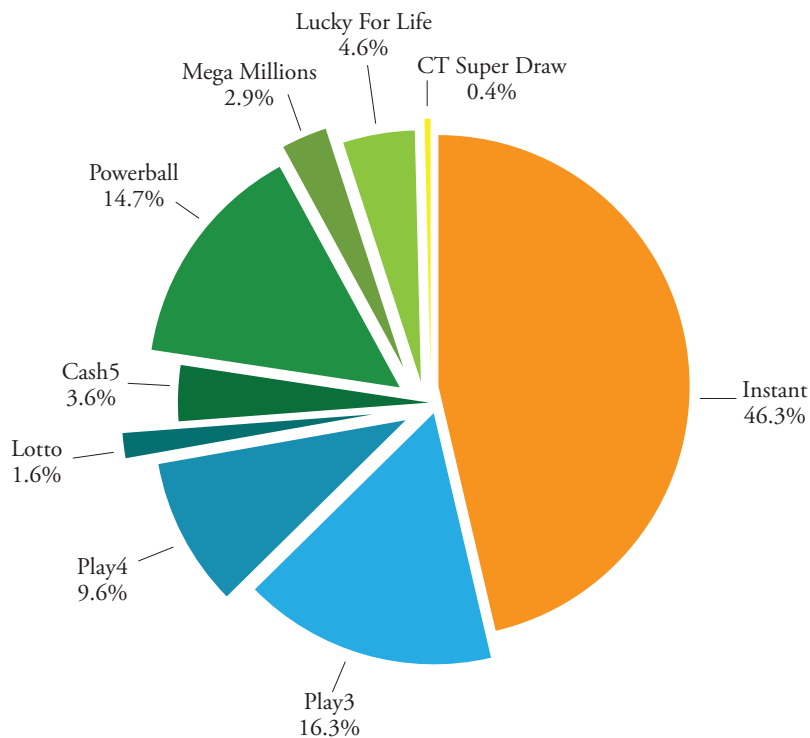
FISCAL YEAR 2013 TOTAL SALES: \$1,122,694,950



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

GENERAL FUND PAYMENTS BY GAME

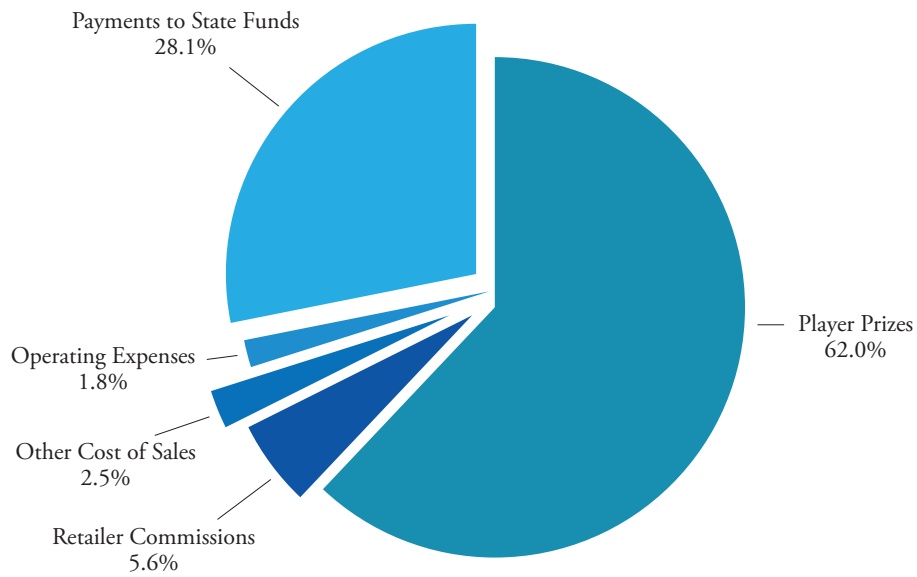
FISCAL YEAR 2013 TOTAL PAYMENTS: \$312,100,000



