

# 2016 ANNUAL REPORT

FOR YEAR ENDING **JUNE 30, 2016**  
CONNECTICUT LOTTERY CORPORATION

Record Transfers  
**\$337.5 MILLION**  
to the general fund

Record  
**\$760.3 MILLION**  
in prizes

Record Commission to  
CT Lottery Retailers  
**\$68.7 MILLION**

LAUNCH  
**KENO**  
ON THE SPOT FUN<sup>™</sup>





# 2016 ANNUAL REPORT

Fiscal Year Ended June 30, 2016



**CTLOTTERY.ORG**

**CONNECTICUT LOTTERY CORPORATION**

(A Component Unit of the State of Connecticut)

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**2016 ANNUAL REPORT**

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## MISSION STATEMENT

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

## VISION STATEMENT

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







# INTRODUCTORY SECTION





June 1, 2017

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

We are pleased to transmit to you the Annual Report of the Connecticut Lottery Corporation (“CLC” or “Lottery”) for the fiscal year ended June 30, 2016.

Six categories comprise this report: introduction, financial, compliance, required supplemental information, supplemental schedules and statistics. The introductory section includes this transmittal letter, a list of officials, an organizational chart, 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 2016, the comparative financial statements of the CLC, the related notes to the financial statements, compliance section, required supplemental information and supplemental schedules. The statistical section, which is unaudited, provides additional information regarding Lottery revenue and expenses.

Management of the CLC is responsible for the accuracy, completeness and fairness of this presentation, including all disclosures. To the best of our knowledge and belief, the data in this report is accurate in all material respects and is designed to fairly present the corporation’s financial position, results of operations, and cash flows. We have included all disclosures necessary to enable the reader to gain an understanding of the CLC’s financial activities. Accounting principles generally accepted in the United States (“GAAP”) for governmental enterprise funds require that we provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (“MD&A”). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The CLC’s MD&A can be found immediately following the report of the independent auditors in the financial section.

The CLC is a component unit of the State of Connecticut for financial reporting purposes. With more than forty-four years of continuous operation, the CLC is one of the oldest lotteries in the United States. From its inception to June 30, 2016, the Lottery has generated total sales of approximately \$27.1 billion and has contributed approximately \$8.9 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, and public safety.

The passage of Public Act 96-212 marked the first time a lottery operated by a state agency had been transferred to a quasi-public corporation to be operated as an enterprise fund. At full compliment, a thirteen-member board of directors governs the CLC, eleven of whom are appointed by the Governor and legislative leadership. Two members serve in an ex-officio capacity for the State Treasurer and the Secretary of the Office of Policy and Management.

## HISTORICAL HIGHLIGHTS

**June 1971:** As a means to generate revenue for the state, Governor Thomas J. Meskill signed Public Act No. 865, creating the Connecticut State Lottery.

**February 1972:** The Connecticut State Lottery became the fourth lottery in the nation. Sales commenced at approximately 3,000 retailer locations statewide, with one game simply called, “The Lottery.” Tickets cost 50¢ each with a weekly drawing held to select a winner at random. Top Prize: \$5,000.

**September 1975:** “Instant Match,” Connecticut’s first scratch game went on sale. Top Prize: \$10,000.

**March 1977:** “The Daily Numbers” game began. Match three digits, or variations on the combination. Top Prize: \$2,500.

**October 1980:** “Play 4” begins: match four digits, or variations on the combination. Top Prize: \$25,000.

**November 1983:** “Lotto” draw game introduced. For \$1, players chose 6 numbers for a chance to win a minimum jackpot of \$1,000,000.

**Fiscal Year 1987:** Connecticut Lottery delivers its first \$1Billion to the state’s General Fund.

**April 1992:** “Cash Lotto” is launched. Players select 5 numbers from 1 to 35. Top Prize: \$100,000.

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

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

**Fiscal Year 1996:** The Lottery delivers its 3-billionth dollar to the state’s General Fund.

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

**March 2009:** “Lucky-4-Life” draw game began. The game included a double matrix and initially offered a top prize of \$2,000 a week for life.

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

**October 2010:** “Super Draw” raffle-style draw game is launched. The game featured guaranteed prize winners from a limited pool of tickets sold.

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

**November 2011:** A Powerball® jackpot ticket worth \$254.2 million, the largest prize in the CT Lottery’s history, was won and claimed by the Putnam Avenue Family Trust.

**January 2012:** Powerball® changed its matrix, increased the minimum jackpot prize value to \$40,000,000 and became the first multi-state draw game with a \$2 ticket cost.

**March 2012:** Lucky-4-Life ended and the six New England states joined together to launch a multi-state version of the Connecticut draw game called “Lucky for Life.” Top Prize: \$1,000 a day for life.

**July 2012:** The Connecticut Lottery Corporation achieved Level 2 Responsible Gaming Framework Accreditation from the World Lottery Association.

**September 2013:** “Lucky for Life” added a second “for life” prize, worth \$25,000 a year for life, to the game.

**January 2015:** “Lucky for Life,” the game of a lifetime, became a national game, offered in 16 lotteries across the country.

**May 2015:** “Lucky Links with 2XPower Day” and “Lucky Links with 2XPower Night” launch. In this brand new way to play, players compare the numbers drawn to the 9 spots on their play grid. Top Prize: \$50,000.

**January 2016:** Powerball reached a record \$1,586,400,000 jackpot; there were three winning tickets sold in Florida, Tennessee and California.

**April 2016:** “Keno” launched. Every four minutes, players select the number of spots (1-10), the amount of the wager (up to \$20), the number of games, and indicate whether they want the bonus multiplier option for a chance to win up to \$1,000,000.

## FINANCIAL HIGHLIGHTS OF THE PAST YEAR

In fiscal 2016, the CLC generated \$1.231 billion in sales revenue and delivered a record sum of \$337.5 million to the General Fund. Sales revenue increased \$86.8 million, or 7.6%, from the prior fiscal year primarily related to strong sales in the instant ticket portfolio of games, Powerball sales related to the \$1.5 billion record setting US jackpot, and Keno sales, a new draw game introduced in April 2016.

Total cost of sales, including prizes, was \$859.9 million in fiscal 2016 compared to \$800.2 million in fiscal 2015. Operating expenses were \$19.4 million for fiscal 2016 compared to \$21.2 million in fiscal 2015. Payments to the state's General Fund totaled \$337.5 million in fiscal 2016, an increase of \$17.8 million from the prior fiscal year total of \$319.7 million. For a more complete overview of the financial highlights of fiscal 2016, including comparisons with the results of the prior fiscal year, please read Management’s Discussion and Analysis included in the financial section of this report.

## FINANCIAL OPERATIONS

**ENTREPRENEURIAL CORPORATION:** The CLC operates as a business. The sale of lottery tickets to the general public sustains the prize and retailer commission structure and all lottery-related support operations. After prizes and expenses, the net income is contributed to the Connecticut General Fund. The CLC utilizes the accrual basis of accounting, in accordance with generally accepted accounting principles, recognizing revenue when earned and expenses when incurred. 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:

- Regulated by the Department of Consumer Protection who executes background checks and issues licenses for retailers, CLC employees, and in-house contractors;
- Lottery tickets printed with special inks, dyes, and security codes;
- Detailed written procedures for all game drawings;
- Limited access to its data and information systems;
- Limited access to facilities.

**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 Poor's Insurance Rating Service Digest	"AA"
A. M. Best	"A-"

The CLC collects net earnings from sales of lottery games from approximately 2,900 retailers on a weekly basis. Funds are electronically swept from the retailers' designated bank accounts, and weekly transfers of estimated net income (sales revenue less prizes, commissions and expenses) are made to the Connecticut General Fund.

The CLC invests its excess cash with the Treasurer of the State of Connecticut. The Treasurer manages an investment pool of high-quality, short-term money market instruments for state and local governments.

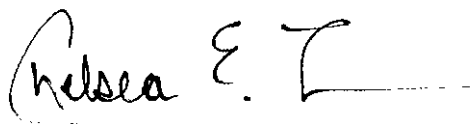
**RISK MANAGEMENT:** The CLC is exposed to various risks of loss related to thefts, damage or destruction of assets, injuries and natural disasters, for which it carries appropriate insurance through individual policies.

**INDEPENDENT AUDIT:** Connecticut statutes require an annual financial audit of the CLC by independent auditors. The audits of the CLC's financial statements for fiscal years 2016 and 2015 have been completed in conformity with generally accepted auditing standards. The unmodified opinion of the independent auditors on the CLC financial statements is included in the financial section of this report.

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

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

Respectfully Submitted,

A handwritten signature in black ink that reads "Chelsea E. T." followed by a horizontal line.

Chelsea E. Turner  
Interim President & CEO



## STATE OF CONNECTICUT

### LIST OF PRINCIPAL STATE OFFICERS, AS OF JUNE 30, 2016

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

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



## CONNECTICUT LOTTERY CORPORATION

### BOARD OF DIRECTORS, AS OF JUNE 30, 2016

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**Frank A. Farricker**, Chairperson (Chairman of the Board)

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
Patrick M. Birney	Vice Chairperson
Steven A. Bafundo	
James N. Farrell	
Margaret L. Morton	
Natasha M. Pierre	
Michael P. Thompson	
Jennifer J. Hamilton	
Kia D. Floyd	
Meghan Culmo	
Diane Winston	





## CONNECTICUT LOTTERY CORPORATION

### ORGANIZATIONAL CHART, AS OF JUNE 30, 2016

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#### ADMINISTRATION

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Anne M. Noble	President & Chief Executive Officer
Diane Patterson	Vice President of Marketing & Sales
Michael J. Hunter	Chief Operations Officer
Chelsea E. Turner	Chief of Strategy & Government and Operational Affairs
Paul A. Granato	Chief Financial Officer
Lana Glovach	General Counsel
Jane M. Rooney	Director of Human Resources
Alfred W. DuPuis, Jr.	Director of Security

#### MANAGEMENT BY DEPARTMENT

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##### MARKETING & SALES

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Linda Tarnowski	Director of Communications & Public Relations
Carlos Rodriguez	Director of Lottery Games
Thomas J. Trella	Director of Portfolio, Strategy & Analysis
Kendra Eckhart	Lottery Product Manager
Theresa Scott	Director of Lottery, Sales Operations

##### INFORMATION TECHNOLOGY & RETAILER RELATIONS

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Steven Wagner	Director of Information Technology
Steven J. Fox	Manager of Vendor Compliance
John J. Gasparini	IS Manager of Application & Internet Development
Solomon Ramsey	Director of Recruitment & Retailer Relations

##### FINANCE & COLLECTIONS

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Barry L. Sheffel	Lottery Financial Manager
Barbara Petano	Lottery Financial Manager

##### LEGAL

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Andrew E. Walter	Counsel
Jeff Yue	Counsel

##### HUMAN RESOURCES & TRANSPORTATION

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Jennifer Hunter	Assistant Director of Human Resources
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##### SECURITY

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Deborah Davis	Assistant Director of Security
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## SCRATCH GAMES

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### FISCAL YEAR 2016 STATISTICS:



*\$150.3 million in General Fund payments*

- 40 scratch games launched
- 60.3% of total net sales
- 44.5% of General Fund payments

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

There's a play style for everyone – from the crossword action of “Cashword” to the excitement of revealing an “X” game prize multiplier, like those found in “10X Cash,” “20X Cash” and “30X Cash” scratch games. 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.

This year, many scratch games were released with unique designs that attract many different players. From the sleek platinum colors of “Star,” to bright lights that shine off “Jewels,” everyone can find a game that is fun to play and pleasing to the eye.

Scratch ticket prices range from \$1 to \$30, with set prizes from a FREE \$1 scratch ticket up to \$3,000,000! With such a variety of games, it's easy to see why scratch games are the play of choice for many consumers.

## DAILY GAMES

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### FISCAL YEAR 2016 STATISTICS:

*\$102.2 million in General Fund payments*



Play3 Day:  
4.4% of total net sales  
5.5% of General Fund Payments



Play3 Night:  
6.0% of total net sales  
10.2% of General Fund Payments



Play4 Day:  
3.8% of total net sales  
4.8% of General Fund Payments



Play4 Night:  
5.7% of total net sales  
9.8% 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 to “make sure that we've got your numbers!”

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

## 5 CARD CASH®

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### FISCAL YEAR 2016 STATISTICS:



**\$924.0 thousand** in General Fund payments

1.1% of total net sales

0.3% of General Fund payments

5 Card Cash offers players two chances to win on the same ticket by combining an “Instant Win” with a daily Drawing.

Each \$2 play includes a hand of five randomly selected playing card symbols from a standard deck of 52 cards. Players can win instantly if the hand on their ticket matches one of the 10 winning hands for the game, up to \$5,555. Players can win again, up to \$255,555, if three or more of their cards match those drawn in the daily Drawing.

## 5 CARD CASH "ALL IN"

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On October 18, 2015, the ALL IN feature is added to the 5 Card Cash game for \$1 more. The ALL IN features the chance to win bigger instant prizes and a progressive jackpot.

On November 12, 2015, the 5 Card Cash game was suspended.

## LUCKY LINKS WITH 2XPOWER™

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### FISCAL YEAR 2016 STATISTICS:



**\$2.5 million** in General Fund payments

0.8% of total net sales

0.8% of General Fund payments

On April 26, 2015, the CT Lottery introduced a whole new way to play with the launch of the Lucky Links with 2XPOWER Day and Night draw game. The first drawings were held on April 27th. Lucky Links with 2XPOWER tickets cost \$3. A ticket without 2XPOWER is \$2. Tickets are “Quick Pick” only, so no playslips are needed.

What makes Lucky Links with 2XPOWER unique is the “play grid” printed on each ticket. The 9-spot grid contains eight differently numbered spots which are then compared to the numbers drawn by the CT Lottery. A “\$” in the middle of the grid is a “free spot” that is used to form lines.

A win occurs when at least two lines are made on the play grid. The maximum number of lines that can be made on a ticket is eight. Prizes range from \$5 up to \$50,000 in each drawing. By adding the “2XPOWER” multiplying feature to a ticket, some of the game’s prizes can be doubled.

