



2019

ANNUAL REPORT

FISCAL YEAR ENDED
JUNE 30, 2019

CONTRIBUTION TO
THE GENERAL FUND:
A RECORD-BREAKING
\$370 MILLION!

SALES REVENUE FROM
LOTTERY GAMES OVER
\$1.3 BILLION!

PLAYERS WON MORE THAN
\$822 MILLION
IN PRIZE MONEY

RETAILERS EARNED
\$74 MILLION
IN COMMISSIONS

2019 ANNUAL REPORT

Fiscal Year Ended June 30, 2019



CTLOTTERY.ORG

CONNECTICUT LOTTERY CORPORATION

(A Component Unit of the State of Connecticut)

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MISSION STATEMENT

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

VISION STATEMENT

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



INTRODUCTORY SECTION



February 18, 2020

The Honorable Edward M. Lamont, 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, 2019.

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 complement, 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.

The CLC is a component unit of the State of Connecticut for financial reporting purposes. With more than forty-seven years of continuous operation, the CLC is one of the oldest lotteries in the United States. From its inception to June 30, 2019, the Lottery has generated total sales of approximately \$30.9 billion and has contributed approximately \$9.9 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.

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 2019, 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”). The CLC’s MD&A can be found immediately following the report of the independent auditors in the financial section.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

In fiscal 2019, the CLC generated \$1.334 billion in sales revenue and delivered a record \$370.0 million to the General Fund. Sales revenue increased \$66.3 million, or 5.2%, from the prior fiscal year. Sales revenue for the multi-state games increased \$23.1 million (15.4%) and Keno increased \$16.5 million (19.1%). Sales revenue for Lotto increased \$16.2 million (86.2%). Lotto sales increased year over year chiefly due to a rising Lotto jackpot; a rising jackpot is generally synonymous with increased sales. All other games had modest changes from prior year results.

Total cost of sales, including prizes and commissions, was \$930.6 million in fiscal 2019 compared to \$898.5 million in fiscal 2018. Cost of sales vary proportionally with the change in total sales, with prize expense the largest contributor. Operating expenses were \$24.8 million for fiscal 2019 compared to \$25.7 million in fiscal 2018. Payments to the state's General Fund totaled \$370.0 million in fiscal 2019, an increase of \$25.0 million from the prior fiscal year total of \$345.0 million. For a more complete overview of the financial highlights of fiscal 2019, 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 performs 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	Aa
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 other operating 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 2019 and 2018 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,



Gregory H. Smith

President & CEO

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 six numbers for a chance to win a minimum jackpot of \$1,000,000.

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

April 1992: “Cash Lotto” is launched. Players select five 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 nine 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.

2017: The CT Lottery continues to be a leader in responsible gambling. In 2017, we received numerous awards such as the “Corporate Newsletter Award” and the “Corporate Public Awareness Award” from the National Council on Problem Gambling; and the “Industry Award” from the CT Council on Problem Gambling.



STATE OF CONNECTICUT

LIST OF PRINCIPAL STATE OFFICERS, AS OF JUNE 30, 2019

NED LAMONT, Governor
SUSAN BYSIEWICZ, Lieutenant Governor

Denise W. Merrill	Secretary of the State
Shawn T. Wooden	State Treasurer
Kevin Lembo	State Comptroller
William Tong	Attorney General



CONNECTICUT LOTTERY CORPORATION

BOARD OF DIRECTORS, AS OF JUNE 30, 2019

Melissa McCaw	Secretary, Office of Policy and Management
Patti Maroney	Designee of Secretary, Office of Policy and Management
Shawn T. Wooden	State Treasurer
Robert C. Morgan	Designee of State Treasurer
Patrick M. Birney	Vice Chairperson
Dawns Capps	
Meghan Culmo	
James J. Heckman	
Manny Langella	
Margaret L. Morton	
Natasha M. Pierre	
Michael P. Thompson	



CONNECTICUT LOTTERY CORPORATION

ORGANIZATIONAL CHART, AS OF JUNE 30, 2019

ADMINISTRATION

Greg Smith	President & Chief Executive Officer
Chelsea E. Turner	Vice President
Michael J. Hunter	Chief Operations Officer
Paul A. Granato	Chief Financial Officer
Matthew Stone	General Counsel
Jodi Ketchale	Director of Human Resources
Mark Walerysiak	Director of Security
Open	Senior Director of Marketing

SCRATCH GAMES

FISCAL YEAR 2019 STATISTICS:



\$147,707,886 in General Fund payments

55.2% of total net sales

39.9% of General Fund payments

Scratch games are easy to play and provide players with instant entertainment. By removing the scratch-off coating on the ticket face, players can discover in an instant if they've won and the amount of their prize. Ticket prices range from \$1 to \$30, with set prizes from a FREE \$1 scratch ticket up to \$5,000,000!

From the crossword action of "Cashword" to the excitement of revealing an "X" game prize multiplier, like those found in the "10X Cash," "20X Cash," and "30X Cash" scratch games – there's a variety of play styles for everyone. 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. With such a variety of games, it's easy to see why scratch games are the play of choice for a lot of consumers.

A variety of scratch games were released this year, all with unique designs that attract different types of players. Two of the biggest hits were "Premiere Play" and "Money Bag Multiplier." Premiere Play, dressed in a luxurious teal with an eye-catching silver scratch FX, was a real showstopper packaged with a great campaign. Players also quickly fell in love with the Money Bag Multiplier game play, featuring a chance to multiply their winnings in each of the 15 games on the ticket.

DAILY GAMES

FISCAL YEAR 2019 STATISTICS:

\$105,554,726 in General Fund payments



Play3 Day:

4.1% of total net sales

4.7% of General Fund payments



Play3 Night:

5.4% of total net sales

7.8% of General Fund payments



Play4 Day:

3.8% of total net sales

6.0% of General Fund payments



Play4 Night:

5.4% of total net sales

10.0% 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 numbers from 0 to 9, choose a wager style, and pick a wager between \$.50 and \$5 per play. Prizes are based on the wager style and wager amount, and range from a modest \$25 up to an exciting \$25,000 per play.

LUCKY LINKS WITH 2XPOWER™

FISCAL YEAR 2019 STATISTICS:



\$1,037,022 in General Fund payments

0.4% of total net sales

0.3% of General Fund payments

On April 26, 2015, the CT Lottery introduced "Lucky Links with 2XPOWER" offering a whole new way to play and a top prize of \$50,000. Each play costs \$2. By adding the 2XPOWER feature to their ticket for an additional \$1 per play, winners can double some of the game's prizes. Drawings are held twice daily, both day and night.