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

DISTRIBUTION OF EXPENSES AND PAYMENTS AS A PERCENTAGE OF TOTAL REVENUE

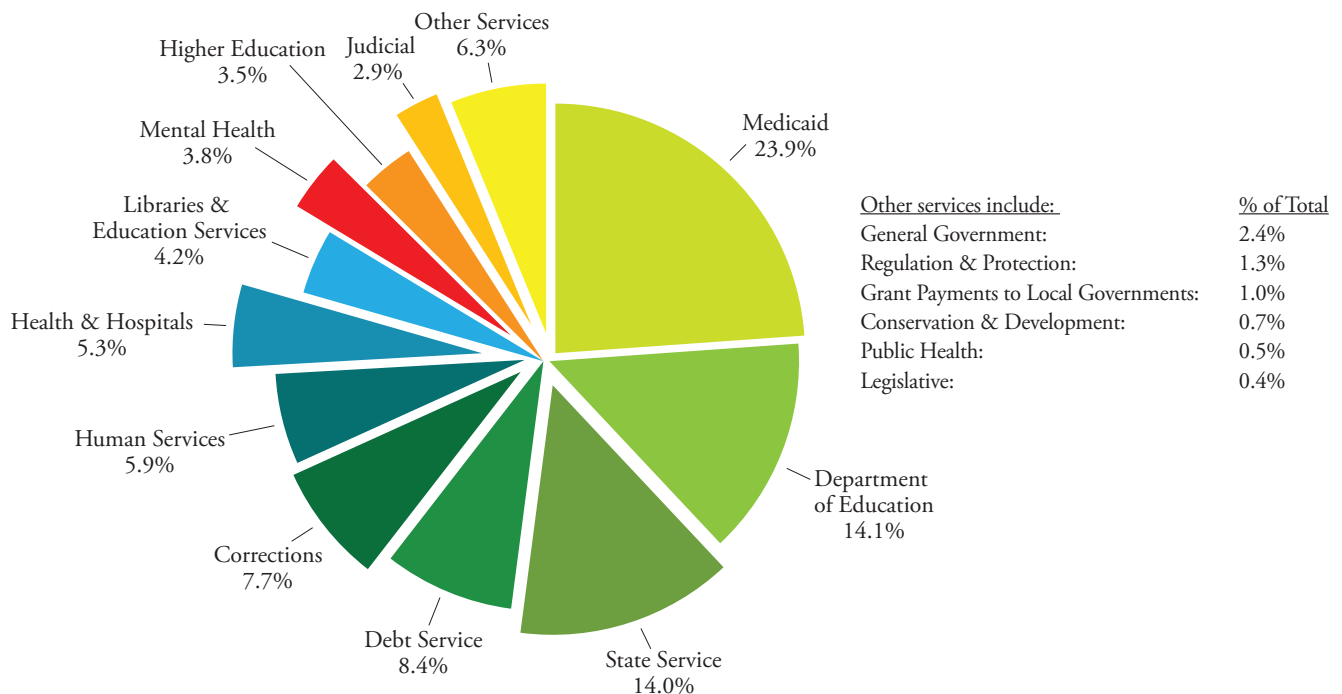
FISCAL YEAR 2013 TOTAL SALES: \$1,122,694,950