## CASH5

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### FISCAL YEAR 2016 STATISTICS:



**\$11.0 million** in General Fund payments

**2.5%** of total net sales

**3.2%** of General Fund payments

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

## LOTTO®

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### FISCAL YEAR 2016 STATISTICS:



**\$6.5 million** in General Fund payments

**1.6%** of total net sales

**1.9%** of General Fund payments

Drawn on Tuesday and Friday nights, the “Lotto” game has been a part of Connecticut’s play of choice since November 1983. Tickets cost \$1 per play. On March 10, 2013, Classic Lotto was given a new name, simply called LOTTO! Twice each week, players can win up to \$1,000,000 (or more) with Lotto. Lotto initially began with a 6-of-36 matrix, and today sports a 6-of-44 mix. Although the game has gone through several enhancements over the years, it’s still the game that is most associated with the Lottery. Jackpot winners may choose to receive their prize money in either 21 equal annual installments or in a cash lump sum.

## KENO™

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### FISCAL YEAR 2016 STATISTICS:



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

**1.0%** of total net sales

**0.3%** of General Fund payments

Keno launched on April 25, 2016 offering players “On the Spot Fun™” seven days a week, with lots of ways to play and lots of ways to win! Players have a chance to win up to \$1,000,000 every four minutes when some, none or all of their numbers, or spots, are matched by the computer. To play, players fill out a playslip by choosing how many spots they would like and then select which numbers (1 - 80), or select “Quick Pick.” Players choose how much to wager and how many consecutive games to play. Adding the BONUS MULTIPLIER doubles the total ticket cost but gives a chance to multiply the prize won by 2, 3, 4, 5 or 10 times by the BONUS MULTIPLIER number selected for the game.

## FISCAL YEAR 2016 STATISTICS:



***\$44.7 million*** in General Fund payments

**8.6%** of total net sales

**13.3%** of General Fund payments

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

On January 22, 2014, the variable Power Play® multiplier returned to the game, replacing the “set prize” Power Play feature. When players activate Power Play on their tickets for an additional \$1 per play, winners can receive 2 times, 3 times, 4 times or 5 times the prize amount won from the second through the seventh prize levels of the game. With Power Play, the \$1,000,000 “Match 5” prize is always \$2,000,000. On October 4, 2015, the game matrix changed; the number of white balls increased to 69, while the red balls decreased to 26. The Power Play option also added the 10 times multiplier in play when the jackpot is \$150 million or less. Powerball drawings are held twice weekly, on Wednesday and Saturday nights.

## MEGA MILLIONS®

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### FISCAL YEAR 2016 STATISTICS:



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

**2.4%** of total net sales

**3.4%** of General Fund payments

On January 31, 2010, the CT Lottery joined the “Mega Millions” game.

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

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

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

## FISCAL YEAR 2016 STATISTICS:



**\$6.8 million** in General Fund payments

**1.8%** of total net sales

**2.0%** of General Fund payments

New England's "Lucky for Life" regional draw game began on March 11, 2012, with tickets sold for \$2 each in Connecticut, Rhode Island, Massachusetts, New Hampshire, Vermont and Maine. Lucky features a popular "For Life" top prize worth up to \$1,000 a week, paid every week, for the rest of a winner's natural life with a guaranteed 20-year minimum payout of \$7,300,000.

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



On January 27, 2015, Lucky for Life expanded to 16 states across the country offering a top prize of \$1,000 a day for life and a 2nd prize of \$25,000 a year for life. Players pick from two separate pools of numbers – 5 of 48 balls, and one "Lucky Ball" number between 1 and 18. The "new" Lucky for Life - The Game of a Lifetime™ features larger prize amounts and improved odds. Drawings are held twice weekly, on Monday and Thursday nights.



**Wethersfield Groom-to-Be Says “I Do” to \$100,000 Prize**

July 14, 2015 — John Foley of Wethersfield brought his “\$1,000,000 Diamonds” instant ticket to a friend’s house and scratched off each play area, one by one, until all of the numbers and prize symbols were revealed. When Foley was finished, he was holding a winning ticket with a “COIN” symbol for the game’s \$100,000 second prize.

“When I saw the \$100,000, I handed my buddy the ticket and had him check it, just to be sure. Then, I signed the back of it, drove home and put it right in the safe,” Foley told Lottery officials. “This [prize] comes at the perfect time, too. We’re getting married soon and now we can definitely buy a house and pay for the wedding.”



**Retailer: Tara Market, 456 New Park Avenue, West Hartford**

**Strawberry Shortcake is Extra Sweet When Served with a \$30,000 Top Prize Winning Ticket**

August 25, 2015 — While preparing for family to arrive for dinner, Marissa Vaspasiano and her husband, Joe, realized that they were completely out of vanilla ice cream, which wasn’t good. They were having fresh, strawberry shortcake for dessert. Marissa said they could make do without the ice cream, but Joe totally disagreed. So, off to the store they went.

While shopping, Joe also bought a CT Lottery “30X Cash 3rd Edition” instant ticket for Marissa. Playing out the ticket, Marissa and Joe quickly discovered a “sweet” win.

“Once Joe verified the prize with the retailer, we started freaking out and screaming—‘WE WON \$30,000! WE WON \$30,000!’” said Marissa, laughing giddily. “It was totally surreal. We still don’t believe it. You hear about other people winning, but you don’t expect it to happen to yourself.”

“We don’t know what we’ll do with the prize yet,” said Marissa, “Maybe... possibly... hopefully, we can put this money toward buying our first house.”



**Retailer: Shell Food Mart, 1183 Townsend Avenue, New Haven**



**New Milford Dad Celebrates Life-Changing \$100,000 Prize Win**

November 9, 2015 — There are many ways to celebrate a birthday, and Joseph Ciralo of New Milford found just the ticket for his birthday—a \$100,000 prize winning “Jumbo Bucks” instant ticket!

“I scratched the ticket and literally stopped in my tracks when I saw I won \$100,000. I high fived the dude behind the counter and quickly left the store,” said Ciralo. “I went straight home and told my wife, ‘We just changed our life!’ Then I showed her the ticket. She just cried.”

Ciralo, who will be 31 years old tomorrow, is looking forward to paying off bills with the prize money and setting up a college fund for his children. “And, when my kids turn 5, there will be money to go to Disneyland, too.”

**Retailer: Mir Enterprises, 28 Danbury Road, New Milford**



**Good Luck Smiles on Enfield Man, Wins “Lucky Links” Top Prize**

March 11, 2016 — Some people have all the luck, which is why Richard Misseri of Enfield was not surprised when he won a prize playing Lucky Links with 2XPOWER for the February 28th night drawing. “I’m the lucky one in the family—I win everything,” Misseri told Lottery officials with a laugh. “I gave the ticket to the retailer to check and he told me he couldn’t pay it. I thought maybe it was for a couple thousand, but it was \$50,000.”

On February 28, the “Quick Pick” numbers on Misseri’s “play grid” were a perfect match to the winning Lucky Links Night numbers drawn 1 - 2 - 4 - 12 - 14 - 19 - 20 - 22. As a result, eight winning lines were created on Misseri’s ticket for the game’s \$50,000 top prize.

This (Lucky Links prize) will be used for a new driveway, windows and siding,” Misseri said.

**Retailer: Elm Street Package Store, 584 Elm Street, Windsor Locks**



**Best Buds Add Cash5 \$100,000 Top Prize to Their “Bucket” List of Fun**

May 12, 2016 — Best buds, Janet Simon of Griswold and Sharon Thurow of Sterling, have been playing the CT Lottery together as a team for as long as they have been friends—over 20 years. Between the two of them, whatever prize is won is put in a “bucket” and later used for fun, adventure, and the occasional good cause.

Janet received a winning numbers text alert from the CT Lottery and thought the Cash5 numbers for May 7 looked pretty familiar. As well they should. The winning numbers, 3-5-13-17-19, were an exact match to the combined “family birthday” numbers she and Sharon had been playing for years. And they had the Cash5 \$100,000 prize winning ticket for that date to prove it.

“I called Sharon at 12:30am and told her we won \$100,000. Oh my gosh—we were screaming, hugging everyone, and dancing over the phone,” Janet told Lottery officials. “We still can’t believe it. What an awesome feeling! We were always hoping to win.”

**Retailer: Shell Food Mart, 168 W. Town Street, Norwich**



**On the Spot® Keno Play is a “Strong” \$50,000 Win!**

May 13, 2016 — Alfred Strong, Jr. of New Britain became one of Keno’s biggest winners to date when he bought his very first Keno ticket on April 28 and walked away with a huge prize.

“After the drawing, I scanned my ticket in the Ticket Checker and it said, ‘Congratulations, you won \$50,002.’ I scanned it again and again, and got the same message. That’s when I went home and got the family and we all came back to the store—and scanned the ticket again. When my daughter read the Ticket Checker message, she started crying and I started screaming, ‘I just won \$50,000!’”

Strong won \$5,000 for matching 7 of 7 numbers on his ticket in game #3623. Because the Bonus Multiplier was 10X, Strong’s prize was automatically multiplied to \$50,000. Just for good measure, Strong won \$2 on another game on his ticket.

When Strong was asked what plans he had for his unexpected windfall, he laughed and said, “It’s time to pay bills.”

**Retailer: Center Mini Mart, 513 Center Street, Manchester**



## CORPORATE RESPONSIBILITY

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The CLC's commitment to corporate responsibility is firmly rooted in five primary areas: Responsible Gambling (RG), Pro Business Initiatives and Supplier Diversity, Inclusion, Green Initiatives, and Employee Engagement. Employees throughout the organization support these efforts. The CLC's quarterly corporate responsibility newsletter, *Chatter That Matters*<sup>™</sup>, reports on its wide variety of efforts. Highlights from fiscal 2016 issues of the newsletter are provided here.

### Responsible Gambling

- **GameSense:** The CLC became the first U.S. lottery to become a licensee of the British Columbia Lottery Corporation's (BCLC's) GameSense brand. A comprehensive campaign was rolled out in conjunction with the introduction of Keno in Connecticut's marketplace. GameSense is an innovative and fresh approach to RG, supported by the RG community. The brand encourages players to use their GameSense, or, common sense, when gambling, with messages such as "don't chase your losses," "know when to take a break," and, "set a limit." It educates players about RG and is designed to reach players *before* they develop a problem with gambling. Further, the campaign injects humor to grab people's attention and reinforce the message that too much gambling can be a problem. The CLC created various marketing pieces to promote GameSense including television and radio, website and social media content, flyers, pocket cards, table tents, coasters and a display at the Capitol.
- **Holiday Responsible Gambling Campaign:** For the eighth year in a row, the CLC participated in the National Council on Problem Gambling (NCPG) and McGill University's International Centre for Youth Gambling Problems and High-Risk Behaviors' annual holiday campaign to educate the public that lottery tickets are not suitable holiday gifts for children. Through the use of positive messaging, CLC partnered with Connecticut Children's Medical Center to collect toys for children who receive hospital care and to promote the message "Do a 'Lotto' Good, Give a Toy! Give a child a toy, not a ticket." The CLC collected nearly 1,000 toys for Connecticut Children's Medical Center and raised awareness about responsible gambling at the same time. Other partners in this program included The Travelers, Office of Early Childhood and The Wooden Toy.
- **Problem Gambling Awareness Month (PGAM):** March is PGAM. This past year's efforts included: a Board resolution, a letter from the CLC President to employees, messaging on billboards and at retail locations, GameSense Public Service Announcements and marketing materials, social media messaging, English and Spanish videos that encouraged viewers to #HaveTheConvo about responsible gambling, an award winning educational display created by employees and state employee pay inserts. In addition, the CLC created and offered employee and retailer online responsible gambling training sessions. The CLC achieved 100% employee participation and close to 1,000 retailers participated.
- **School Initiatives:** The CLC promoted the Problem Gambling Helpline number to parents and educators through the CT Association of Boards of Education's magazine, The Advisor, and the CT Association of Public School Superintendents' email system.

## CORPORATE RESPONSIBILITY

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- **CT Partnership for Responsible Gambling:** “The Partnership” is a seventeen-year coalition between the CLC, the Department of Mental Health and Addiction Services' Problem Gambling Division, and the CT Council on Responsible Gambling (CCPG) for idea sharing, initiative collaboration and quarterly meetings.
- **Gambling Awareness For All CT:** This group meets quarterly and provides an opportunity for responsible gambling advocates, mental health clinicians and lottery industry representatives to exchange information and learn more about how problem gambling affects vulnerable populations such as the elderly, minorities, women and youth.
- **National Association of State and Provincial Lotteries (NASPL) Responsible Gambling Committee:** CLC is a member of the NASPL Responsible Gambling Committee which focuses on encouraging lotteries to go through a new NCPG-NASPL responsible gambling accreditation process, participating in the NCPG-McGill responsible gambling holiday campaign, and facilitating a responsible gambling track at NASPL's professional development conference.
- **NCPG and CCPG:** The CLC annually sponsors and participates in both the NCPG and CCPG conferences. Additionally, the CLC was part of the planning committee for the 2016 NCPG Annual Conference.

### Pro Business Initiatives and Supplier Diversity

- **Greater New England Minority Supplier Development Council (GNEMSDC) Tradeshow:** The CLC participated in this tradeshow, which is the largest in New England for diverse suppliers. The event was held at the CT Convention Center.
- **United States Small Business Administration (SBA) Matchmaker Conference:** CLC employees participated in the SBA's Matchmaker at the University of Hartford.
- **GNEMSDC and Women's Business Enterprise National Council (WBENC) Membership:** The CLC regularly attends and participates in regional GNEMSDC and WBENC meetings and events, and, this year, CLC received a nomination from GNEMSDC for its "Buyer of the Year" award.

### Inclusion

- **Affirmative Action:** The CLC is an Affirmative Action / Equal Opportunity Employer focused on increasingly inclusive recruitment and communications.
- **“Life Reimagined for Work”:** The CLC is a participant in the American Association of Retired Persons' (AARP) "Life Reimagined for Work" campaign, which affirms the CLC's commitment to hiring and promoting workers regardless of age.