Lucky Links with 2XPOWER is a "Quick Pick" only game, so no play slip is needed. Similar to tic-tac-toe, each ticket contains a unique "play grid" with eight different numbers from 1 to 22, and a free space "\$" sign in the middle to form straight horizontal, straight vertical or straight diagonal lines. The \$50,000 top prize is won when eight lines are made. There are also five other ways to win prizes in the game.

CASH5

FISCAL YEAR 2019 STATISTICS:



\$8,653,143 in General Fund payments

2.3% of total net sales

2.3% of General Fund payments

"Cash5" is Connecticut's nightly draw game with a \$100,000 top prize. For \$1 per play, players choose five different numbers from 1 to 35, or select "Quick Pick." By adding the "Kicker" feature for just \$.50, players increase their chance to win more often, and win more prize levels. The top prize is won by matching all five numbers drawn. There are also six other ways to win prizes in the game. With more than 1,000,000 winning tickets sold in this game each year, Cash5 is a proven favorite with Connecticut's players.

FISCAL YEAR 2019 STATISTICS:



\$13,292,354 in General Fund payments

2.6% of total net sales

3.6% of General Fund payments

Since November 7, 1983, the “Lotto” game has been a part of Connecticut’s play of choice. Although Lotto has gone through several enhancements over the years, it is still the game that’s most associated with the CT Lottery. Drawings are held Tuesday and Friday nights.

For \$1 per play, players choose six different numbers from 1 to 44, or select "Quick Pick." Jackpots start at \$1,000,000 and grow until won. The jackpot is won by matching all six numbers drawn. Besides the jackpot, there are three other prize levels. Jackpot winners may opt to receive their prize money in 21 equal annual installments or in a cash lump sum.

FISCAL YEAR 2019 STATISTICS:



\$25,087,852 in General Fund payments

7.8% of total net sales

6.8% 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 win. Players have a chance to win up to \$1,000,000 every four minutes when some, none or all of their numbers (spots) are matched by the computer. To play, players fill out a play slip by choosing how many spots they would like and then pick numbers from 1 to 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 winners a chance to multiply the prize won by 2, 3, 4, 5, or 10 times the BONUS MULTIPLIER number selected for the game.

POWERBALL®

FISCAL YEAR 2019 STATISTICS:

CONNECTICUT



\$35,050,424 in General Fund payments

6.1% of total net sales

9.5% of General Fund payments

The CT Lottery joined the multi-state "Powerball" game on November 28, 1995. Drawings are held Wednesday and Saturday nights. Each play costs \$2. When players activate the Power Play® feature on their ticket for an additional \$1 per play, winners can multiply any non-jackpot prize by 2, 3, 4 or 5 times the prize amount won. A 10-times multiplier is in effect in drawings with a jackpot of under \$150 million.

Since October 7, 2015, the Powerball game has used a double matrix: players pick five different "white" ball numbers from 1 to 69, and one "red" Powerball number from 1 to 26, or select "Quick Pick."

Jackpots start at \$40 million and grow by a minimum of \$10 million per drawing until won. The jackpot is won by matching all six numbers drawn. Besides the jackpot, there are eight other prize levels. Jackpot winners may opt to receive their prize money in 30 annual payments or in a cash lump sum. Players who correctly match five white ball numbers with Power Play automatically win \$2,000,000.

MEGA MILLIONS®

FISCAL YEAR 2019 STATISTICS:



\$29,637,419 in General Fund payments

5.5 % of total net sales

8.0% of General Fund payments

The CT Lottery joined the multi-state "Mega Millions" game on January 31, 2010. Drawings are held Monday and Thursday nights. Each play costs \$2. When players activate the Megaplier® feature on their ticket for an additional \$1 per play, winners can receive 2, 3, 4 or 5 times the prize amount won, from the first through the eighth prize levels of the game.

Since October 7, 2015, the Mega Millions game has used a double matrix; players pick five different "white" ball numbers from 1 to 70, and one "yellow" Mega Ball number from 1 to 25, or select "Quick Pick."

Jackpots start at \$40 million and grow by a minimum of \$5 million per drawing until won. The jackpot is won by matching all six numbers drawn. Besides the jackpot, there are eight other prize levels. Jackpot winners may opt to receive their prize money in 30 annual (graduated) payments or in a cash lump sum.

FISCAL YEAR 2019 STATISTICS:



\$3,979,174 in General Fund payments

1.4% of total net sales

1.1% of General Fund payments

[LFL – New England's Game]

On March 11, 2012, New England's "Lucky for Life" regional draw game began with tickets sold in Connecticut, Rhode Island, Massachusetts, New Hampshire, Vermont and Maine. Drawings are held Tuesday and Thursday nights, and tickets sell for \$2 each. Players pick five different "white" ball numbers from 1 to 40, and one "yellow" Lucky Ball number from 1 to 21, or select "Quick Pick." Lucky's main attraction is a "\$1,000 a week for life" top prize, with a guaranteed 20-year minimum payout. The top prize is won by matching all six numbers drawn. Besides the top prize, there are nine other prize levels.

On September 17, 2013, the Lucky for Life game matrix changed. For the same \$2 ticket price, players pick five different "white" ball numbers from 1 to 43, and one "yellow" Lucky Ball number from 1 to 43. In addition to the "\$1,000 a day for life" top prize, a new "\$25,000 a year for life" second prize was added to the game, making Lucky for Life the only lottery draw game to offer two "For Life" prize levels. The top prize is won by matching all six numbers drawn, and the second prize is won by matching all five "white" ball numbers. There are also eight other ways to win prizes in the game.

[LFL – The Game of a Lifetime]

On January 27, 2015, Lucky for Life expanded to 14 states across the country, featuring larger prize amounts and improved odds. The game has since grown to include 25 states and the District of Columbia. For the same \$2 ticket price, players pick five different "white" ball numbers from 1 to 48, and one "yellow" Lucky Ball number from 1 and 18. The "\$1,000 a day for life" top prize is won by matching all six numbers drawn, and the "\$25,000 a year for life" second prize is won by matching all five "white" ball numbers. There are also eight other ways to win prizes in the game.

22-Year-Old Waitress Wins \$30,000 Prize in Historic Mega Millions Jackpot Drawing

October 24, 2018 — CT Lottery players throughout the state were hopeful that they would be the one lucky enough to purchase the winning Mega Millions ticket for the historic \$1.537 billion jackpot on October 23. While the jackpot was ultimately won on a winning ticket sold in South Carolina, 190,964 winning tickets were sold in Connecticut, including one that Taylor Papa of North Haven purchased at the Side Street Grille, where she works as a server.

The winning numbers on October 23 were 5 - 28 - 62 - 65 - 70 and Mega Ball 5. The Megaplier was 3. When Papa compared her numbers to the winning numbers drawn, she discovered a four-number, plus Mega Ball-number match. Because she added the Megaplier to her ticket, Papa's \$10,000 prize was multiplied by 3 for \$30,000.