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

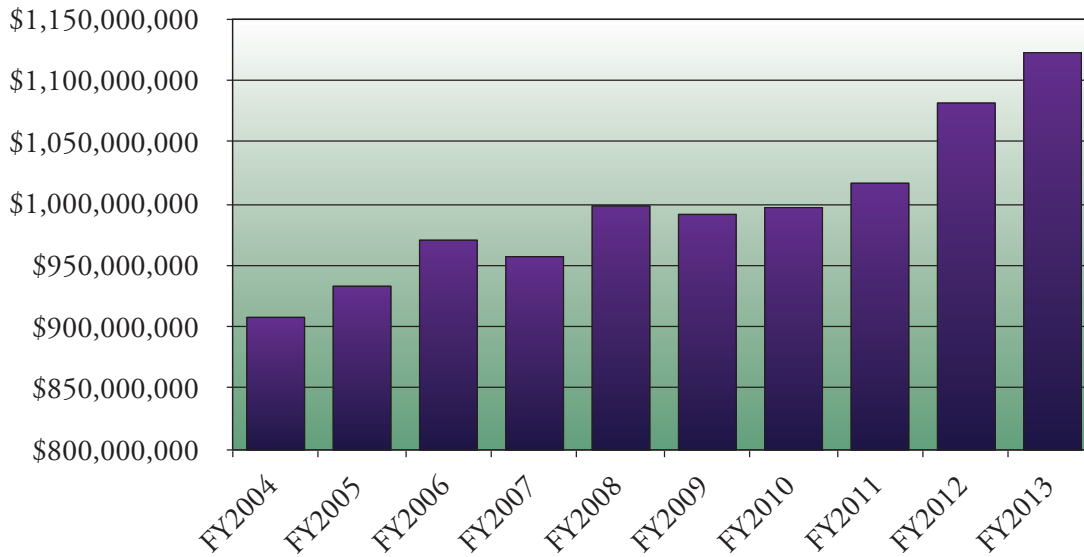
STATE SERVICES SUPPORTED BY LOTTERY PAYMENTS TO THE GENERAL FUND

FISCAL YEAR 2013 PAYMENTS TO THE GENERAL FUND: \$312,100,000

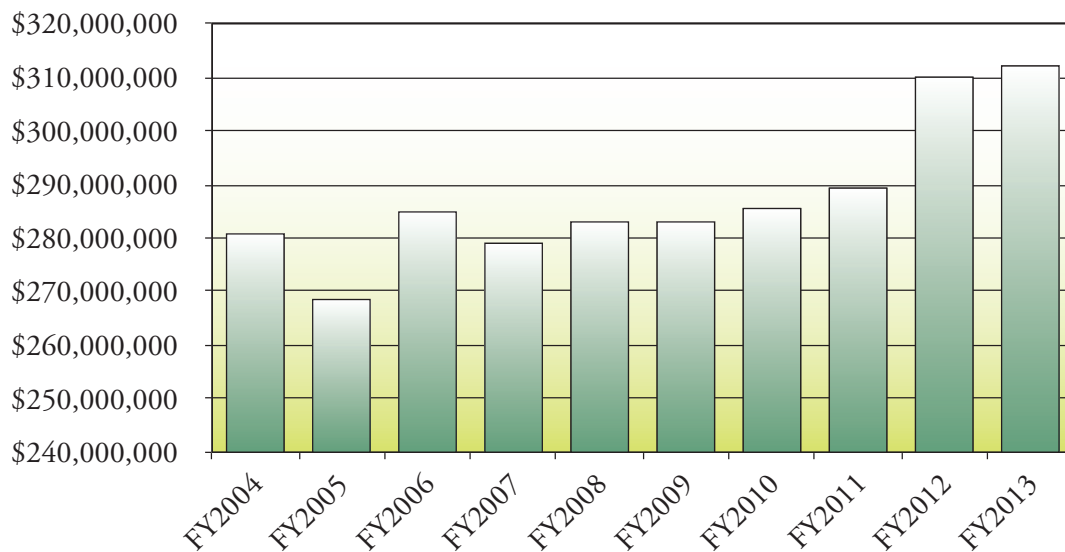


Based on Fiscal Year 2013 General Fund Percentages Appropriated by the Legislature. Source: Connecticut State Budget 2012-2014

REVENUES FOR THE LAST 10 FISCAL YEARS



PAYMENTS TO THE GENERAL FUND FOR THE LAST 10 FISCAL YEARS



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

	2004	2005	2006	2007
Operating Revenue				
Instant	\$551,885	\$592,266	\$587,559	\$594,930
Daily Games ⁽¹⁾	178,304	184,713	187,223	197,587
Lotto	34,200	35,614	32,261	30,386
Cash5	41,281	40,781	41,351	41,371
Powerball ⁽²⁾	101,986	79,560	121,933	92,752
Mega Millions	–	–	–	–
Lucky for Life ⁽³⁾	–	–	–	–
CT Super Draw	–	–	–	–
Total Operating Revenue	907,656	932,934	970,327	957,026
Prizes	538,331	573,000	587,388	579,854
Retailer commissions	50,499	51,691	54,051	53,597
Other cost of sales ⁽⁴⁾	23,014	23,627	26,213	25,822
Total cost of sales	611,844	648,318	667,652	659,273
PAYMENTS TO STATE'S GENERAL FUND	\$280,763	\$268,515	\$284,865	\$279,000

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

⁽²⁾ Powerball revenue includes “Instant Powerball” revenue of \$6,129,000 in 2004.

⁽³⁾ “Lucky for Life” revenue includes “Lucky-4-Life” revenue for the years 2009 through 2012. “Lucky for Life” began in 2012.

⁽⁴⁾ “Other Cost of Sales” are comprised of on-line systems, marketing, advertising and promotions and production expenses.