## CORPORATE RESPONSIBILITY

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### Green Initiatives

- **Recycling:** The CLC continues to use 100% recyclable paper envelopes for all instant ticket shipping. The vast majority of CLC's instant tickets are printed on 100% recyclable paper. In addition, the CLC recycles instant ticket dispensers by refurbishing them and reusing them when possible. This initiative has saved hundreds of thousands of dollars over time. The CLC utilizes a specialized electronic recycling vendor to dispose of computers, monitors, printers, signs and other electronic equipment. The CLC also recycles pallet crates, paper, aluminum cans and batteries.
- **Clean Air:** The CLC participates in Dell's "Plant a Tree" Program. For each computer purchased through this program, money is donated towards planting trees to offset the carbon footprint left behind by electronic devices.

### Employee Engagement

- **Supporting Good Causes of Connecticut:** The CLC added a fifth pillar called Employee Engagement/Community Involvement to its corporate social responsibility platform. This voluntary program is designed to encourage employees to be involved in areas that interest them outside of work. Examples include: volunteering on a board, becoming a "Big Brother" or "Big Sister," and coaching or leading children's extracurricular activities. The CLC believes that its employees have many skills and talents that can be shared and help benefit local communities.





# FINANCIAL SECTION





## INDEPENDENT AUDITORS' REPORT

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 year ended June 30, 2016, 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 accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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, 2016, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Prior Period Financial Statements***

The financial statements of the Lottery as of June 30, 2015 were audited by other auditors whose report dated September 17, 2015 expressed an unmodified opinion on those statements.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of the Lottery's Proportionate Share of the Net Pension Liability, and the Schedule of the Lottery's Contributions to the State Employees' Retirement System (SERS), 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 the 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 of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary Information***

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

The Schedule of Profit Margins by Game Type for the year ended June 30, 2016, 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 year ended June 30, 2016, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Profit Margins by Game Type for the year ended June 30, 2015, which is the responsibility of management, was included in the prior period financial statements audited by other auditors who stated such information was fairly stated, in all material respects, in relation to the 2015 basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2016, 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 the Lottery's internal control over financial reporting and compliance.

*Marcum LLP*

Hartford, CT  
September 22, 2016



## CONNECTICUT LOTTERY CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2016 AND 2015

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The following Management's Discussion and Analysis (MD&A) provides an overview of the Connecticut Lottery Corporation's (the Lottery) financial performance for the fiscal years ended June 30, 2016 and 2015. 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 are comprised of three components:

- **Statements of Net Position** reflect the Lottery's financial position as of June 30, 2016 and 2015.
- **Statements of Revenue, Expenses, and Changes in Net Position** report the revenues and expenses for the years ended June 30, 2016 and 2015.
- **Statements of Cash Flows** reconcile the changes in cash and cash equivalents with the activities of the Lottery for the years 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 2016

- Transfers to the State's General Fund were \$337.5 million, an increase of \$17.8 million, or 5.6%, compared to the prior fiscal year, a new record for the Lottery.
- Total net sales were \$1,230.8 million, an increase of \$86.8 million, or 7.6%, from fiscal 2015. Net sales surpassed the billion dollar mark for the sixth consecutive year.

#### FINANCIAL HIGHLIGHTS OF FISCAL 2015

- Transfers to the State's General Fund were \$319.7 million, an increase of \$200,000, or 0.1% compared to the prior fiscal year, a new record for the Lottery.
- Total net sales were \$1,144.0 million, an increase of \$31.6 million, or 2.8%, from fiscal 2014. Net sales surpassed the billion dollar mark for the fifth consecutive year.

#### CONDENSED FINANCIAL INFORMATION

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

Net position represents the assets of the Lottery plus the deferred inflows of resources less the liabilities owed to third parties and the deferred outflows of resources. The net position is restricted for promotional purposes, augmenting prizes or increasing payments to the State's General Fund.

## CONNECTICUT LOTTERY CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2016 AND 2015

Listed below is a summary of the key components of net position. In conjunction with the adoption of GASB 68 during fiscal year 2015, the net position is negative due to the recognition of the Lottery's share of the net pension liability included in long term liabilities. 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 below is a summary of the key components of revenues, expenses and changes in net position (in thousands).

	2016	Increase (Decrease)	2015	Increase (Decrease)	2014
<b>Revenues</b>					
Total operating revenues, net	\$ 1,230,769	\$ 86,796	\$ 1,143,973	\$ 31,568	\$ 1,112,405
Other operating income	57	7	50	(1)	51
Non-operating revenues					
Interest income	6,597	(588)	7,185	(498)	7,683
Other	10	1	9	2	7
<b>Total Revenues</b>	<b>1,237,433</b>	<b>86,216</b>	<b>1,151,217</b>	<b>31,071</b>	<b>1,120,146</b>
<b>Costs and Expenses</b>					
Total cost of sales	859,865	59,628	800,237	40,673	759,564
Total operating expenses	19,429	(1,810)	21,239	464	20,775
Non-operating expense					
Interest expense	6,562	(595)	7,157	(510)	7,667
<b>Total Costs and Expenses</b>	<b>885,856</b>	<b>57,223</b>	<b>828,633</b>	<b>40,627</b>	<b>788,006</b>
<b>Changes in Net Position</b>					
Change in net position before contributions to State Funds	351,577	28,994	322,583	(9,557)	332,140
Payment to General Fund	337,500	17,800	319,700	200	319,500
Payment to Chronic Gamblers' Fund	2,300	–	2,300	–	2,300
Payment to Office of Policy and Management	2,769	348	2,421	(200)	2,621
<b>Total Changes in Net Position</b>	<b>9,009</b>		<b>(1,838)</b>		<b>7,719</b>
<b>Total net position,</b> beginning as previously stated	<b>(34,654)</b>		11,475		3,756
Cumulative effect of implementing GASB 68 and 71	–		(44,291)		–
<b>Total net position, beginning as restated</b>	<b>(34,654)</b>		<b>(32,816)</b>		
<b>Total net position, ending balance</b>	<b>\$ (25,646)</b>		<b>\$ (34,654)</b>		<b>\$ 11,475</b>

## **OVERVIEW OF FINANCIAL POSITION**

Total assets were \$188.2 million as of June 30, 2016, an increase of \$5.1 million compared to the prior fiscal year. Current assets totaled \$60.3 million, comprised primarily of cash and cash equivalents of \$19.3 million, accounts receivable of \$27.1 million, and investments for prize payments of \$8.1 million. Noncurrent assets totaled \$128.0 million, consisting primarily of investments for prize payments (at present value) and prize reserves.

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

Total liabilities were \$213.9 million as of June 30, 2016 a decrease of \$4.5 million from the prior fiscal year. Current liabilities due within one year totaled \$50.6 million primarily related to prizes, annuity prize payments, and other accrued expenses. Long-term liabilities totaled \$163.3 million and included long-term annuities payable to lottery winners with prizes payable over several years. Other long-term liabilities include the net pension liability which is the Lottery's proportionate share of the State of CT's net pension liability.

Total assets were \$183.2 million as of June 30, 2015, a decline of \$6.8 million compared to the prior fiscal year. Current assets totaled \$57.6 million, comprised chiefly of cash and cash equivalents of \$10.2 million, accounts receivable of \$31.1 million, and investments for prize payments of \$11.0 million. Noncurrent assets totaled \$125.6 million, consisting chiefly of investments for prize payments (at present value) and prize reserves. Total liabilities were \$218.4 million as of June 30, 2015, an increase of \$39.9 million compared to the prior fiscal year. The increase is in part due to the adoption of GASB 68, which required the Lottery to recognize a net pension liability of \$44.6 million and pension expense of \$3.5 million as of June 30, 2015. GASB 68 required cost-sharing employers to recognize liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for their proportionate share of the State's Pension Plan total. Pension expense is recorded as a component of salaries and benefits expense on the Lottery's Statement of Revenues, Expenses and Changes in Net Position. The Lottery also recognized deferred inflows of resources of \$1.6 million as of June 30, 2015 for the net difference between the projected and actual investment earnings on pension plan investments in accordance with GASB 68. In conjunction with the implementation of GASB 68, the Lottery adopted GASB No. 71, effective June 1, 2014. Due to the implementation of GASB 71, the Lottery recognized deferred outflows of resources of \$2.2 million as of June 30, 2015 for contributions made to the State Employees' Retirement System (SERS) subsequent to the measurement date of June 30, 2014 and prior to the Lottery's fiscal year end of June 30, 2015.

**CONNECTICUT LOTTERY CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2016 AND 2015**

	2016	\$	%	2015	\$	%	2014
				<i>(in thousands)</i>			
	Increase (Decrease)			Increase (Decrease)			
<b>SALES</b>							
Instant games	\$ 742,296	\$ 54,329	7.9%	\$ 687,967	\$ 27,737	4.2%	\$ 660,230
Daily number games	245,062	13,308	5.7	231,754	(4,129)	(1.8)	235,883
Multi-State games*	157,384	36,989	30.7	120,395	(24,992)	(17.2)	145,387
Lotto	19,429	(714)	(3.5)	20,143	(1,448)	(6.7)	21,591
Cash5	30,994	(226)	(0.7)	31,220	(1,098)	(3.4)	32,318
5 Card Cash	13,107	(33,215)	(71.7)	46,322	33,681	100.0	12,641
Lucky Links	10,053	6,777	206.9	3,276	3,276	N/A	–
CT Super Draw	–	(2,896)	(100.0)	2,896	(1,459)	(33.5)	4,355
Keno	12,444	12,444	N/A	–	–	N/A	–
<b>Total Sales</b>	<b>\$1,230,769</b>	<b>\$ 86,796</b>	<b>7.6%</b>	<b>\$ 1,143,973</b>	<b>\$ 31,568</b>	<b>2.8%</b>	<b>\$ 1,112,405</b>

**RELATED EXPENSES**

Prize expense	\$ 760,269	\$ 52,533	7.4%	\$ 707,736	\$ 38,944	5.8%	\$ 668,792
Retailer commissions	68,688	4,419	6.9	64,269	2,192	3.5	62,077
Gaming systems	11,452	952	9.1	10,500	155	1.5	10,345
Marketing and advertising	12,400	1,199	10.7	11,201	(254)	(2.2)	11,455
Production expenses	7,057	526	8.1	6,531	(364)	(5.3)	6,895

\*Includes sales from Powerball, Mega Millions and Lucky for Life games.

Total sales revenue for fiscal year 2016 amounted to \$1,230.8 million, up \$86.8 million, or 7.6%, from the prior fiscal year. Sales revenue for the portfolio of instant games totaled \$742.3, up \$54.3 million, or 7.9%, from the prior fiscal year. The daily number games contributed \$245.1 million of sales revenue, up \$13.3 million or 5.7% from the prior fiscal year. The sales revenue for multi-state games equaled \$157.4 million, an increase of \$37.0 million or 30.7% from the prior fiscal year. In fiscal year 2016, Keno sales commenced and contributed \$12.4 million in revenue.

Sales revenue from 5 Card Cash totaled \$13.1 million for fiscal year 2016 compared to \$46.3 million in the prior year. This game was discontinued in November 2015. All other draw games saw modest changes compared to the prior year.

Most costs and expenses that comprise total cost of sales vary proportionally with the change in total sales. Prize expense, retailer commissions, gaming systems, and production expenses are included in this classification.

Prize expense for the instant ticket portfolio is fixed since the instant ticket prize structure is developed using certain parameters, including the number and value of winning tickets. Prize expense for online draw games is designed with a specific prize structure, however, prize expense fluctuates due to variable payouts on the selection of winning numbers from random drawings. Total prize expense for the period ending June 30, 2016 amounted to \$760.3 million compared to \$707.7 million in the prior year. The increase is chiefly related to the increase in sales revenue.



## CONNECTICUT LOTTERY CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2016 AND 2015

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Retailer commissions totaled \$68.7 million compared to \$64.3 million in the prior year. Retailers earn selling and cashing commissions and are eligible for various incentive compensation throughout the year to promote selected games and activities.

Gaming system and network administration expenses totaled \$11.5 million compared to \$10.5 million in the prior year. Production expenses were \$7.1 million compared to \$6.5 million in the prior year. Production expenses are chiefly related to the design, delivery and distribution of instant tickets.

Marketing and advertising expenses totaled \$12.4 million for fiscal year 2016 compared to \$11.2 million in the prior year. Marketing and advertising expenses are incurred to support the mission of maximizing returns to the General Fund. Marketing and advertising encompass all major media including, television, radio and digital as well as lottery designed point of sale.

Operating expenses totaled \$19.4 million for the year ending June 30, 2016, compared to \$21.2 million in the prior year. Operating expenses are mainly comprised of salaries and benefits and other operating expenses.

Nonoperating revenues and expenses are primarily comprised of interest income and interest expense related to the annuity contracts. Annuity contracts provide payments required to meet the obligations of Lottery prize disbursements.

The total payments to the State's General Fund totaled \$337.5 million compared to \$319.7 million in the prior year. Payments to the General Fund reflect the net earnings of the Lottery that are available for transfer. The Lottery also makes required payments to the Chronic Gamblers Fund of \$2.3 million annually. The Lottery reimburses the Office of Policy and Management to compensate the Department of Consumer Protection for the reasonable and necessary costs for regulatory oversight. Regulatory costs totaled \$2.8 million and \$2.4 million for fiscal year 2016 and 2015, respectively.

#### **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, net pension liability, and deferred rent. For more detailed information on capital asset activity and long-term liabilities, please review the disclosures included in the notes to the financial statements.

#### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Lottery's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Finance Department, 777 Brook Street, Rocky Hill, Connecticut 06067.