Papa said the unexpected windfall came at the perfect time. "I'll be able to pay off some of my college loans and save a little bit for something fun."

Retailer: Side Street Grille, 15 Dickerman Street, Hamden



West Haven High School Custodian Cleans Up with \$25,000 Top Prize

November 9, 2018 — A long-time custodian at West Haven High School, Patty Brown of West Haven is one of the fortunate few who truly enjoys what she does every day—even after 38 years on the job.

After work, Brown finds her enjoyment playing CT Lottery scratch games. Her favorite is "Cashword," which is similar in style to a crossword puzzle. "When I play, it relaxes me," said Brown. "For \$3, I can play for quite a while, and it's a lot of fun."

On this particular occasion, Brown encountered some excitement while playing Cashword 26. "I was counting each word as I went along... and writing them down on a piece of paper, and checking all the letters. I counted, one by one, until I realized I got 10 words. Ten words is \$25,000! I couldn't believe it," Brown said with beaming smile and a laugh.

When asked what she planned to do with her prize, it appeared that Brown surprised even herself with her response. "You know what? I think I can finally buy a new recliner, mine is terrible. I'll also share some of the prize with my family."

Retailer: Grillo's Market, 137 Campbell Avenue, West Haven



“The Lottery Club” of Fairfield Claims \$2 Million Mega Millions® Prize

September 6, 2018 — For six years, Karen Cross of Trumbull organized a “Lottery Club” at work where she collected the money, bought the tickets, and checked the numbers after every drawing. Yet, oddly enough, Cross gave it little thought when she received an early morning text alert that a \$2 million-winning Mega Millions ticket was sold for the Friday, Aug. 24, drawing. When she learned which retailer sold the winning ticket, Cross kicked into high gear — it was where she purchased the group’s tickets.

The winning numbers drawn on August 24, 2018, were 1 - 6 - 13 - 18 - 49, Mega Ball 8 and Megaplier 2. Tickets in hand, Cross discovered one that missed the winning Mega Ball number, but matched the first five white ball numbers drawn. “I wasn’t sure what we won,” Cross told Lottery officials. “I thought it was \$5,000 at first, but we were optimistic.”

Wasting no time, Cross went to a retailer and scanned the ticket, while co-worker Vicki Ihlefeld of Fairfield FaceTimed with two other members of the Lottery Club back at the office. When the congratulatory message “Winner \$2,000,000” popped up on the Ticket Checker, it took their breath away. “We stayed quiet and held it together in the store — we got goosebumps, but when we got inside the car we both just started screaming.”

Because Cross purchased the group's Mega Millions “Quick Pick” ticket with the Megaplier® feature added, the \$1,000,000 prize was multiplied by 2 for \$2,000,000.

Cross and several other co-workers arrived at CT Lottery headquarters to claim the \$2 million prize on behalf of all 31 members of the Lottery Club. Once the prize was divvied up each received \$64,516.13.

Retailer: Wheels of Connecticut #47, 2047 Post Road, Fairfield



Inspired by an Old TV Western, Hartford Man Wins \$100,000 Cash5 Top Prize

July 30, 2018 — It's often said, inspiration comes in many forms. For Francisco Rios of Hartford, an early episode of a 1958 Western television series, *Bronco*, inspired him to play five particular Cash5 numbers.

“(The episode) was about a guy who was buried in a glacier for 22 years, 2 months, 18 days, 12 hours and 28 minutes,” Francisco excitedly explained to Lottery officials. “I said, 22, 2, 18, 12 and 28. That’s five numbers—those are good numbers for Cash5!” On Friday, July 27, Rios' Cash5 numbers 2 - 12 - 18 - 22 - 28, were drawn.

“I was watching the drawing on TV and saw the first numbers were 12, 18, 22, and thought yeah—I won \$10! And then, 22—I got \$300! And the final number is 28, and I jumped out of the chair! I never thought I could hit five numbers!”

Francisco and his family arrived at CT Lottery headquarters to collect his \$100,000 prize, still clearly elated over his good fortune. He was also easily able to detail how he planned to put his prize to good use. “I need a better car, one that’s good in the snow. I’ll share a little bit with family, pay all the bills and save the rest for emergencies.”

Retailer: ShopRite, 46 Kane Street, West Hartford



A Case of Blurry Vision Gives Hartford Man the Surprise of a Lifetime

July 23, 2018 — Armando Ortiz of Hartford wasn't able to catch the CT Lottery's nightly drawings on TV on July 22, so he asked his elderly mother if she would watch them in his place and write down the winning numbers for him. The next day, Ortiz compared the Cash5 numbers she had written to those printed on his tickets, and he was happy—one ticket had matched four out of the five winning numbers drawn for a \$300 prize.

“I went to the retailer and scanned my ticket in the ticket checker and thought, something’s wrong. Instead of \$300, it said \$97,328,” Ortiz told lottery officials. “So, I asked the retailer for a print out of the winning numbers to double-check. When he gave me the printout he said, ‘You didn’t win \$300, you won the top prize—\$97,328!’”

Ortiz matched all five of the winning Cash5 numbers drawn on July 22: 6 - 15 - 22 - 23 - 33. “The funny thing is, my mother apologized for getting one of the numbers wrong. She said she couldn’t see well without her glasses on,” Ortiz said with a laugh.

Retailer: Mobil On The Run, 234 Washington Street, Hartford



Being Forgetful Pays Off Big for Torrington Resident, Wins \$200,000 Prize

July 2, 2018 — For most people, being forgetful is a real nuisance. Not true for John Smedick, Jr. of Torrington. While John faithfully plays his favorite lottery numbers every morning — his wedding date and family birthdays — one Friday, he couldn't remember if he bought a ticket for the Cash5 drawing that night. To be sure, Smedick went out and purposely bought a ticket. The next morning, Smedick's daughter noticed her father had not one, but two Cash5 tickets, both for the June 29 drawing.

“It turns out I played it, forgot I played it, and played it again,” Smedick said laughing at himself. “My daughter went to the Lottery's website and saw there were two \$100,000 winning Cash5 tickets. Both of them were mine — I won \$200,000. It was the best mistake I ever made.”

The numbers on John's ticket were a perfect match to the winning numbers drawn on June 29: 5 - 19 - 27 - 30 - 35.

“We've never won this much...this is amazing! I'm going to pay off the bills, take my wife and children on a mini vacation, and put the rest of the money in the bank.”