2008	2009	2010	2011	2012	2013
\$618,970	\$610,013	\$593,374	\$ 610,568	\$ 653,310	\$ 667,255
207,618	206,343	211,317	225,381	220,061	233,619
32,201	32,942	29,904	24,341	27,372	22,149
41,159	40,420	35,041	34,243	33,781	32,565
98,200	92,134	85,282	60,280	74,281	107,383
–	–	11,231	33,185	40,628	23,728
–	9,451	30,698	23,815	26,871	30,432
–	–	–	4,801	5,436	5,564
998,148	991,303	996,847	1,016,614	1,081,740	1,122,695
608,218	604,712	608,755	620,134	659,898	699,063
55,950	55,771	55,885	56,964	60,740	62,765
28,114	24,933	23,703	26,129	27,435	27,993
692,282	685,416	688,343	703,227	748,073	789,821
\$283,000	\$283,000	\$285,500	\$ 289,300	\$ 310,000	\$ 312,100

CONNECTICUT LOTTERY CORPORATION

COMPARATIVE INDUSTRY STATISTICS

Based upon data published in La Fleur's 2013 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 2012, included data from lotteries in 43 states plus the District of Columbia (D.C.). Top performing lotteries in key categories are presented below.

A. SALES PER CAPITA - FY 2012:

State/District	Population (Millions)	Ticket Sales (Millions \$)	Sales Per Capita (Dollars)
1 Massachusetts	6.7	\$ 4,729.6	\$ 711.2
2 D.C.	0.6	\$ 249.7	\$ 396.3
3 Georgia	9.9	\$ 3,559.9	\$ 358.9
4 New York	19.6	\$ 7,012.7	\$ 358.3
5 Maryland	5.9	\$ 1,990.0	\$ 338.4
6 New Jersey	8.9	\$ 2,758.9	\$ 311.0
7 Connecticut	3.6	\$ 1,081.7	\$ 301.3
8 Pennsylvania	12.8	\$ 3,480.9	\$ 272.8
9 Michigan	9.9	\$ 2,413.5	\$ 244.3
10 South Carolina	4.7	\$ 1,135.5	\$ 240.6

B. NET INCOME PER CAPITA - FY 2012:

State/District	Population (Millions)	Net Income (Millions \$)	Net Income Per Capita (Dollars)
1 Massachusetts	6.7	\$ 983.8	\$ 146.84
2 New York	19.6	\$ 2,343.7	\$ 119.58
3 Maryland	5.9	\$ 691.4	\$ 117.19
4 D.C.	0.6	\$ 66.5	\$ 110.83
5 New Jersey	8.9	\$ 951.3	\$ 106.89
6 Georgia	9.9	\$ 925.2	\$ 93.45
7 Connecticut	3.6	\$ 311.9	\$ 86.64
8 Pennsylvania	12.8	\$ 1,060.9	\$ 82.88
9 Michigan	9.9	\$ 791.4	\$ 79.94
10 Ohio	11.5	\$ 858.8	\$ 74.68

C. OPERATING EXPENSES AS PERCENTAGE OF SALES - FY 2012:

State/District	Ticket Sales (Millions \$)	Operating Expenses (Millions \$)	Expense %
1 Massachusetts	\$ 4,729.6	\$ 91.10	1.9%
2 Texas	\$ 4,190.8	\$ 88.40	2.1%
3 New Jersey	\$ 2,758.9	\$ 74.20	2.7%
4 Florida	\$ 4,449.9	\$ 136.80	3.1%
5 South Carolina	\$ 1,135.5	\$ 37.70	3.3%
6 New York	\$ 7,012.7	\$ 244.30	3.5%
7 Pennsylvania	\$ 3,480.9	\$ 129.40	3.7%
8 Ohio	\$ 2,750.1	\$ 107.80	3.9%
9 Rhode Island	\$ 249.5	\$ 9.80	3.9%
10 Georgia	\$ 3,559.9	\$ 144.60	4.1%
11 Michigan	\$ 2,413.5	\$ 99.20	4.1%
12 Missouri	\$ 1,097.4	\$ 45.70	4.2%
13 North Carolina	\$ 1,596.7	\$ 68.10	4.3%
14 Tennessee	\$ 1,215.9	\$ 54.10	4.4%
15 Connecticut	\$ 1,081.7	\$ 49.30	4.6%

CONNECTICUT LOTTERY CORPORATION

2013 ANNUAL REPORT



777 Brook Street, Rocky Hill, CT 06067
Telephone: (860) 713-2700
Facsimilie: (860) 713-2805

The 2013 Annual Report is available at
CTLOTTERY.ORG