# CONNECTICUT LOTTERY CORPORATION

## STATEMENTS OF NET POSITION

	June 30	
	2016	2015
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 19,276,750	\$ 10,173,767
Accounts receivable, net of allowance for doubtful accounts of \$530,000 and \$350,000, respectively	27,063,324	31,108,885
Investments for prize payments at net present value	8,070,640	10,956,590
Accrued interest receivable	1,641,480	1,881,995
Ticket inventory, net of allowance of \$578,000 and \$533,000, respectively	3,211,568	3,030,828
Prepaid expenses	1,011,722	459,310
<i>Total current assets</i>	<b>60,275,484</b>	57,611,375
NONCURRENT ASSETS		
Investments for prize payments at present value	122,262,516	119,397,354
Prize reserves held by Multi-State Lottery Association	4,634,376	4,736,132
Capital assets, net	870,695	1,179,717
Advances to high-tier claim centers	200,000	250,000
<i>Total noncurrent assets</i>	<b>127,967,587</b>	125,563,203
<i>Total assets</i>	<b>\$ 188,243,071</b>	\$ 183,174,578
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount for pensions	\$ 4,561,278	\$ 2,181,341

*The accompanying notes are an integral part of these financial statements.*

	June 30	
	2016	2015
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES		
Annuities payable, at net present value	\$ 8,740,890	\$ 11,254,922
Prizes payable	28,653,715	26,236,864
Accrued interest payable	1,641,480	1,881,995
Accounts payable and accrued expenses	8,498,055	12,833,238
Due to regional game states	516,867	367,293
Due to Multi-State Lottery Association	1,481,912	503,622
Unearned revenue	1,051,983	773,769
<i>Total current liabilities</i>	<b>50,584,902</b>	53,851,703
LONG-TERM LIABILITIES		
Long-term annuities payable, at net present value	122,262,516	119,397,354
Deferred rent	504,580	543,627
Net pension liability	40,525,323	44,624,031
<i>Total long-term liabilities</i>	<b>163,292,419</b>	164,565,012
<i>Total liabilities</i>	<b>213,877,321</b>	218,416,715
DEFERRED INFLOWS OF RESOURCES		
Deferred amount on pensions	4,573,016	1,593,716
NET POSITION		
Net investment in capital assets	870,695	1,179,717
Unrestricted	(26,516,683)	(35,834,229)
<i>Total net position</i>	<b>\$ (25,645,988)</b>	<b>\$ (34,654,512)</b>

*The accompanying notes are an integral part of these financial statements.*

# CONNECTICUT LOTTERY CORPORATION

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years ended June 30	
	2016	2015
<b>OPERATING REVENUES – GAME SALES</b>		
Instant	\$ 742,295,793	\$ 687,966,998
Online	333,870,164	338,324,829
Multi-state	157,415,902	120,454,367
	<b>1,233,581,859</b>	<b>1,146,746,194</b>
Less sales returns, cancellations and promotions	(2,812,460)	(2,772,750)
	<b><i>Total operating revenues</i></b>	<b>1,143,973,444</b>
<b>COST OF SALES</b>		
Prize expense	760,268,663	707,735,790
Retailer commissions	68,687,557	64,269,585
Gaming systems	11,451,530	10,500,353
Marketing and advertising	12,399,618	11,200,951
Production expenses	7,057,214	6,530,791
	<b><i>Total cost of sales</i></b>	<b>800,237,470</b>
<b>OPERATING EXPENSES</b>		
Salaries and benefits	15,635,740	17,698,258
Other operating expenses	3,250,916	3,103,765
Depreciation and amortization	349,783	375,888
Bad debt expense	192,998	61,240
	<b><i>Total operating expenses</i></b>	<b>21,239,151</b>
<b>OTHER OPERATING INCOME</b>		
	<b>57,448</b>	<b>50,092</b>
	<b><i>Operating income</i></b>	<b>322,546,915</b>

The accompanying notes are an integral part of these financial statements.

	Years ended June 30	
	2016	2015
NON-OPERATING REVENUES (EXPENSES)		
Interest income from investments on annuities	\$ 6,561,626	\$ 7,156,817
Interest income	35,038	28,072
Interest expense on annuity payments	(6,561,626)	(7,156,817)
Annuity assignment	9,500	8,500
<i>Total non-operating revenues</i>	<b>44,538</b>	36,572
CHANGE IN NET POSITION AVAILABLE BEFORE PAYMENTS TO STATE FUNDS		
	<b>351,577,366</b>	322,583,487
NON-OPERATING PAYMENTS TO STATE OF CONNECTICUT FUNDS		
General Fund	<b>337,500,000</b>	319,700,000
Office of Policy and Management	<b>2,768,842</b>	2,421,440
Chronic Gamblers' Fund	<b>2,300,000</b>	2,300,000
<i>Change in Net Position</i>	<b>9,008,524</b>	(1,837,953)
TOTAL NET POSITION, beginning, as previously stated	<b>(34,654,512)</b>	11,474,539
Cumulative effect of implementing GASB 68 and 71	–	(44,291,098)
TOTAL NET POSITION, beginning, as restated	<b>(34,654,512)</b>	(32,816,559)
TOTAL NET POSITION, ending balance	<b>\$ (25,645,988)</b>	\$ (34,654,512)

*The accompanying notes are an integral part of these financial statements.*

# CONNECTICUT LOTTERY CORPORATION

## STATEMENTS OF CASH FLOWS

	Years ended June 30	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from sale of game tickets	\$1,234,900,173	\$ 1,143,457,721
Receipts from other operating income	57,448	50,092
Payments for prizes	(756,622,190)	(704,744,301)
Payments to retailers	(68,687,557)	(64,269,585)
Payments to suppliers	(35,976,697)	(26,400,024)
Payments to employees	(19,135,085)	(17,955,949)
Payments for other expenses	(3,030,635)	(3,142,812)
<i>Net Cash Provided by Operating Activities</i>	<b>351,505,457</b>	326,995,142
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Receipts of principal from annuities	10,900,902	13,767,500
Receipts of interest from annuities	6,802,139	7,483,668
Receipt of interest from cash equivalents	35,038	28,072
Purchase of insurance annuities	(10,174,261)	(3,879,800)
<i>Net Cash Provided by Investing Activities</i>	<b>7,563,818</b>	17,399,440
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from sale of capital assets	2,719	–
Purchases of capital assets	(43,479)	(167,458)
<i>Net cash used in capital financing activities</i>	<b>(40,760)</b>	(167,458)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Payment of principal on long-term annuities	(10,738,310)	(13,739,982)
Payment of interest on long-term annuities payable	(6,802,141)	(7,483,668)
Annuity assignment	9,500	8,500
Payments to the State of Connecticut	(337,500,000)	(319,700,000)
Payments to Office of Policy and Management	(2,768,842)	(2,421,440)
Payments to the Chronic Gamblers' Fund	(2,300,000)	(2,300,000)
Receipts from annuities	10,174,261	3,879,800
<i>Net Cash Used in Non-capital Financing Activities</i>	<b>\$ (349,925,532)</b>	\$ (341,756,790)

The accompanying notes are an integral part of these financial statements.

	Years ended June 30	
	2016	2015
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 9,102,983	\$ 2,470,334
CASH AND CASH EQUIVALENTS – Beginning	10,173,767	7,703,433
CASH AND CASH EQUIVALENTS – Ending	\$ 19,276,750	\$ 10,173,767
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 351,532,828	\$ 322,546,915
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	349,784	375,888
Bad debt expense	192,998	61,240
Non-cash portion of pension expense	(3,499,345)	(257,691)
Changes in operating assets and liabilities:		
Accounts receivable	3,852,562	(434,122)
Ticket inventory	(180,740)	(465,726)
Prepaid expenses	(552,413)	46,282
Prize reserves	101,756	643,280
Advances to high-tier claim centers	50,000	–
Accounts payable and accrued expenses	(4,335,183)	2,251,514
Prizes payable	2,416,851	2,902,076
Due to Multi-State Lottery Association	978,290	(9,246)
Due to regional game states	149,574	(544,620)
Unearned revenue	278,214	(81,601)
Deferred rent liability	(39,047)	(39,047)
Deferred retiree salaries and benefits payable	209,328	–
<b><i>Net cash provided by operating activities</i></b>	<b>\$ 351,505,457</b>	<b>\$ 326,995,142</b>

*The accompanying notes are an integral part of these financial statements.*

**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

**REPORTING ENTITY**

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

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

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

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

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

The Lottery's activities are accounted for using the economic resources measurement focus and the accrual basis of accounting. In its accounting and financial reporting, the Lottery follows the pronouncements of the Governmental Accounting Standards Board (GASB). All assets, 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.

**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 when purchased.

**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



**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

these contracts, the credit quality of the issuer is subject to change. Amounts recorded as prize expense reflect the cost of the annuity contracts necessary to satisfy both installment prize awards and single payment awards.

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

**Ticket Inventory** — Instant game tickets are purchased from printing vendors. Unsold tickets are held in inventory and valued at the lower of cost or net realizable value 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** — Prizes payable 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 categorized as an unclaimed prize (see Unclaimed Prizes).

**Pension** — The Lottery’s proportionate share of the net pension liability, deferred outflow of resources, deferred inflows of resources and expense associated with the Lottery’s requirement to contribute to the Connecticut State Employees Retirement System (SERS) have been determined on the same basis as they are reported by SERS. Contributions made to SERS after the measurement date and prior to the Lottery’s fiscal year end are reported as deferred outflows of resources.

**Compensated Absences** — Under the terms of its various union contracts, 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.

**Revenue Recognition**

- *Instant game tickets* – Packs of instant games are consigned to retail sales agents and revenue is recognized when the pack is sold. For any partial packs at year end, the Lottery estimates 50% of the tickets within these packs have been sold and recognizes these as revenue.

**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- *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 the 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 expenses 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 the CT Super Draw is recognized based upon the relationship of the predetermined prize structure to the number of actual tickets sold in order to properly match revenues and expenses.

Prizes may be claimed up to 180 days after the official end of the game for instant games and up to 180 days after the draw date for draw games. Because winning tickets may be lost, destroyed or not redeemed for other reasons, there will be differences between amounts accrued and the amounts actually paid. Those differences, called unclaimed prizes, are recognized as a reduction of expense 181 days after the end of the instant game or drawing date, as appropriate (see Unclaimed Prizes). Powerball and Mega Millions prize expense is recognized in accordance with the Multi-State Lottery Association agreement (see Note 6).

**Unclaimed Prizes** — As noted above, prizes must be claimed within 180 days from the date of the official end of the game for instant games and date of the drawing for draw games. Any prizes not claimed within this period are classified as unclaimed. In accordance with Public Act 96-212, the Lottery may retain unclaimed prize funds as additional revenue for the State, for promotions used to increase sales, or to return to the participants in a manner designed to increase sales.

**Prize Payments** — Public Act 96-212 states a minimum of 45% of gross annual revenue must be paid as prizes. For the fiscal years ended June 30, 2016 and 2015, the prize expense amounted to 61.8% and 61.9% of Lottery sales, respectively.

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

**Payments to the State of Connecticut** — The Lottery transfers excess funds to contribute to the general revenues of the State of Connecticut. The Lottery also reimburses the Office of Policy and Management for the expenses incurred by the Department of Consumer Protection for the costs of regulation and provides funds for the Chronic Gamblers’ Treatment Rehabilitation account.

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

**Net Position** — Net position represents amounts set aside by statute for future use to return to participants as increased prize pools, promotional programs or payment to the State’s General Fund. Net investment in capital assets represents resources, net of accumulated depreciation, invested in capital assets.

**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***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.

***Recently Adopted Accounting Pronouncements*** — In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. Lottery employees are participants in the State Employees Retirement System. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The implementation of this standard resulted in an adjustment to reduce the Lottery's beginning net position by \$46,214,785 as of July 1, 2014.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB 68* (GASB 71). The objective of this Statement is to address an issue regarding application of the transition provisions of GASB No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are effective for financial statements with periods beginning after June 15, 2014. The implementation of this standard resulted in an adjustment to increase the Lottery's beginning net position by \$1,923,687 as of July 1, 2014, representing contributions made to the SERS from July 1, 2013 through June 30, 2014.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this Statement are effective for financial statements for financial statements with periods beginning after June 15, 2015 and the adoption of this standard did not have a material impact on the Lottery's financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. The provisions of this Statement are effective for financial statements with periods beginning after June 15, 2015 and the adoption of this standard did not have a material impact on the Lottery's financial statements.

***Upcoming Accounting Pronouncements*** — In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The provisions of this Statement are effective for financial statements with periods beginning after June 15, 2016. The Lottery is currently evaluating the impact this standard will have on its financial statements.

**NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about post-employment benefits other than pensions (other post-employment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this statement are effective for financial statements with periods beginning after June 15, 2016. The Lottery is currently evaluating the impact this standard will have on its financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The provisions of this statement are effective for financial statements with periods beginning after June 15, 2016. The Lottery is currently evaluating the impact this standard will have on its financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local Governmental employers whose employees are provided with such pensions. The provisions of this statement are effective for financial statements with periods beginning after December 15, 2015. The Lottery is currently evaluating the impact this standard will have on its financial statements.

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. The objective of this Statement is to address for certain external investment pools and their participants, the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. The provisions of this statement are effective for financial statements with periods beginning after December 15, 2015. The Lottery is currently evaluating the impact this standard will have on its financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions of this statement are effective for financial statements with periods beginning after June 15, 2016. The Lottery is currently evaluating the impact this standard will have on its financial statements.

**NOTE 2 - CHANGE IN METHOD FOR ACCOUNTING FOR PENSIONS**

On July 1, 2014, the Lottery adopted GASB 68 and GASB 71. GASB 68 required cost-sharing employers to recognize liabilities, deferred outflows of resources, deferred inflows of resources and expenses for their proportionate share of the pension plan's total. As the SERS did not have a practical way to provide each of its cost-sharing employers with all the

**NOTE 2 - CHANGE IN METHOD FOR ACCOUNTING FOR PENSIONS (CONTINUED)**

information needed to fully restate their prior period financial statements, the Lottery elected to apply the cumulative effect method, as discussed in GASB 68, by restating beginning net position as of July 1, 2014, the Lottery recorded an adjustment to reduce beginning net position by \$46,214,785 in accordance with GASB 68, as amended.

GASB 71 required that, at transition, a government recognize a deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the net pension liability and the end of the government's reporting period. The provisions of this statement are required to be applied simultaneously with the provisions of GASB 68. As of July 1, 2014, the Lottery recorded an adjustment to increase beginning net position by \$1,923,687 for contributions made to SERS from July 1, 2013 through June 30, 2014.

As of July 1, 2014, the cumulative effect of adopting GASB 68 was a \$44,291,098 reduction to the beginning net position. The following table shows the impact of the "cumulative effect" method of adopting and implementing GASB 68 and 71 on beginning net position.