Retailer: H & H Mart, 322 E. Main St., Torrington; North Main Shell, 857 N. Main St., Torrington



CORPORATE RESPONSIBILITY

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/Community Involvement. Employees throughout the organization support these efforts. The CLC's quarterly corporate responsibility newsletter, *Chatter That Matters*[™], written by employees, helps to keep coworkers and stakeholders informed about the Lottery's efforts to promote these initiatives. Highlights from fiscal 2019 are listed below:

Responsible Gambling (RG)

- **Helpline:** The CLC widely promotes the problem gambling helpline, text and chat through its advertising efforts, which include: television and radio, billboards, retail materials and the back of all of our instant and draw tickets.
- **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 2016 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." GameSense uses simple, easy to understand iconography to help deliver harm reduction messages to players. The CLC routinely weaves GameSense into its marketing efforts.
- **Holiday Responsible Gambling Campaign:** For the eleventh 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. For the fifth year in a row, the CLC partnered with Connecticut Children's Medical Center to collect toys for children who receive hospital care and to promote the message "Give a Child a Toy, Not a Ticket." The CLC collected hundreds of toys for Connecticut Children's Medical Center and raised awareness about RG at the same time.
- **Problem Gambling Awareness Month (PGAM):** March is PGAM. This past year's efforts included: a comprehensive calendar of events about responsible gambling for the entire month of March. This included a Board resolution, messaging on billboards and at retail locations, GameSense Public Service Announcements and marketing materials, social media messaging, an educational display created by employees, state employee pay inserts, employee and retailer training and a fundraiser to support the Connecticut Council on Problem Gambling (CCPG).
- **CT Partnership for Responsible Gambling:** "The Partnership" is a nineteen-year coalition between the CLC, the Department of Mental Health and Addiction Services' Problem Gambling Division, and the CT Council on Responsible Gambling (CCPG). The CLC actively participates in quarterly meetings where information is exchanged and initiatives are proposed.
- **Gambling Awareness for All CT ("GFACT"):** This group meets quarterly and provides an opportunity for responsible gambling advocates, mental health clinicians, and casino 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.

CORPORATE RESPONSIBILITY

- **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 the NCPG-NASPL responsible gambling accreditation process, participate in the NCPG-McGill responsible gambling holiday campaign, and helps to identify and secure speakers for NASPL's annual professional development and main conferences.
- **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 past three NCPG Annual Conferences. CLC staff members also serve on the Board of Directors and Committees for NCPG.

Pro Business Initiatives and Supplier Diversity

- **Greater New England Minority Supplier Development Council (GNEMSDC) Membership:** The CLC is an active member of GNEMSDC and we participate in quarterly meetings, attend the annual gala, and exhibit at their annual tradeshow. In April 2019, we co-hosted a match-making event that was well attended and well received. The Hartford, the Walt Disney Company, the University of Connecticut, GNK Aerospace, ABT Associates and Stanley Black & Decker all participated, and many local and minority suppliers attended.
- **United States Small Business Administration (SBA) Matchmaker Conference:** CLC employees participated in the SBA's Matchmaker at the University of Hartford.
- **Women's Business Enterprise National Council (WBENC) Membership:** The CLC regularly attends and participates in meetings and events.

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.

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 participated 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

To the Board of Directors
The Connecticut Lottery Corporation
Rocky Hill, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of The Connecticut Lottery Corporation (the Lottery), a component unit of the State of Connecticut, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise of 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 auditors' 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 auditors consider 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Lottery as of June 30, 2019 and 2018, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension and OPEB schedules, 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 the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States 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.

Other 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 schedules of profit margins by game type are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The schedules of profit margins by game type for the years ended June 30, 2019 and 2018 are the responsibility of management and were derived from and relate 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 of America. In our opinion, the schedules of profit margins by game type for the years ended June 30, 2019 and 2018 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2019 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 solely 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 effectiveness of the Lottery's 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.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
September 18, 2019

CONNECTICUT LOTTERY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2019 AND 2018

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, 2019 and 2018. 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 (Deficit)** reflect the Lottery's financial position as of June 30, 2019 and 2018.
- **Statements of Revenues, Expenses, and Changes in Net Position (Deficit)** report the revenues and expenses for the periods June 30, 2019 and 2018.
- **Statements of Cash Flows** reconcile the changes in cash and cash equivalents with the activities of the Lottery for the periods presented. The activities are classified as to operating, investing, capital financing and noncapital 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 2019

- Sales revenue totaled \$1.334 billion, up \$66.3 million or 5.2% compared to the prior year. Cost of sales (including prizes and commissions) totaled \$930.6 million up \$32.1 million or 3.6% compared to the prior fiscal year. Operating expenses were \$24.8 million, down \$1.0 million or (3.7%) compared to the same period a year earlier. Transfers to the State's General Fund amounted to \$370.0 million, up \$25.0 million or 7.2% from the same period a year earlier.

FINANCIAL HIGHLIGHTS OF FISCAL 2018

- Sales revenue totaled \$1.268 billion, up \$51.3 million or 4.2% compared to the prior year. Cost of sales (including prizes and commissions) totaled \$898.5 million up \$42.8 million or 5.0% compared to the prior fiscal year. Operating expenses were \$25.7 million, up \$1.1 million or 4.4% compared to the same period a year earlier. Transfers to the State's General Fund amounted to \$345.0 million, up \$15.0 million or 4.6% from the same period a year earlier.

CONNECTICUT LOTTERY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2019 AND 2018

CONDENSED FINANCIAL INFORMATION

Net Position (Deficit) and Changes in Net Position (Deficit)

Net position (deficit) represents the assets of the Lottery plus the deferred outflows of resources less the liabilities owed to third parties and the deferred inflows of resources.

The table below lists the key components of net position (deficit). The net position is negative due to the recognition of the Lottery's share of the net pension liability and other post employment benefits liability included in long term liabilities. The change in net position does not reflect the results of the Lottery's operating activities.

	2019	Increase (Decrease)	2018	Increase (Decrease)	2017
	(in thousands)				
Current assets	\$ 64,095	\$ 1,499	\$ 62,596	\$ 4,242	\$ 58,354
Investments and other non-current assets	131,841	4,685	127,156	–	125,730
Capital assets (net of accumulated depreciation)	641	(178)	819	(46)	865
Total Assets	\$ 196,577	\$ 6,006	\$ 190,571	\$ 5,622	\$ 184,949
Deferred outflow of resources	\$ 16,626	\$ (1,890)	\$ 18,516	\$ (2,766)	\$ 21,282
Current liabilities	\$ 56,562	\$ (82)	\$ 56,644	\$ 8,689	\$ 47,955
Long-term liabilities	218,944	(8,766)	227,711	39	227,672
Total Liabilities	\$ 275,506	\$ (8,849)	\$ 284,355	\$ 8,728	\$ 275,627
Deferred inflow of resources	\$ 13,613	\$ 9,202	\$ 4,412	\$ 421	\$ 3,991
Net investment in capital assets	\$ 641	\$ (178)	\$ 819	\$ (46)	\$ 865
Unrestricted Net Position (Deficit)	(76,558)	3,940	(80,498)	(6,246)	(74,252)
Total Net Position (Deficit)	\$ (75,916)		\$ (79,679)		\$ (73,387)

CONNECTICUT LOTTERY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2019 AND 2018

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Listed below is a summary of the key components of revenues, expenses and changes in net position.