<b>Statement of Revenue, Expenses and Changes in Net Position</b>	
Net position, beginning of period July 1, 2014 (as previously stated)	\$ 11,474,539
Cumulative effect of adopting GASB 68 and 71	(44,291,098)
Net position, beginning of period, July 1, 2014 (as restated)	\$ (32,816,559)

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

Cash and cash equivalents are as follows at June 30:

	<b>June 30</b>	
	<b>2016</b>	<b>2015</b>
Cash in financial institutions	\$ 4,492,187	\$ 7,157,511
Short-Term Investment Fund	13,964,990	2,004,487
Short-Term Investment Fund – retailer security deposits	797,686	986,526
Cash in transit	13,887	17,243
Petty cash	8,000	8,000
	<b>\$ 19,276,750</b>	<b>\$ 10,173,767</b>

In accordance with Chapter 229a and Sections 3-20 and 3-27a of the Connecticut General Statutes (C.G.S.) Sections 3-20 and 3-27a, excess funds of the Lottery may be deposited with the treasurer in such fund or funds of the State as appropriate or at the direction of the treasurer in a commercial bank or trust company with or without security to the credit of such fund or funds, or may be invested by, or at the discretion of the treasurer in bonds or obligations of, or guaranteed by, the State or the United States, or paper, savings accounts and bank acceptances, in the obligations of any state of the United States or any political subdivision, authority or agency thereof, provided that at the time of investment such obligations are rated within one of the top two rating categories of any nationally recognized rating service or of any rating service recognized by the State Commissioner of Banking, and applicable to such obligations, in the obligations of any regional school district in this State or any metropolitan district in this State, provided that at the time of investment such obligations of such government entity are rated within one of the top three rating categories

## CONNECTICUT LOTTERY CORPORATION

### NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2016 AND 2015

#### NOTE 3 - CASH, CASH EQUIVALENTS AND CREDIT RISK (CONTINUED)

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, 2016 and 2015, the carrying amounts of the Lottery's deposits were \$4,492,187 and \$7,157,511, respectively. Bank deposits are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2016, the Lottery's bank balance was \$5,067,120. Of this amount \$250,000 was covered by the FDIC and \$4,817,120 was collateralized with securities held by the pledging financial institution at the Federal Reserve Bank under the name of the State Commissioner of Banking.

At June 30, 2016 and 2015, the Lottery also had uninsured and uncollateralized investments of \$14,762,676 and \$2,991,013, respectively, in the STIF. Cash invested in the STIF is classified as a pooled investments and, therefore, not categorized by risk type. The STIF is an investment pool of high-quality, short-term money market instruments. Operated in a manner similar to money-market mutual funds, STIF is rated AAAM by Standard & Poor's, and has an average maturity of under 60 days. STIF serves as an investment vehicle for the operating cash of the State Treasury, State agencies and authorities, municipalities, and other political subdivisions of the State.

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 weighted average maturity of the underlying assets within the STIF investments is 34 days. The Lottery's stated policy is to invest in highly liquid, short-term assets.

#### NOTE 4 - INVESTMENTS AND CREDIT RISK

The Lottery had the following investments as of:

	<b>Carrying Amount</b>	<b>Fair Value</b>
<b>June 30, 2016</b>		
Annuity contracts (at present value discounted at approximately 4.9%)	<b>\$ 130,333,156</b>	<b>\$ 130,333,156</b>
<b>June 30, 2015</b>		
Annuity contracts (at present value discounted at approximately 5.2%)	\$ 130,353,944	\$ 130,353,944

The Lottery has uncollateralized annuities with the following insurance companies that represent more than 5% of the outstanding total as follows at June 30:

	<b>June 30</b>	
	<b>2016</b>	<b>2015</b>
<b>Insurance Company</b>		
Ohio National Life Insurance	<b>\$ 39,327,308</b>	\$ 41,586,635
Metropolitan Life Insurance	<b>35,892,348</b>	31,546,679
Savings Bank Life Insurance Co. of Massachusetts	<b>25,912,095</b>	25,448,853
John Hancock Life Insurance	<b>12,390,832</b>	14,111,379
New York Life Insurance	<b>4,257,684</b>	8,860,879

## CONNECTICUT LOTTERY CORPORATION

### NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2016 AND 2015

#### NOTE 4 - INVESTMENTS AND CREDIT RISK (CONTINUED)

As of June 30, 2016 and 2015, 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.

#### NOTE 5 - CAPITAL ASSETS

A summary of capital assets is presented below:

	Leasehold Improvements	Computer Equipment	Furniture and Equipment	Total
<b>Asset Cost</b>				
Balance, June 30, 2014	\$ 1,060,083	\$ 1,470,239	\$ 2,980,365	\$ 5,510,687
Capital Additions	13,931	131,162	22,365	167,458
Disposals	—	—	—	—
Balance, June 30, 2015	1,074,014	1,601,401	3,002,730	5,678,145
Capital Additions	13,377	30,103	—	43,480
Disposals	(12,061)	—	(64,430)	(76,491)
Balance, June 30, 2016	<b>\$ 1,075,330</b>	<b>\$ 1,631,504</b>	<b>\$ 2,938,300</b>	<b>\$ 5,645,134</b>
<b>Accumulated Depreciation</b>				
Balance, June 30, 2014	\$ (594,729)	\$ (1,364,645)	\$ (2,163,166)	\$ (4,122,540)
Depreciation	(108,071)	(80,564)	(187,253)	(375,888)
Disposals	—	—	—	—
Balance, June 30, 2015	(702,800)	(1,445,209)	(2,350,419)	(4,498,428)
Depreciation	(129,267)	(44,770)	(175,450)	(349,487)
Disposals	9,266	—	64,210	73,476
Balance, June 30, 2016	<b>\$ (822,801)</b>	<b>\$ (1,489,979)</b>	<b>\$ (2,461,659)</b>	<b>\$ (4,774,439)</b>
Net Book Value	<b>\$ 252,529</b>	<b>\$ 141,525</b>	<b>\$ 476,641</b>	<b>\$ 870,695</b>

The net book value of capital assets was \$870,695 and \$1,179,717 as of June 30, 2016 and 2015, respectively.

**CONNECTICUT LOTTERY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2016 AND 2015**

**NOTE 6 - LONG-TERM OBLIGATIONS**

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Activity for fiscal 2016	\$ 130,652,276	\$ 11,089,441	\$ (10,738,311)	\$ 131,003,406	\$ 8,740,890
Activity for fiscal 2015	\$ 139,519,038	\$ 4,873,220	\$ (13,739,982)	\$ 130,652,276	\$ 11,254,992

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

Year ending June 30	Principal	Interest
2017	\$ 8,740,890	\$ 6,387,576
2018	5,404,153	5,936,515
2019	5,666,773	5,616,895
2020	5,005,966	5,284,293
2021	4,296,814	4,994,255
2022 - 2026	18,493,453	21,860,588
2027 - 2031	16,544,672	17,567,661
2032 - 2036	13,372,037	13,811,963
2037 - 2041	11,599,660	10,873,340
2042 - 2046	10,125,526	8,195,474
2047 - 2051	7,767,179	6,141,321
2052 - 2056	7,632,238	4,340,762
2057 - 2061	6,895,448	2,655,552
2062 - 2066	4,951,706	1,362,294
2067 - 2071	3,531,796	431,204
2072 - 2076	852,691	87,309
2077 - 2078	122,404	2,596
	\$ 131,003,406	\$ 115,549,598

This debt represents periodic payments owed to lottery prize winners and is fully funded by investments in annuity contracts. Amounts due after 2036 represent estimates of long-term liabilities related to prizes payable over the recipients' natural lives.

As noted in Note 4 regarding investments, the annuity contracts used to fund periodic payments to 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 7 - PARTICIPATION IN MULTI-STATE LOTTERY ASSOCIATION**

The Lottery is a member of the Multi-State Lottery Association (MUSL) which operates games on behalf of participating state lotteries. During fiscal 2010, MUSL cross-licensed the Powerball game with a group of state lotteries that operate the Mega Millions game. Under the cross-license agreement, all state lotteries participating in MUSL and from the group operating Mega Millions are permitted to sell both multi-state jackpot games. The Lottery participates in both the Powerball game and the Mega Millions game.

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

When winning grand prize tickets are drawn, the winner has the option of selecting a discounted lump sum cash payment or the full prize payment over future installments. If the winner selects the installment payments, MUSL purchases securities to fund the prize 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 paid in cash as the securities are redeemed.

As part of the agreement with MUSL, the Lottery is required to deposit with MUSL additional amounts held as prize reserve funds. Prize reserve funds serve as a contingency reserve to protect MUSL members from unforeseen prize liabilities and the money in this reserve fund is to be used at the discretion of the MUSL Board of Directors. The prize reserve fund monies are refundable in full to the Lottery if MUSL disbands or if the Lottery leaves MUSL. Members leaving MUSL must wait one year before receiving their remaining share, if any, of the prize reserve funds. These amounts earn investment income at market rates, which is used to offset the Lottery's share of MUSL operating expenses for the year.

Balances at June 30, 2016 and 2015, were as follows:

	<b>2016</b>	<b>2015</b>
Prize reserves held by MUSL	\$ 4,634,376	\$ 4,736,132
Amounts due to MUSL	1,481,912	503,622

**NOTE 8 - PENSION PLAN**

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

**NOTE 8 - PENSION PLAN (CONTINUED)**

**Plan Description** — SERS is a cost-sharing multiple employer defined benefit Public Employees’ Retirement System (PERS) established in 1939 and governed by sections 5-152 to 5-192 of the Connecticut General Statutes. Employees are covered under one of three tiers. Tier I, Tier IIA and Tier III are contributory plans and Tier II is a noncontributory plan. Tier I Plan B and Plan C participants contribute 2% and 5% of their pay, respectively. Tier II Plan A and Tier III participants contribute 2% of their pay. Members who joined the retirement system prior to July 1, 1984 are enrolled in Tier I. Tier I employees who retire at or after age 65 with 10 years of credited service, or at or after age 55 with 25 years of service or at age 55 with 10 years of credited service with reduced benefits are entitled to an annual retirement benefit payable monthly for life, in the amount of 2% of the annual average earnings (which are based on the three highest years of service) over \$4,800 plus 1% of \$4,800 for each year of credited service. Tier II employees who retire at or after age 60 with 25 years of service, or at age 62 with 10 years of service, or at age 70 with 5 years of service, or at age 55 with 10 years of service with reduced benefits are entitled to 1 1/3% of the average annual earnings in excess of the salary breakpoint in the year of retirement, for each year of credited service.

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

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

The 2011 State Employees Bargaining Agent Coalition (SEBAC) Agreement changed the benefit multiplier for the portion of the benefit below the breakpoint from 1.33% to 1.40%. This change was made effective for all active members who retire on or after July 1, 2013 in Tier II, IIA, and III. A one-time decision was granted to members not eligible to retire by July 1, 2022 to elect to maintain the same normal retirement eligibility applicable to members who retire before July 1, 2022. Employees who elected by July 1, 2013 to maintain their eligibility are required to make additional employee contributions for the length of their remaining active service with SERS. The additional contribution was up to 0.72% of pensionable earnings.

**Contributions Made** — The Lottery’s contribution is determined by applying a State mandated percentage to eligible salaries and wages. The mandated rate was 53.58 percent, 50.50 percent and 54.71 percent, during fiscal years 2016, 2015, and 2014, respectively. The contributions made compared to covered payroll follows:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Total payroll covered by SERS	<b>\$ 10,490,319</b>	\$ 10,032,666	\$ 9,348,981
By employees	<b>149,488</b>	138,906	128,431
Percent of current year covered	<b>1.43%</b>	1.38%	1.37%
By the Lottery	<b>5,455,667</b>	4,971,190	5,086,428
Percent of current year covered	<b>52.01%</b>	49.55%	54.40%

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

**NOTE 8 - PENSION PLAN (CONTINUED)**

*Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources* — The implementation of GASB 68 resulted in the Lottery reporting a net pension liability for fiscal years 2016 and 2015. The Statement required the Lottery to recognize a net pension liability for the difference between the present value of the projected benefits for past service known as the Total Pension Liability (TPL) and the restricted resources held in trust for the payment of pension benefits, known as the Fiduciary Net Position (FNP). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the FNP of SERS and additions to/deductions from SERS FNP have been determined on the same basis as they are reported by SERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit term. Investments are recorded at fair value.

At June 30, 2016 and 2015 the Lottery reported a liability of \$40,525,323 and \$44,624,031 for its proportionate share of the net pension liability, which was measured as of June 30, 2015 and June 30, 2014, respectively. The total pension liability used to calculate the net pension liability was determined by actuarial valuation as of the measurement dates based on actuarial experience studies. The Lottery's allocation of the net pension liability was based on total covered payroll multiplied by the SERS contribution rate at each measurement date. For the years ended June 30, 2016 and 2015, the SERS contribution rate was 43.42% and 37.91%, respectively. As of June 30, 2016 and 2015, the Lottery's proportionate share was 0.24525% and 0.27865%, respectively.

For the year ended June 30, 2016 and 2015, the Lottery recognized pension expense of \$2,238,185 and \$3,538,724, respectively. Pension expense is reported in the Lottery's financial statements as part of salaries and benefits expense.

At June 30, 2016 the Lottery reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual earnings on pension plan investments	\$ 6,381	\$ —
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	(4,573,016)
Lottery contributions subsequent to the measurement date	4,554,897	—
	<u>\$ 4,561,278</u>	<u>\$ (4,573,016)</u>

**CONNECTICUT LOTTERY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2016 AND 2015**

**NOTE 8 - PENSION PLAN (CONTINUED)**

At June 30, 2015 the Lottery reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual earnings on pension plan investments	\$ —	\$ (1,593,716)
Lottery contributions subsequent to the measurement date	2,181,341	—
	<u>\$ 2,181,341</u>	<u>\$ (1,593,716)</u>

The amount recognized as deferred inflows of resources, representing the net difference between the projected and actual earnings, is amortized over a five-year closed period beginning in the year in which the difference occurs and will be recognized in expense as follows:

<b>Years Ending June 30,</b>	
2017	\$ 1,059,264
2018	1,052,881
2019	1,052,886
2020	702,213
2021	705,772
	<u>\$ 4,573,016</u>

**Actuarial Methods and Assumptions** — The total pension liability was determined based on the actuarial valuation report prepared as of June 30, 2014 and rolled-forward to the measurement date of June 30, 2015. The 2014 actuarial valuation was determined based on the results of an actuarial experience study for the period July 1, 2007 through June 30, 2011. The key actuarial assumptions are summarized below:

Inflation	2.75%
Salary increase, including inflation	4.00% - 20.00%
Investment rate of return, net of investment expense, including inflation	8.00%
Cost of living adjustment	2.30% - 3.60%

Mortality rates were based on the RP-2000 Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

## CONNECTICUT LOTTERY CORPORATION

### NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2016 AND 2015

#### NOTE 8 - PENSION PLAN (CONTINUED)

**Discount Rate** — The discount rate used to measure the total pension liability was the long term expected rate of return on investments of 8.00 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rates and that employer contributions will be made equal to the difference between the projected actuarially determined contribution and member contributions. Projected future benefit payments for all current plan members were projected through the year 2115.

**Expected Rate of Return on Investments** — The long term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap U.S. Equities	21.0%	5.8%
Developed non-U.S. Equities	18.0%	6.6%
Emerging Market (non-U.S.)	9.0%	8.3%
Real estate	7.0%	5.1%
Private equity	11.0%	7.6%
Alternative investments	8.0%	4.1%
Fixed income (Core)	8.0%	1.3%
High yield bonds	5.0%	3.9%
Emerging market bond	4.0%	3.7%
TIPS	5.0%	1.0%
Cash	4.0%	0.4%

**Sensitivity of the Lottery's Proportionate Share of Net Pension Liability to Changes in Discount Rates** — The following presents the Lottery's proportionate share of the net pension liability calculated using the discount rate of 8.00%, as well as the proportionate share of the net pension liability using a 1% increase or decrease from the current discount rate:

	1% Decrease	Discount Rate	1% Increase
	7.0%	8.0%	9.0%
Lottery's proportionate share of the net pension liability at:			
June 30, 2016	\$ 48,206,038	\$ 40,525,323	\$ 34,054,427
June 30, 2015	\$ 53,232,962	\$ 44,624,031	\$ 37,384,024

**NOTE 9 - POST EMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 8, 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 dependent's coverage) depending upon the plan. In addition, the State pays 100% of the premium cost for a portion of the employees' life insurance continued after retirement. The amount of life insurance, continued at no cost to the retiree, is determined based on the number of years of service that the retiree had with the State at time of retirement as follows: a) if the retiree had 25 years or more of service, the amount of insurance will be one-half of the amount of insurance for which the retiree was insured immediately prior to retirement, but the reduced amount cannot be less than \$10,000; (b) if the retiree had less than 25 years of service, the amount of insurance will be the proportionate amount that such years of service is to 25, rounded to the nearest \$100. The State finances the cost of post-employment health care and life insurance benefits on a pay-as-you-go basis through an appropriation in the General Fund.

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

**NOTE 10 - LEASE COMMITMENTS**

The Lottery headquarters, located in Rocky Hill, is rented under an operating lease that commenced on April 1, 2008, and extends through June 30, 2023. Monthly rents are approximately \$83,000 from July 1, 2014 through June 30, 2018, and \$87,000 through the end of the term. The Lottery recognizes the lease expense using the straight-line method over the term of the lease arrangement.

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

The Lottery leases equipment and instant ticket vending machines under non-cancellable operating leases expiring on various dates through March 2023. All equipment lease obligations are payable in monthly installments.

Total lease expense for facilities and equipment was \$1,465,012 and \$1,283,891 for the fiscal years ended June 30, 2016 and 2015, respectively.

## CONNECTICUT LOTTERY CORPORATION

### NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2016 AND 2015

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#### NOTE 10 - LEASE COMMITMENTS (CONTINUED)

Future payments for the aforementioned leases are summarized as follows:

<u>Years Ending June 30,</u>	
2017	\$ 3,830,026
2018	2,881,106
2019	1,040,628
2020	1,040,628
2021	1,040,628
Thereafter	2,081,256
	<u>\$ 11,914,272</u>

#### NOTE 11 - RISK MANAGEMENT

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

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

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

During each of the three years ended June 30, 2016, 2015, and 2014, there were no claims or settlements that have exceeded insurance coverage.

#### NOTE 12 - COMMITMENTS AND CONTINGENCIES

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







# COMPLIANCE SECTION

**Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters 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 the Connecticut Lottery Corporation (the Lottery), a component unit of the State of Connecticut, which comprise the statement of net position as of June 30, 2016, and the related statements of revenues and expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 22, 2016.

**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.

*Marcum LLP*

Hartford, CT  
September 22, 2016





# REQUIRED SUPPLEMENTARY INFORMATION

## CONNECTICUT LOTTERY CORPORATION

### SCHEDULE OF THE LOTTERY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

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Last Two Fiscal Years	2016	2015
Lottery's portion of the net pension liability	<b>0.24525%</b>	0.27865%
Lottery's proportionate share of the net pension liability	<b>\$ 40,525,323</b>	\$ 44,624,031
Lottery's covered-employee payroll	<b>\$ 10,490,319</b>	\$ 10,032,666
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	<b>386.31%</b>	444.79%
Plan fiduciary net position as a percentage of the total pension liability	<b>39.23%</b>	39.54%

This schedule is presented as required by accounting principles generally accepted in the United States of America, however, until a full 10 year trend is compiled, information is presented for those years available.

## CONNECTICUT LOTTERY CORPORATION

### SCHEDULE OF THE LOTTERY'S CONTRIBUTIONS TO THE STATE EMPLOYEES RETIREMENT SYSTEM (SERS)

Last Seven Fiscal Years	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$4,554,897	\$ 3,803,384	\$ 3,401,159	\$ 2,752,875	\$ 2,482,079	\$ 2,288,551	\$ 1,796,916
Contributions in relation to the contractually required contribution	4,554,897	3,803,384	3,401,159	2,752,875	2,482,079	2,288,551	1,796,916
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Lottery's covered-employee payroll	10,490,319	10,032,666	9,348,981	9,055,510	8,989,782	8,897,944	8,220,109
Contributions as a percentage of covered-employee payroll	43.42%	37.91%	36.38%	30.40%	27.61%	25.72%	21.86%

This schedule is presented as required by accounting principles generally accepted in the United States of America, however, until a full 10 year trend is compiled, information is presented for those years available.

Additionally, prior fiscal year amounts disclosed in this schedule have been updated to reflect revised calculations included in the June 30, 2015 SERS actuarial report.







# SUPPLEMENTAL SCHEDULES

**CONNECTICUT LOTTERY CORPORATION**  
**SCHEDULE OF PROFIT MARGINS BY GAME TYPE, YEAR ENDED JUNE 30, 2016**

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

	Instant	Play3 Night	Play4 Night	Play3 Day	Play4 Day
NET SALES	\$ 742,296	\$ 74,016	\$ 69,493	\$ 54,198	\$ 47,355
DIRECT COSTS					
Gross prize expense	516,352	32,952	30,394	30,866	26,644
Unclaimed prize credit	(4,910)	(523)	(682)	(334)	(443)
Use of unclaimed prize reserve	–	–	–	1	5
<i>Net prize expense</i>	511,442	32,429	29,712	30,533	26,206
Retailer commissions	42,365	4,029	3,716	3,021	2,579
On-line systems	6,743	673	631	491	429
Marketing, advertising and promotion	5,800	539	510	390	341
Production expenses	6,429	46	46	45	45
<i>Total direct costs</i>	572,779	37,716	34,615	34,480	29,600
GROSS PROFIT	\$ 169,517	\$ 36,300	\$ 34,878	\$ 19,718	\$ 17,755

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

	Instant	Play3 Night	Play4 Night	Play3 Day	Play4 Day
<i>Net sales</i>	100.0%	100.0%	100.0%	100.0%	100.0%
DIRECT COSTS					
Gross prize expense	69.6%	44.5%	43.7%	57.0%	56.3%
Unclaimed prize credit	(0.7)%	(0.7)%	(1.0)%	(0.6)%	(0.9)%
Use of unclaimed prize reserve	0.0%	0.0%	0.0%	0.0%	0.0%
<i>Net prize expense</i>	68.9%	43.8%	42.7%	56.4%	55.4%
Retailer commissions	5.7%	5.4%	5.3%	5.6%	5.4%
On-line systems	0.9%	0.9%	0.9%	0.9%	0.9%
Marketing, advertising and promotion	0.8%	0.7%	0.7%	0.7%	0.7%
Production expenses	0.9%	0.1%	0.1%	0.1%	0.1%
<i>Total direct costs</i>	77.2%	50.9%	49.7%	63.7%	62.5%
GROSS PROFIT	22.8%	49.1%	50.3%	36.3%	37.5%

Lotto	Cash5	Powerball	Mega Millions	Lucky for Life	5 Card Cash	Lucky Links	Keno	Total
\$ 19,429	\$ 30,994	\$ 106,270	\$ 21,709	\$ 29,405	\$ 13,107	\$ 10,053	\$ 12,444	\$ 1,230,769
10,286	16,975	53,142	14,748	12,463	10,962	6,325	8,217	770,326
(186)	(309)	(1,791)	(381)	(464)	(407)	(163)	–	(10,593)
530	–	–	–	–	–	–	–	536
10,630	16,666	51,351	14,367	11,999	10,555	6,162	8,217	760,269
1,035	1,720	5,444	1,539	1,176	760	607	697	68,688
177	281	962	271	193	123	90	388	11,452
187	226	1,230	706	545	274	86	1,566	12,400
14	46	64	18	50	45	83	125	7,056
12,043	18,939	59,051	16,901	13,963	11,757	7,028	10,993	859,865
\$ 7,386	\$ 12,055	\$ 47,219	\$ 4,808	\$ 15,442	\$ 1,350	\$ 3,025	\$ 1,451	\$ 370,904
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
52.9%	54.8%	50.0%	67.9%	42.4%	83.6%	62.9%	66.0%	62.6%
(1.0)%	(1.0)%	(1.7)%	(1.8)%	(1.6)%	(3.1)%	(1.6)%	0.0%	(0.9)%
2.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
54.6%	53.8%	48.3%	66.1%	40.8%	80.5%	61.3%	66.0%	61.7%
5.3%	5.5%	5.1%	7.1%	4.0%	5.8%	6.0%	5.6%	5.6%
0.9%	0.9%	0.9%	1.2%	0.7%	0.9%	0.9%	3.1%	0.9%
1.0%	0.7%	1.2%	3.3%	1.9%	2.1%	0.9%	12.6%	1.0%
0.1%	0.1%	0.1%	0.1%	0.2%	0.3%	0.8%	1.0%	0.6%
61.9%	61.0%	55.6%	77.8%	47.6%	89.6%	69.9%	88.3%	69.8%
38.1%	39.0%	44.4%	22.2%	52.4%	10.4%	30.1%	11.7%	30.2%

**CONNECTICUT LOTTERY CORPORATION**  
**SCHEDULE OF PROFIT MARGINS BY GAME TYPE, YEAR ENDED JUNE 30, 2015**

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

	Instant	Play3 Night	Play4 Night	Play3 Day	Play4 Day
NET SALES	\$ 687,967	\$ 72,100	\$ 65,556	\$ 50,846	\$ 43,252
DIRECT COSTS					
Gross prize expense	477,542	36,125	28,658	23,611	23,153
Unclaimed prize credit	(4,039)	(506)	(519)	(268)	(363)
Use of unclaimed prize reserve	1	217	–	137	–
<i>Net prize expense</i>	473,504	35,836	28,139	23,480	22,790
Retailer commissions	39,505	3,988	3,525	2,792	2,355
On-line systems	6,320	661	601	467	397
Marketing, advertising and promotion	5,796	520	475	367	314
Production expenses	6,007	57	57	57	57
<i>Total direct costs</i>	531,132	41,062	32,797	27,163	25,913
GROSS PROFIT	\$ 156,835	\$ 31,038	\$ 32,759	\$ 23,683	\$ 17,339

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

<i>Net sales</i>	100.0%	100.0%	100.0%	100.0%	100.0%
DIRECT COSTS					
Gross prize expense	69.4%	50.1%	43.7%	46.4%	53.5%
Unclaimed prize credit	(0.6)%	(0.7)%	(0.8)%	(0.5)%	(0.8)%
Use of unclaimed prize reserve	0.0%	0.3%	0.0%	0.3%	0.0%
<i>Net prize expense</i>	68.8%	49.7%	42.9%	46.2%	52.7%
Retailer commissions	5.7%	5.5%	5.4%	5.5%	5.4%
On-line systems	0.9%	0.9%	0.9%	0.9%	0.9%
Marketing, advertising and promotion	0.8%	0.7%	0.7%	0.7%	0.7%
Production expenses	0.9%	0.1%	0.1%	0.1%	0.1%
<i>Total direct costs</i>	77.1%	56.9%	50.0%	53.4%	59.8%
GROSS PROFIT	22.8%	43.0%	50.0%	46.6%	40.1%

Lotto	Cash5	Powerball	Mega Millions	Lucky for Life	CT Super Draw	5 Card Cash	Lucky Links	Total
\$ 20,143	\$ 31,220	\$ 66,502	\$ 32,370	\$ 21,523	\$ 2,896	\$ 46,322	\$ 3,276	\$ 1,143,973
10,662	16,229	33,260	16,189	9,993	2,600	35,676	2,043	715,741
(217)	(331)	(669)	(473)	(597)	(43)	(423)	–	(8,448)
19	–	–	–	68	–	–	–	442
10,464	15,898	32,591	15,716	9,464	2,557	35,253	2,043	707,736
1,059	1,727	3,423	1,672	1,170	173	2,676	204	64,269
184	286	609	296	198	27	425	29	10,500
194	239	930	882	428	147	450	459	11,201
20	56	68	19	79	–	53	1	6,531
11,921	18,206	37,621	18,585	11,339	2,904	38,857	2,737	800,237
\$ 8,222	\$ 13,014	\$ 28,881	\$ 13,785	\$ 10,184	\$ (8)	\$ 7,465	\$ 540	\$ 343,736
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
52.9%	52.0%	50.0%	50.0%	46.4%	89.8%	77.0%	62.4%	62.6%
(1.1)%	(1.1)%	(1.0)%	(1.5)%	(2.8)%	(1.5)%	(0.9)%	0.0%	(0.7)%
0.1%	0.0%	0.0%	0.0%	0.3%	0.0%	0.0%	0.0%	0.0%
51.9%	50.9%	49.0%	48.5%	43.9%	88.3%	76.1%	62.4%	61.9%
5.3%	5.5%	5.1%	5.2%	5.4%	6.0%	5.8%	6.2%	5.6%
0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
1.0%	0.8%	1.4%	2.7%	2.0%	5.1%	1.0%	14.0%	1.0%
0.1%	0.2%	0.1%	0.1%	0.4%	0.0%	0.1%	0.0%	0.6%
59.2%	58.3%	56.5%	57.4%	52.6%	100.3%	83.9%	83.5%	70.0%
40.8%	41.7%	43.4%	42.6%	47.3%	(0.3)%	16.1%	16.5%	30.0%