	2019	Increase (Decrease)	2018	Increase (Decrease)	2017
	<i>(in thousands)</i>				
Revenues					
Total operating revenues, net	\$ 1,333,911	\$ 66,320	\$ 1,267,591	\$ 51,329	\$ 1,216,262
Other operating income	61	21	40	(84)	124
Nonoperating revenues					
Interest income	6,348	60	6,287	(79)	6,366
Other	16	9	7	–	7
Total Revenues	\$ 1,340,336	\$ 66,410	\$ 1,273,926	\$ 51,167	\$ 1,222,759
Costs and Expenses					
Total cost of sales	\$ 960,633	\$ 32,085	\$ 898,548	\$ 42,765	\$ 855,783
Total operating expenses	24,775	(961)	25,736	1,092	24,644
Nonoperating expense					
Interest expense	5,866	(37)	5,904	(305)	6,209
Total Costs and Expenses	\$ 961,274	\$ 31,086	\$ 930,188	\$ 43,552	\$ 886,636
Changes in Net Position					
Change in Net Position before contributions to State Funds	\$ 379,062	\$ 35,324	\$ 343,738	\$ 7,614	\$ 336,124
Payment to General Fund	370,000	25,000	345,000	15,000	330,000
Payment to Chronic Gamblers' Fund	2,300	–	2,300	–	2,300
Payment to Office of Policy and Management	2,999	270	2,730	45	2,685
Total Change in Net Position	\$ 3,763		\$ (6,292)		\$ 1,139
Total Net Position (Deficit), beginning as restated	\$ (79,679)		\$ (73,387)		\$ (74,526)
Total Net Position (Deficit), ending balance	\$ (75,916)		\$ (79,679)		\$ (73,387)

OVERVIEW OF FINANCIAL POSITION

Total assets were \$196.6 million as of June 30, 2019, an increase of \$6.0 million compared to the prior fiscal year. Current assets totaled \$64.1 million comprised primarily of cash and cash equivalents of \$20.9 million, accounts receivable of \$30.5 million, and investments for prize payments of \$5.4 million. Noncurrent assets totaled \$131.8 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.

The Lottery also reported \$7 million in other assets relating to upfront Lottery leased equipment and costs incurred that will be amortized over the remaining life of the gaming contract.

Total liabilities were \$275.5 million as of June 30, 2019 a decrease of \$8.8 million from the prior fiscal year. Current liabilities due within one year totaled \$56.6 million primarily related to prizes, annuity prize payments, and accounts payable and accrued expenses. Long-term liabilities totaled \$218.9 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 and net OPEB liability which is the Lottery's proportionate share of the State of CT net pension liability and net OPEB liability and deferred rent.

Deferred outflows of resources totaled \$16.6 million and deferred inflows of resources totaled \$13.6 million as of June 30, 2019. Deferred outflows of resources reflect the net impact of Lottery contributions made to the State Employees' Retirement System (SERS) pension and OPEB plans subsequent to the measurement date, the net impact of the difference between expected and actual experience, the net difference between projected and actual earnings on pension plan investments, and changes in actuarial assumptions. Deferred inflows are recognized for changes in the Lottery's proportionate share of the State's pension and OPEB liabilities.

Total assets were \$190.6 million as of June 30, 2018, an increase of \$5.6 million compared to the prior fiscal year. Current assets totaled \$62.6 million comprised primarily of cash and cash equivalents of \$22.0 million, accounts receivable of \$27.2 million, and investments for prize payments of \$6.2 million. Noncurrent assets totaled \$127.2 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.

The Lottery also reported \$2.9 million in other assets relating to upfront Keno equipment lease costs incurred that will be amortized over the remaining life of the gaming contract.

Total liabilities were \$284.4 million as of June 30, 2018 an increase of \$8.7 million from the prior fiscal year. Current liabilities due within one year totaled \$56.7 million primarily related to prizes, annuity prize payments, and accounts payable and accrued expenses. Long-term liabilities totaled \$227.7 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 and net OPEB liability which is the Lottery's proportionate share of the State of CT net pension liability and net OPEB liability and deferred rent.

CONNECTICUT LOTTERY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2019 AND 2018

OVERVIEW OF FINANCIAL POSITION (CONTINUED)

Deferred outflows of resources totaled \$18.6 million and deferred inflows of resources totaled \$4.4 million as of June 30, 2018. Deferred outflows of resources reflect the net impact of Lottery contributions made to the State Employees' Retirement System (SERS) pension and OPEB plans subsequent to the measurement date, the net impact of the difference between expected and actual experience, the net difference between projected and actual earnings on pension plan investments, and changes in actuarial assumptions. Deferred inflows are recognized for changes in the Lottery's proportionate share of the State's pension and OPEB liabilities.

Sales revenue and the related expenses are detailed in the table below:

	2019	\$	%	2018	\$	%	2017
	<i>(in thousands)</i>						
			Increase (Decrease)			Increase (Decrease)	
SALES							
Instant games	\$ 736,443	\$ 5,751	0.8%	\$ 730,692	\$ 10,068	1.4%	\$ 720,624
Daily number games	249,697	7,212	3.0%	242,485	2,402	1.0%	240,083
Multi-State games*	172,952	23,082	15.4%	149,870	21,739	17.0%	128,131
Keno	102,923	16,495	19.1%	86,428	14,246	19.7%	72,182
Lotto	35,032	16,218	86.2%	18,814	509	2.8%	18,305
Cash5	31,168	(46)	-0.1%	31,214	1,135	3.8%	30,079
Lucky Links	5,696	(246)	-4.1%	5,942	(916)	-13.4%	6,858
CT Super Draw	–	2,146	–	2,146	2,146	–	–
Total Sales	\$1,333,911	\$ 66,320	5.2%	\$ 1,267,591	\$ 51,329	4.2%	\$ 1,216,262
RELATED EXPENSES							
Prize expense	\$ 822,863	\$ 30,273	3.8%	\$ 792,590	\$ 36,301	4.8%	\$ 756,289
Retailer commissions	74,295	3,472	4.9%	70,823	2,839	4.2%	67,984
Gaming systems	13,542	(166)	-1.2%	13,708	1,187	9.5%	12,521
Marketing and advertising	12,496	(280)	-2.2%	12,776	710	5.9%	12,066
Production expenses	7,436	(1,215)	-14.0%	8,651	1,728	25.0%	6,923

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

Total sales revenue for the fiscal year 2019 amounted to \$1,333.9 million, up \$66.3 million, or 5.2%, from the prior fiscal year. Sales revenue for the portfolio of instant games totaled \$736.4, up \$5.8 million, or 0.8%, from the prior fiscal year. The daily number games contributed \$249.7 million of sales revenue, up \$7.2 million or 3.0% from the prior fiscal year. The sales revenue for multi-state games equaled \$173.0 million, an increase of \$23.1 million or 15.4% from the prior fiscal year. Keno revenue provided \$102.9 million, an increase of \$16.2 million or 19.1%.

OVERVIEW OF FINANCIAL POSITION (CONTINUED)

Lotto revenue totaled \$35.0 million, up \$16.2 million or 86.2%. Lotto sales increased year over year chiefly due to a rising Lotto jackpot and a rising jackpot is generally synonymous with increased sales. No player selected the winning numbers and no top prize jackpots were awarded in fiscal year 2019. All other game sales totaled \$36.9 million, down \$2.4 million or 6.2%, from the prior fiscal year as a result of fewer game offerings.

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 predetermined 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, 2019 amounted to \$822.9 million compared to \$792.6 million in the prior year. The increase is chiefly related to the higher sales revenue.

Retailer commissions totaled \$74.3 million compared to \$70.8 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 \$13.5 million compared to \$13.7 million in the prior year. Marketing and advertising expenses totaled \$12.5 million for fiscal year 2019 compared to \$12.8 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. Production expenses were \$7.4 million compared to \$8.7 million in the prior year. Production expenses are chiefly related to the design, delivery and distribution of instant tickets.

Operating expenses totaled \$24.8 million for the year ending June 30, 2019, compared to \$25.7 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 \$370.0 million compared to \$345.0 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 transfers statutorily 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 \$3.0 million for the year ending June 30, 2019, and \$2.7 million for the prior year.

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, net OPEB 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:

CT Lottery Corporation
c/o Finance Department
777 Brook Street
Rocky Hill, Connecticut 06067

CONNECTICUT LOTTERY CORPORATION
STATEMENTS OF NET POSITION (DEFICIT)

	June 30	
	2019	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	\$ 20,880,599	\$ 21,998,427
Accounts receivable, net of allowance for doubtful accounts of \$500,000 in 2019 and 2018	30,547,825	27,181,977
Investments for prize payments, at net present value	5,402,978	6,174,799
Accrued interest receivable	1,205,710	1,325,334
Ticket inventory, net of allowance of \$759,000 in 2019 and \$772,000 in 2018	3,788,220	4,586,784
Prepaid expenses	2,269,635	1,328,933
	Total Current Assets	\$ 64,094,967
	\$	\$ 62,596,254
NONCURRENT ASSETS		
Investments for prize payments at present value	\$ 120,913,070	\$ 119,045,115
Prize reserves held by Multi-State Lottery Association	6,200,819	5,218,025
Capital assets, net	641,288	819,114
Advances to high-tier claim centers	—	—
Prepaid expenses	4,727,054	2,892,857
	Total Noncurrent Assets	\$ 132,482,231
	\$	\$ 127,975,111
	Total Assets	\$ 196,577,198
	\$	\$ 190,571,365
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount for pensions	\$ 12,911,333	\$ 14,803,645
Deferred amount for OPEB	3,714,307	3,712,228
	Total Deferred Outflows of Resources	\$ 16,625,640
	\$	\$ 18,515,873

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

	June 30	
	2019	2018
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Annuities payable, at net present value	\$ 5,969,129	\$ 6,662,743
Prizes payable	38,486,982	37,566,351
Accrued interest payable	1,205,710	1,325,334
Accounts payable and accrued expenses	8,861,591	8,166,353
Due to regional game states	590,757	830,749
Due to Multi-State Lottery Association	675,033	1,473,015
Unearned revenue	772,625	619,607
Total Current Liabilities	\$ 56,561,827	\$ 56,644,152
LONG-TERM LIABILITIES		
Long-term annuities payable, at net present value	\$ 120,913,070	\$ 119,045,115
Deferred rent	341,189	426,486
Net pension liability	50,615,060	53,857,469
Net OPEB liability	47,074,834	54,381,510
Total Long-Term Liabilities	\$ 218,944,153	\$ 227,710,580
Total Liabilities	\$ 275,505,980	\$ 284,354,732
DEFERRED INFLOWS OF RESOURCES		
Deferred amount on pensions	\$ 5,228,564	\$ 3,045,519
Deferred amount for OPEB	8,384,848	1,366,210
Total Deferred Inflows of Resources	\$ 13,613,412	\$ 4,411,729
NET POSITION (DEFICIT)		
Net investment in capital assets	\$ 641,288	\$ 819,114
Unrestricted	(76,557,842)	(80,498,337)
Total Net Position (Deficit)	\$ (75,916,554)	\$ (79,679,223)

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

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

	Years ended June 30	
	2019	2018
OPERATING REVENUES – GAME SALES		
Instant	\$ 736,442,882	\$ 731,923,632
Online	427,179,133	390,518,397
Multi-State	174,940,859	149,901,876
	\$ 1,338,562,874	\$ 1,272,343,905
Less sales returns, cancellations and promotions	(4,651,591)	(4,752,622)
	Total Operating Revenues	\$ 1,333,911,283
	\$ 1,333,911,283	\$ 1,267,591,283
COST OF SALES		
Prize expense	\$ 822,863,178	\$ 792,589,574
Retailer commissions	74,294,705	70,822,890
Gaming systems	13,542,231	13,708,496
Marketing and advertising	12,496,280	12,775,710
Production expenses	7,436,174	8,651,251
	Total Cost of Sales	\$ 930,632,568
	\$ 930,632,568	\$ 898,547,921
OPERATING EXPENSES		
Salaries and benefits	\$ 20,758,603	\$ 21,845,610
Other operating expenses	3,622,722	3,559,672
Depreciation and amortization	271,812	304,849
Bad debt expense	121,884	26,288
	Total Operating Expenses	\$ 24,775,021
	\$ 24,775,021	\$ 25,736,419
OTHER OPERATING INCOME		
	\$ 61,211	\$ 39,842
	Operating Income	\$ 378,564,905
	\$ 378,564,905	\$ 343,346,785