# STATISTICAL SECTION





# CONNECTICUT LOTTERY CORPORATION

## SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION ACTUAL VS. BUDGET (\$000s), YEAR ENDED JUNE 30, 2016

	Actual	Budget	Over/(Under) Budget	% Change
<b>SALES</b>				
OPERATING REVENUE	\$ 1,233,581	\$ 1,167,290	\$ 66,291	5.7%
Less sales returns, cancellations and promotion	(2,812)	0	(2,812)	–
<b>Total operating revenue</b>	<b>1,230,769</b>	<b>1,167,290</b>	<b>63,479</b>	<b>5.4%</b>
<b>COST OF SALES AND OPERATING EXPENSES</b>				
<b>COST OF SALES</b>				
Prize expense	760,268	726,218	34,050	4.7
Retailer commissions	68,688	66,012	2,676	4.1
On-line systems	11,452	11,749	(297)	(2.5)
Marketing, advertising, and promotion	12,400	14,651	(2,251)	(15.4)
Production expenses	7,057	6,968	89	1.3
<b>Total cost of sales</b>	<b>859,865</b>	<b>825,598</b>	<b>34,267</b>	<b>4.2%</b>
<b>OPERATING EXPENSES</b>				
Salaries and benefits	15,635	20,362	(4,727)	(23.2)%
Other operating expenses	3,251	3,270	(19)	(0.6)%
Depreciation and amortization	350	403	(53)	(13.2)%
Bad debt expense	193	100	93	93.4%
<b>Total operating expenses</b>	<b>19,429</b>	<b>24,135</b>	<b>(4,706)</b>	<b>(19.5)%</b>
OTHER OPERATING REVENUE	57	25	32	130.0%
<b>Operating income</b>	<b>351,532</b>	<b>317,582</b>	<b>33,950</b>	<b>10.7%</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest income from investments on annuities	6,562	0	6,562	–
Interest income	35	25	10	41.8%
Interest expense on annuity payments	(6,562)	0	(6,562)	–
Annuity assignment	10	2	8	250.0%
<b>Total non-operating revenues</b>	<b>45</b>	<b>27</b>	<b>18</b>	<b>68.3%</b>
<b>CHANGE IN NET POSITION BEFORE</b>				
<b>PAYMENTS TO STATE FUNDS</b>	<b>351,578</b>	<b>317,609</b>	<b>33,969</b>	<b>10.7%</b>
Payments to Chronic Gamblers' Fund	2,300	2,300	0	0.0%
Payments to Department of Consumer Protection	2,769	2,634	135	5.1%
Payments to State's General Fund	337,500	312,673	24,827	7.9%
<b>Change in net position</b>	<b>\$ 9,009</b>	<b>\$ –</b>	<b>\$ 9,009</b>	<b>N/A</b>

# CONNECTICUT LOTTERY CORPORATION

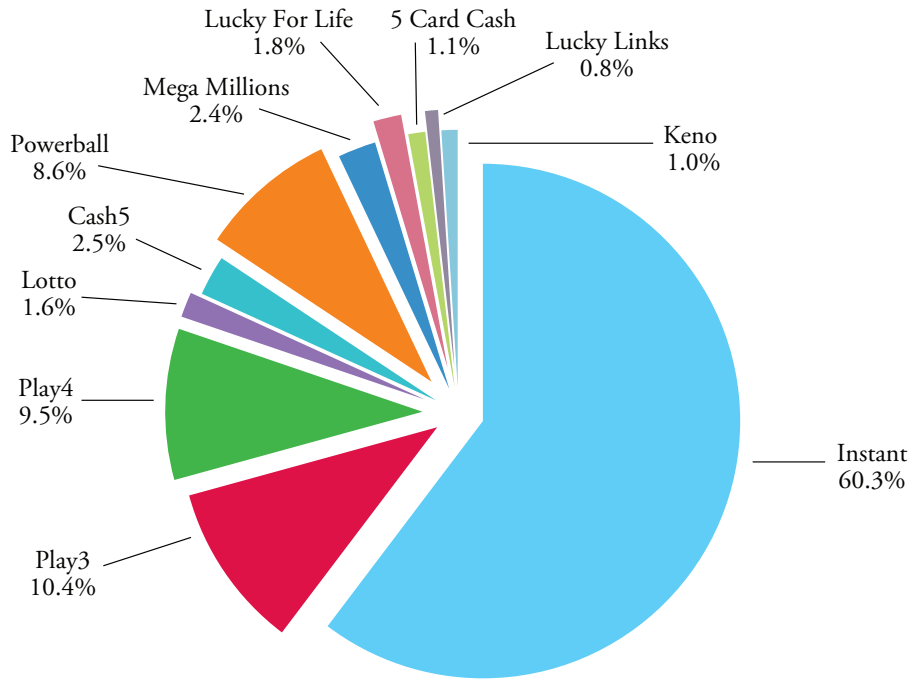
## SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION BY GAME TYPE (\$000s), YEAR ENDED JUNE 30, 2016

	Instant	Play3 Night	Play4 Night	Play3 Day	Play4 Day
<b>SALES</b>					
OPERATING REVENUE	\$742,296	\$ 74,902	\$ 70,274	\$ 54,784	\$ 47,842
Less sales returns, cancellations and promotion	–	(886)	(780)	(586)	(488)
<b>Total operating revenue</b>	<b>742,296</b>	<b>74,016</b>	<b>69,493</b>	<b>54,198</b>	<b>47,355</b>
<b>COST OF SALES AND OPERATING EXPENSES</b>					
<b>COST OF SALES</b>					
Prize expense	511,441	32,431	29,712	30,532	26,206
Retailer commissions	42,365	4,029	3,716	3,021	2,579
On-line systems	6,744	672	631	491	429
Marketing, advertising, and promotion	5,800	539	510	390	341
Production expenses	6,429	46	46	45	45
<b>Total cost of sales</b>	<b>572,779</b>	<b>37,716</b>	<b>34,615</b>	<b>34,480</b>	<b>29,600</b>
<b>OPERATING EXPENSES</b>					
Salaries and benefits	9,889	499	656	462	615
Other operating expenses	2,046	105	137	97	129
Depreciation and amortization	222	12	15	11	14
Bad debt expense	124	12	11	8	8
<b>Total operating expenses</b>	<b>12,281</b>	<b>628</b>	<b>819</b>	<b>578</b>	<b>766</b>
OTHER OPERATING INCOME	39	3	3	2	2
<b>Operating income</b>	<b>157,275</b>	<b>35,675</b>	<b>34,062</b>	<b>19,143</b>	<b>16,990</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Interest income from investments on annuities	4,003	–	–	–	–
Interest income	14	1	1	1	1
Interest expense on annuity payments	(4,003)	–	–	–	–
Annuity assignment	5	–	–	–	–
<b>Total non-operating revenues</b>	<b>19</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>CHANGE IN NET POSITION BEFORE PAYMENTS TO STATE FUNDS</b>					
PAYMENTS TO STATE FUNDS	157,294	35,676	34,063	19,144	16,991
Payments to Chronic Gamblers' Fund	1,352	136	127	99	86
Payments to Department of Consumer Protection	1,619	163	152	119	103
Payments to State's General Fund	150,311	34,458	32,906	18,434	16,365
<b>Change in net position</b>	<b>\$ 4,012</b>	<b>\$ 920</b>	<b>\$ 878</b>	<b>\$ 492</b>	<b>\$ 437</b>

Lotto	Cash 5	Powerball	Mega Millions	Lucky for Life	5 Card Cash	Lucky Links	Keno	Total
\$ 19,447 (18)	\$ 31,017 (24)	\$ 106,285 (14)	\$ 21,716 (7)	\$ 29,414 (9)	\$ 13,107 –	\$ 10,054 (1)	\$ 12,444 –	\$ 1,233,582 (2,813)
19,429	30,994	106,270	21,709	29,405	13,107	10,053	12,444	1,230,769
10,630	16,666	51,352	14,367	11,998	10,554	6,162	8,218	760,268
1,035	1,720	5,444	1,539	1,176	760	607	697	68,688
177	281	962	271	193	123	90	388	11,452
187	226	1,230	706	545	274	86	1,566	12,400
14	46	64	18	50	46	84	124	7,057
12,043	18,939	59,052	16,901	13,963	11,757	7,028	10,993	859,865
533	535	542	541	543	273	310	237	15,635
109	111	114	113	114	47	70	59	3,251
11	11	13	12	12	5	6	5	350
3	4	12	6	3	1	1	–	193
656	661	681	672	672	326	387	301	19,429
1	1	4	1	1	–	–	–	57
6,731	11,394	46,542	11,833	7,076	1,024	2,637	1,150	351,532
984	–	–	–	1,575	–	–	–	6,562
–	1	11	5	–	–	–	–	35
(984)	–	–	–	(1,575)	–	–	–	(6,562)
–	–	–	–	5	–	–	–	10
–	1	11	5	5	–	–	–	45
6,731	11,395	46,553	11,838	7,081	1,024	2,637	1,150	351,578
35	57	277	46	39	34	12	–	2,300
44	68	336	60	47	41	17	–	2,769
6,479	10,977	44,746	11,427	6,813	924	2,540	1,120	337,500
\$ 173	\$ 293	\$ 1,194	\$ 305	\$ 182	\$ 25	\$ 68	\$ 30	\$ 9,009

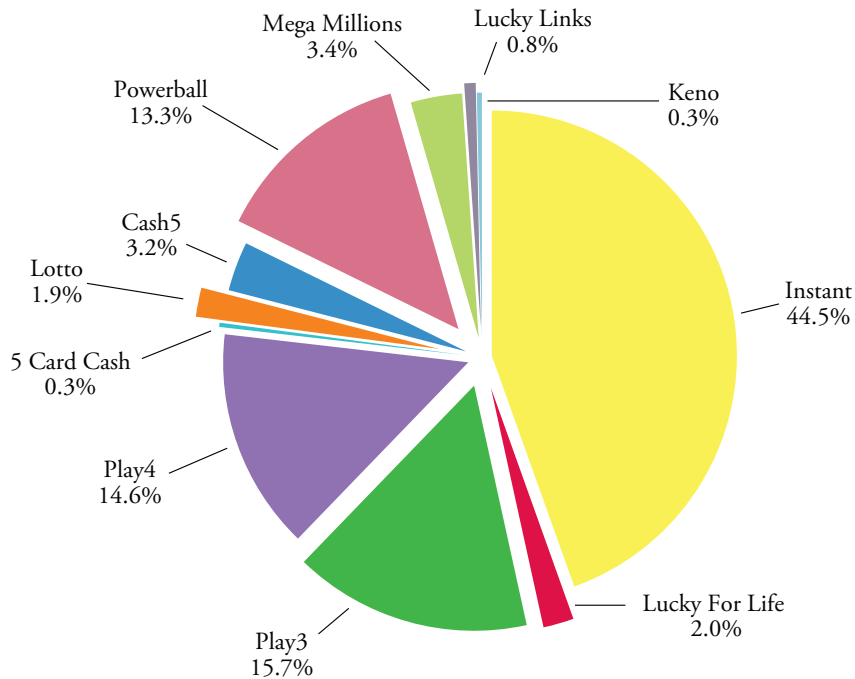
## REVENUE BY GAME

FISCAL YEAR 2016 TOTAL SALES: \$1,230,769,399



## GENERAL FUND PAYMENTS BY GAME

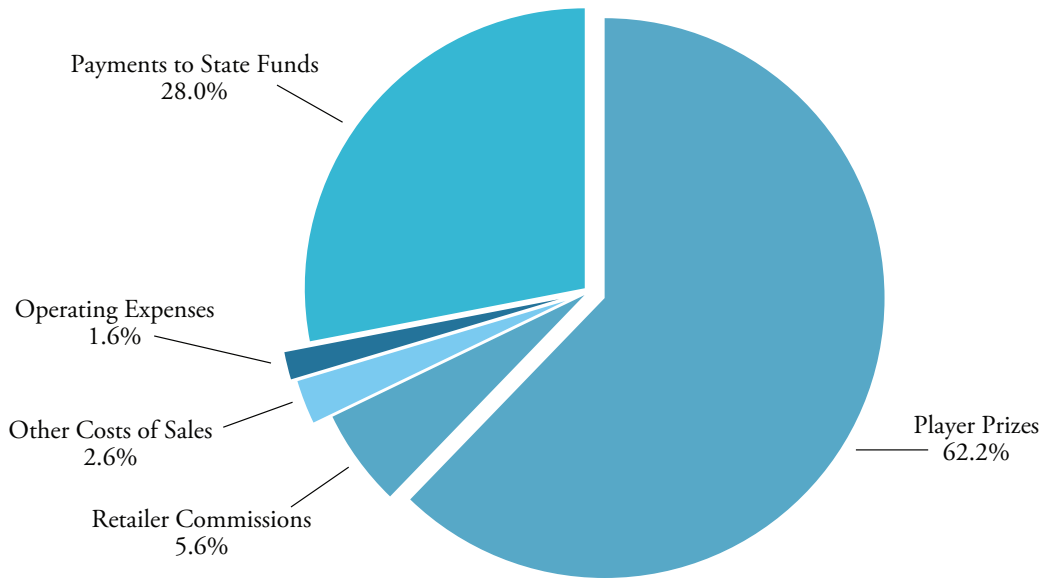
FISCAL YEAR 2016 TOTAL PAYMENTS: \$337,500,000