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

	Years ended June 30	
	2019	2018
NON-OPERATING REVENUES (EXPENSES)		
Interest income from investments on annuities	\$ 5,866,384	\$ 5,903,508
Interest income	481,218	383,984
Interest expense on annuity payments	(5,866,384)	(5,903,508)
Annuity assignment	16,000	7,000
Total Nonoperating Revenues	\$ 497,218	\$ 390,984
CHANGE IN NET POSITION AVAILABLE BEFORE PAYMENTS TO THE STATE OF CONNECTICUT FUNDS	\$ 379,062,123	\$ 343,737,769
NONOPERATING PAYMENTS TO THE STATE OF CONNECTICUT FUNDS		
General Fund	\$ 370,000,000	\$ 345,000,000
Office of Policy and Management	2,999,454	2,729,724
Chronic Gamblers' Fund	2,300,000	2,300,000
Change in Net Position (Deficit)	\$ 3,762,669	\$ (6,291,955)
TOTAL NET POSITION (DEFICIT), beginning of year, as restated	\$ (79,679,223)	\$ (73,387,268)
TOTAL NET POSITION (DEFICIT), end of year	\$ (75,916,554)	\$ (79,679,223)

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

CONNECTICUT LOTTERY CORPORATION

STATEMENTS OF CASH FLOWS

	Years ended June 30	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from sale of game tickets	\$ 1,330,576,569	\$ 1,267,596,921
Receipts from other operating income	61,211	39,842
Payments for prizes	(823,963,315)	(784,682,782)
Payments to retailers	(74,294,705)	(70,822,890)
Payments to suppliers	(34,755,782)	(37,209,549)
Payments to employees	(20,215,772)	(18,576,535)
Payments for other expenses	(3,708,019)	(3,448,719)
<i>Net Cash Provided by Operating Activities</i>	\$ 373,700,187	\$ 352,896,288
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts of principal from annuities	\$ 6,566,549	\$ 6,264,848
Receipts of interest from annuities	5,986,008	6,035,883
Receipt of interest from cash equivalents	481,218	383,984
Purchase of insurance annuities	(7,662,682)	(5,848,560)
<i>Net Cash Provided by Investing Activities</i>	\$ 5,371,093	\$ 6,836,155
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	\$ (93,986)	\$ (259,145)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payment of principal on long-term annuities	\$ (6,488,342)	\$ (6,509,952)
Payment of interest on long-term annuities payable	(5,986,008)	(6,035,883)
Annuity assignment	16,000	7,000
Payments to the State of Connecticut	(370,000,000)	(345,000,000)
Payments to Office of Policy and Management	(2,999,454)	(2,729,724)
Payments to the Chronic Gamblers' Fund	(2,300,000)	(2,300,000)
Receipts from annuities	7,662,682	5,848,560
<i>Net Cash Used in Noncapital Financing Activities</i>	\$ (380,095,122)	\$ (356,719,999)

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

	Years ended June 30	
	2019	2018
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (1,117,828)	\$ 2,753,299
CASH AND CASH EQUIVALENTS – Beginning of year	21,998,427	19,245,128
CASH AND CASH EQUIVALENTS – End of year	\$ 20,880,599	\$ 21,998,427
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 378,564,905	\$ 343,346,785
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	271,812	304,849
Bad debt expense	121,884	26,288
Deferrals of pension and OPEB expense	542,831	3,269,075
Changes in operating assets and liabilities:		
Accounts receivable	(3,487,732)	145,796
Accounts payable and accrued expenses	695,238	224,363
Ticket inventory	798,564	(931,585)
Prepaid expenses	(940,702)	(338,299)
Prize reserves	(982,794)	(552,355)
Advance to high-tier claim centers	-	150,000
Prizes payable	920,631	7,763,915
Due to Multi-State Lottery Association	(797,982)	470,394
Due to regional game states	(239,992)	224,838
Unearned revenue	153,018	(140,158)
Deferred rent liability	(85,297)	(39,047)
Prepaid expenses - long term	(1,834,197)	(1,028,571)
<i>Net Cash Provided by Operating Activities</i>	\$ 373,700,187	\$ 352,896,288

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

NOTE 1 – OPERATIONS 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, and liabilities, net position, revenues and expenses are accounted for in an enterprise fund with revenues recorded when earned and expenses recorded when the related liability is incurred.

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.

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Computer equipment	5 years
Furniture and equipment	10 years
Leasehold improvements	*remainder of lease term

*The lease at 777 Brook Street, Rocky Hill, Connecticut, expires in May 2023.

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 outflows 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.

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Post Employment Benefit — The Lottery’s proportionate share of the net OPEB liability, deferred outflows of resources, deferred inflows of resources and expense associated with the Lottery’s requirement to contribute to the State of Connecticut Other Post Employment Benefits Program has been determined on the same basis as they are reported by the State of Connecticut Other Post Employment Benefits Program. Contributions made to the State of Connecticut Other Post Employment Benefits Program after the measurement date and prior to the Lottery’s fiscal year end are reported as deferred outflows of resources.

Deferred Outflows/Inflows of Resources — In addition to assets, the Lottery presents a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period or periods and so will not be recognized as an outflow of resources (expense) until then. The Lottery reports deferred outflows related to pension and OPEB in the statement of net position, which result from differences between expected and actual experience, changes in assumptions or other inputs and contributions after the measurement date. These amounts are deferred and included in pension expense and OPEB expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits.

In addition to liabilities, the Lottery presents a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period or periods and so will not be recognized as an inflow of resources (revenue) until that time. The Lottery reports deferred inflows of resources related to pension and OPEB in the statement of net position, which result from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension and OPEB expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits.

Compensated Absences

Under the terms of its various union contracts, Lottery employees are granted vacation in varying amounts based on length of service. Certain employees may carry over a limited number of unused vacation days to subsequent years and, in the event of termination or resignation, 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 that proportionate share of the tickets as revenue.
- ***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 game is recognized as tickets are sold by the retail agents.

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Prize Expense — Prize expense for instant games is recognized at the time of sale based on the predetermined prize structure for each game and is periodically adjusted to actual as known. Prize expense for draw games is recognized at the time of actual drawings, with the exception of the CT Super Draw game. Prize expense for the CT Super Draw game 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 for prizes. Those differences are recognized as a reduction of prize 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 Connecticut General Statutes Section 12-806, 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 — Connecticut General Statutes Section 12-812 states that the aggregate amount of prizes shall not be less than 45% of sales unless required by the terms of any agreement entered into for multi-state lottery games. For the fiscal years ended June 30, 2019 and 2018, the prize expense amounted to 61.7% and 62.5% 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 from operations to contribute to the general revenues of the State of Connecticut. By statute, 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 — Retailers earn commissions at the rate of 5% of lottery ticket sales and 1% of lottery tickets cashed. Retailers may earn additional compensation through product promotions offered by the Lottery.

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position — Net position is negative as a result of recognition of the prorated share of the State of Connecticut obligation for pensions and other post employment benefits. Net investment in capital assets represents resources net of accumulated depreciation invested in capital assets.