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

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

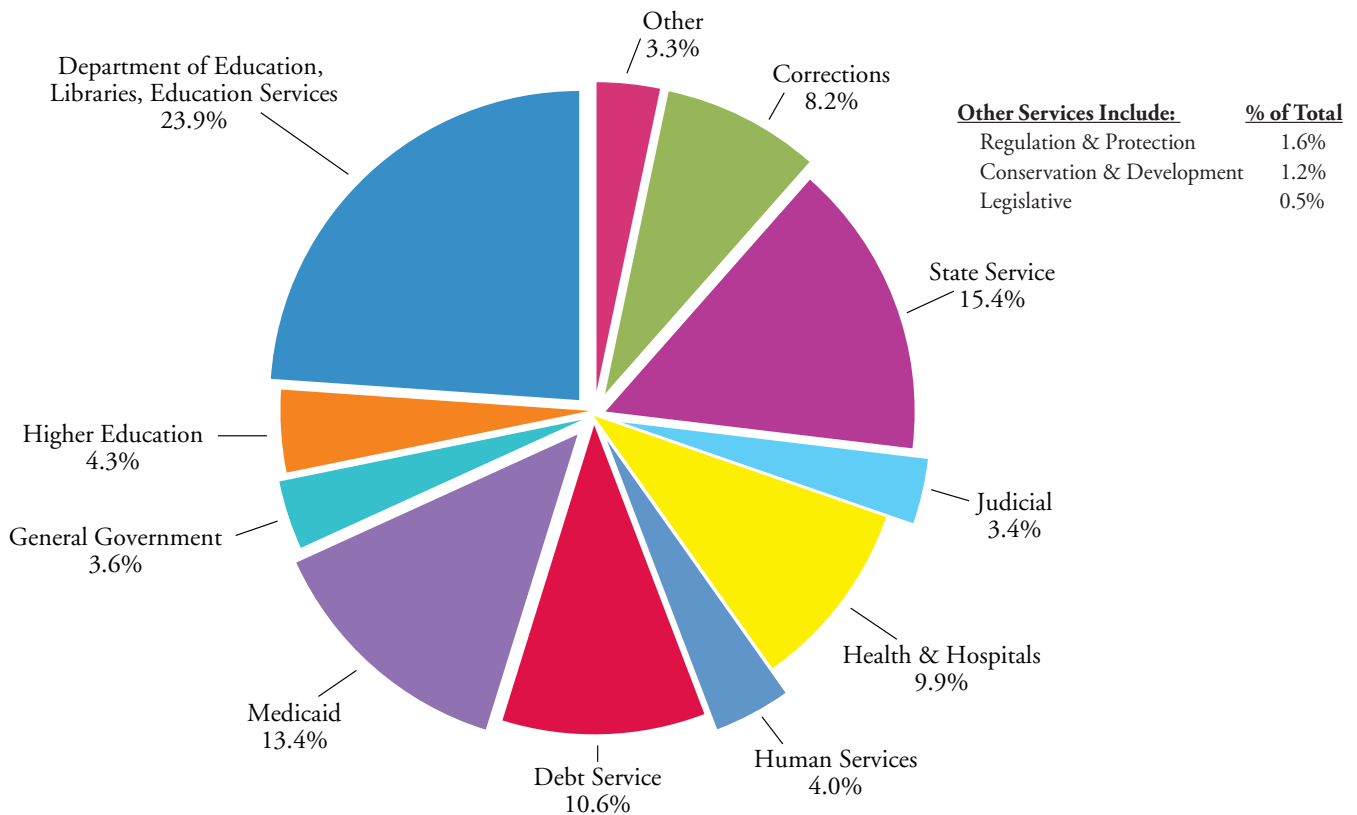
FISCAL YEAR 2016 TOTAL SALES: \$1,230,769,399



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

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

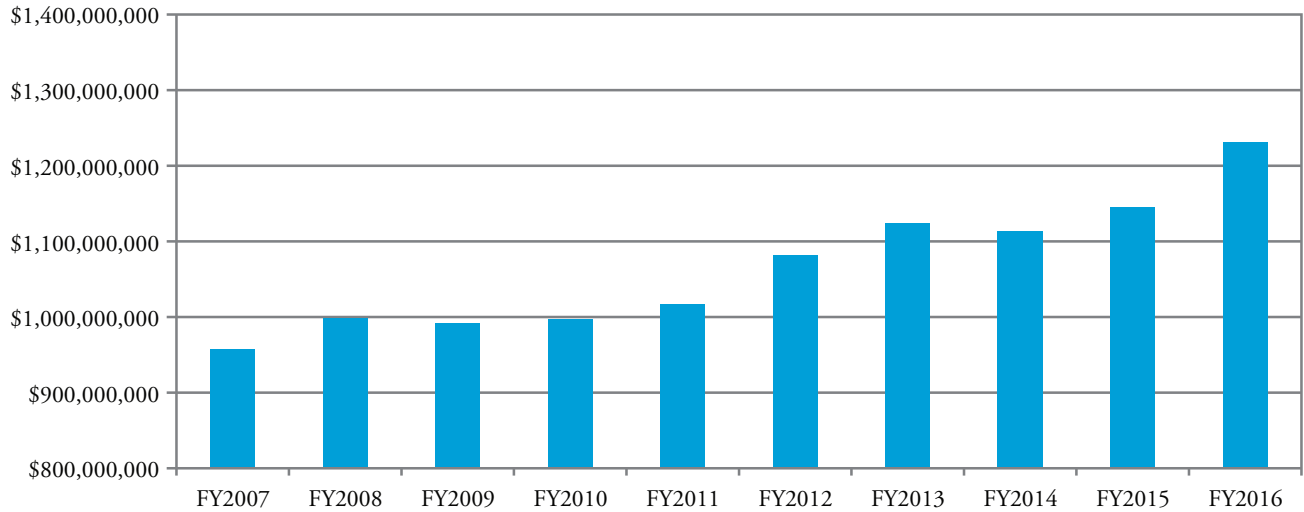
FISCAL YEAR 2016 PAYMENTS TO THE GENERAL FUND: \$337,500,000



Based on Fiscal Year 2016 General Fund Percentages Appropriated by the Legislature. Source: Connecticut State Budget 2013-2015

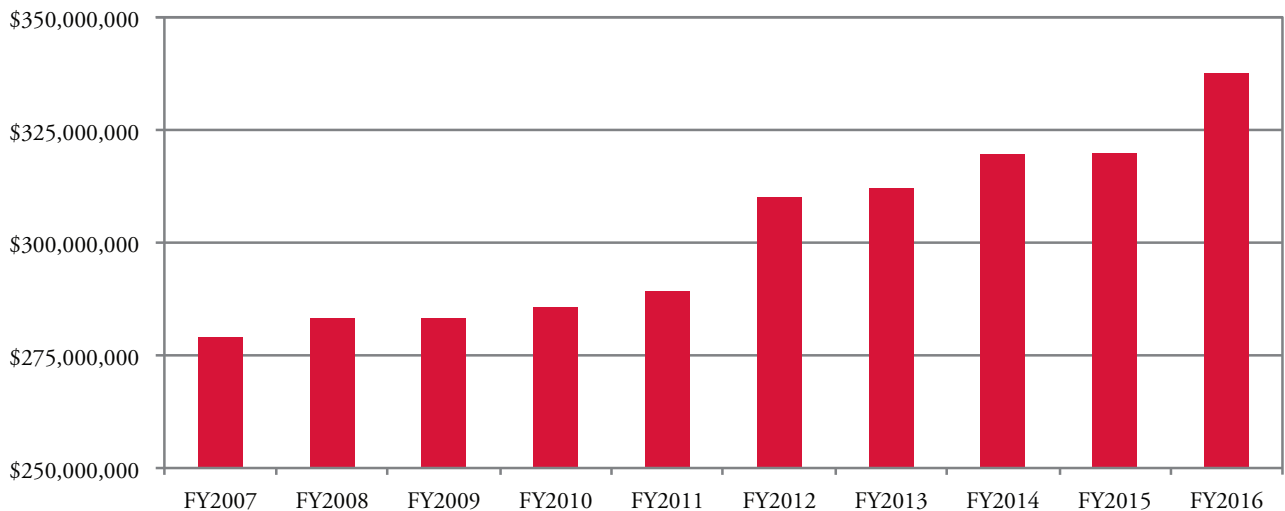
## REVENUES FOR THE LAST TEN FISCAL YEARS

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

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# CONNECTICUT LOTTERY CORPORATION

## SCHEDULE OF REVENUES BY GAME TYPE, RELATED EXPENSES AND PAYMENTS TO THE GENERAL FUND (\$000s) FOR THE LAST TEN FISCAL YEARS

	2007	2008	2009	2010
<b>Operating Revenue</b>				
Instant	\$ 594,930	\$ 618,970	\$ 610,013	\$ 593,374
Daily Games <sup>(1)</sup>	197,587	207,618	206,343	211,317
Lotto	30,386	32,201	32,942	29,904
Cash 5	41,371	41,159	40,420	35,041
Powerball	92,752	98,200	92,134	85,282
Mega Millions	–	–	–	11,231
Lucky for Life <sup>(2)</sup>	–	–	9,451	30,698
CT Super Draw	–	–	–	–
5 Card Cash	–	–	–	–
Lucky Links	–	–	–	–
Keno	–	–	–	–
<b>Total Operating Revenue</b>	<b>957,026</b>	<b>998,148</b>	<b>991,303</b>	<b>996,847</b>
<b>Expenses</b>				
Prizes	579,854	608,218	604,712	608,755
Retailer commissions	53,597	55,950	55,771	55,885
Other cost of sales <sup>(3)</sup>	25,822	28,114	24,933	23,703
<b>Total cost of sales</b>	<b>659,273</b>	<b>692,282</b>	<b>685,416</b>	<b>688,343</b>
<b>PAYMENTS TO STATE'S GENERAL FUND</b>				
	\$ 279,000	\$ 283,000	\$ 283,000	\$ 285,500

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

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

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



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2011	2012	2013	2014	2015	2016
\$ 610,568	\$ 653,310	\$ 667,255	\$ 660,230	\$ 687,967	\$ 742,296
225,381	220,061	233,619	235,883	231,754	245,062
24,341	27,372	22,149	21,591	20,143	19,429
34,243	33,781	32,565	32,318	31,220	30,994
60,280	74,281	107,383	82,725	66,502	106,270
33,185	40,628	23,728	37,567	32,370	29,405
23,815	26,871	30,432	25,095	21,523	21,709
4,801	5,436	5,564	4,355	2,896	–
–	–	–	12,641	46,322	13,107
–	–	–	–	3,276	10,053
–	–	–	–	–	12,444
1,016,614	1,081,740	1,122,695	1,112,405	1,143,973	1,230,769
620,134	659,898	699,063	668,792	707,735	760,269
56,964	60,740	62,765	62,077	64,270	68,688
26,129	27,435	27,993	28,695	28,232	30,908
703,227	748,073	789,821	759,564	800,237	859,865
\$ 289,300	\$ 310,000	\$ 312,100	\$ 319,500	\$ 319,700	\$ 337,500

## CONNECTICUT LOTTERY CORPORATION

### COMPARATIVE INDUSTRY STATISTICS

Based upon data published in *La Fleur's 2016 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 2015, included data from lotteries in 44 states plus the District of Columbia (D.C.). Top performing lotteries in key categories are presented below.

#### A. SALES PER CAPITA - FY 2015:

State/District	Population (Millions)	Ticket Sales (Millions \$)	Sales Per Capita (Dollars)
1 Massachusetts	6.8	\$ 5,005.7	\$ 737.2
2 Georgia	10.2	3,903.5	382.7
3 New York	19.8	7,251.0	366.2
4 New Jersey	9.0	3,027.3	336.4
<b>5 Connecticut</b>	<b>3.6</b>	<b>1,144.0</b>	<b>317.8</b>
6 D.C.	0.7	212.5	303.6
7 Pennsylvania	12.8	3,819.6	298.4
8 Maryland	6.0	1,757.0	292.3
9 South Carolina	4.9	1,401.7	286.1
10 Michigan	9.9	2,771.9	279.4

#### B. NET INCOME PER CAPITA - FY 2015:

State/District	Population (Millions)	Net Income (Millions \$)	Net Income Per Capita (Dollars)
1 Massachusetts	6.8	\$ 986.0	\$ 145.21
2 New Jersey	9.0	961.0	107.25
3 Georgia	10.2	978.0	95.69
<b>4 Connecticut</b>	<b>3.6</b>	<b>322.6</b>	<b>89.86</b>
5 D.C.	0.7	55.7	83.19
6 Pennsylvania	12.8	1,060.9	82.88
7 Michigan	9.9	804.6	81.11
8 Florida	20.3	1,491.3	73.57
9 South Carolina	4.9	343.5	70.10
10 Virginia	8.4	533.8	63.69

C. OPERATING EXPENSES\* AS PERCENTAGE OF SALES - FY 2015:

State/District	Ticket Sales (Millions \$)	Operating Expenses (Millions \$)	Expense %
1 Massachusetts	\$ 5,005.7	\$ 100.6	2.0%
2 Florida	5,583.3	157.3	2.8
3 South Carolina	1,401.7	38.8	2.8
4 Tennessee	1,368.5	47.3	3.5
5 West Virginia	180.0	6.4	3.5
6 New Jersey	3,027.3	107.5	3.6
7 Pennsylvania	3,819.6	145.6	3.8
8 North Carolina	1,972.2	81.5	4.1
9 Michigan	2,771.9	116.0	4.2
<b>10 Connecticut</b>	<b>1,144.0</b>	<b>49.5</b>	<b>4.3</b>
11 Georgia	3,903.5	166.7	4.3
12 Illinois	2,837.8	125.4	4.4
13 Missouri	1,127.4	49.7	4.4
14 Virginia	1,843.9	90.8	4.9
15 Kentucky	886.9	44.0	5.0

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



# CONNECTICUT LOTTERY CORPORATION

## 2016 ANNUAL REPORT

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