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

NOTE 2 – CASH, CASH EQUIVALENTS AND CREDIT RISK

In accordance with Chapter 229a and Sections 3-20 and 3-27a of the Connecticut General Statutes (C.G.S.), excess funds of the Lottery may be deposited with the treasurer in such fund or funds of the State as appropriate or at the direction of the treasurer in a commercial bank or trust company with or without security to the credit of such fund or funds, or may be invested by, or at the discretion of the treasurer in bonds or obligations of, or guaranteed by, the State or the United States, or paper, savings accounts and bank acceptances, in the obligations of any state of the United States or any political subdivision, authority or agency thereof, provided that at the time of investment such obligations are rated within one of the top two rating categories of any nationally recognized rating service or of any rating service recognized by the State Commissioner of Banking, and applicable to such obligations, in the obligations of any regional school district in this State or any metropolitan district in this State, provided that at the time of investment such obligations of such government entity are rated within one of the top three rating categories of any nationally recognized rating service or any rating service recognized by the State Commissioner of Banking, and applicable to such obligations, or in any fund in which a trustee may invest pursuant to C.G.S. Section 36a-353.

At June 30, 2019 and 2018, the carrying amounts of the Lottery's deposits were \$2,075,907 and \$913,907, respectively. Bank deposits are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2019, the Lottery's bank balance was \$2,843,498. Of this amount, \$250,000 was covered by the FDIC and \$2,593,498 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, 2019 and 2018, the Lottery also had uninsured and uncollateralized investments of \$18,739,880 and \$21,048,389, respectively, in STIF. Cash invested in STIF is classified as pooled investments and, therefore, not categorized by risk type. 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 AAA 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 43 days as of June 30, 2019 and 35 days as of June 30, 2018. The Lottery's stated policy is to invest in highly liquid, short-term assets.

NOTE 3 - INVESTMENTS AND CREDIT RISK

In accordance with GASB 72, the Lottery categorizes the fair value measurements of its investments within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The fair value hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

Level 1 - Inputs are quoted prices for identical investments in active markets.

Level 2 - Observable inputs other than quoted market prices.

Level 3 - Unobservable inputs.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement.

The Lottery's investments in the annuity contracts and the corresponding annuities payable are reported at their net present value, which is calculated by discounting the future cash inflows (for investments) and outflows (for annuities payable) back to year end and are categorized as Level 2 instruments.

The Lottery had the following investments as of June 30, 2019 and 2018:

	<u>Carrying Amount</u>	<u>Fair Value</u>
June 30, 2019		
Annuity contracts (at present value discounted at approximately 4.6%)	\$ 126,316,048	\$ 126,316,048
June 30, 2018		
Annuity contracts (at present value discounted at approximately 4.8%)	\$ 125,219,914	\$ 125,219,914

The Lottery has uncollateralized annuities with the following insurance companies that represent more than 5% of the outstanding total as follows at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Insurance Company		
Ohio National Life Insurance	\$ 47,210,777	\$ 41,628,587
Metropolitan Life Insurance	38,245,326	39,207,041
Savings Bank Life Insurance Co. of Massachusetts	26,274,348	26,636,836
John Hancock Life Insurance	6,551,977	8,606,991

As of June 30, 2019 and 2018, the Lottery's investments with the above institutions had ratings by A.M. Best Company ranging between A+ and A++.

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

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

CONNECTICUT LOTTERY CORPORATION
NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2019 AND 2018

NOTE 4 - CAPITAL ASSETS

A summary of capital assets is presented below:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Capital Assets:				
Computer equipment	\$ 2,019,079	\$ 34,500		\$ 2,053,579
Furniture and equipment	2,772,794			2,772,794
Leasehold improvements	1,227,434	59,486		1,286,920
<i>Total capital assets</i>	\$ 6,019,307	\$ 93,986	\$ -	\$ 6,113,293
Accumulated Depreciation				
Computer equipment	\$ 1,638,888	\$ 107,503		\$ 1,746,391
Furniture and equipment	2,537,165	118,682		2,655,847
Leasehold improvements	1,024,140	45,627		1,069,767
<i>Total accumulated depreciation</i>	\$ 5,200,193	\$ 271,812	\$ -	\$ 5,472,005
Capital Assets, Net	\$ 819,114	\$ (177,826)	\$ -	\$ 641,288

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital Assets:				
Computer equipment	\$ 1,845,789	\$ 173,290		\$ 2,019,079
Furniture and equipment	2,772,794			2,772,794
Leasehold improvements	1,141,581	85,853		1,227,434
<i>Total capital assets</i>	\$ 5,760,164	\$ 259,143	\$ -	\$ 6,019,307
Accumulated Depreciation				
Computer equipment	\$ 1,557,776	\$ 81,112		\$ 1,638,888
Furniture and equipment	2,416,799	120,366		2,537,165
Leasehold improvements	920,771	103,369		1,024,140
<i>Total accumulated depreciation</i>	\$ 4,895,346	\$ 304,847	\$ -	\$ 5,200,193
Capital Assets, Net	\$ 864,818	\$ (45,704)	\$ -	\$ 819,114

CONNECTICUT LOTTERY CORPORATION
NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2019 AND 2018

NOTE 5 - LONG-TERM OBLIGATIONS

Long-term payment requirements for annuities payable for the last two fiscal years as follows:

	Beginning Balance		Additions		Reductions		Ending Balance		Amounts Due Within One Year
Activity for Fiscal Year 2019	\$ 125,707,858	\$	7,662,683	\$	(6,488,342)	\$	126,882,199	\$	5,969,129
Activity for fiscal year 2018	\$ 125,434,295	\$	6,783,515	\$	(6,509,952)	\$	125,707,858	\$	6,662,743

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

Year ending June 30	Principal	Interest
2020	\$ 5,969,129	\$ 5,817,215
2021	4,508,207	5,519,862
2022	4,129,212	5,273,333
2023	4,205,114	5,062,669
2024	3,661,424	4,852,147
2025 - 2029	18,402,773	21,597,702
2030 - 2034	17,024,875	17,329,125
2035 - 2039	13,026,351	13,855,649
2034 - 2044	12,163,737	10,820,263
2045 - 2049	9,593,011	8,275,489
2050 - 2054	8,729,903	6,242,097
2055 - 2059	8,229,028	4,323,972
2060 - 2064	6,844,953	2,665,047
2065 - 2069	5,370,896	1,456,104
2070 - 2074	2,986,524	604,476
2075 - 2079	1,560,443	204,557
2080 - 2083	476,619	23,381
	\$ 126,882,199	\$ 113,923,088

This debt represents periodic payments owed to lottery prize winners and is fully funded by investments in annuity contracts. Amounts due after 2039 represent estimates of long-term liabilities related to prizes payable over the recipients' natural lives.

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

NOTE 6 – PARTICIPATION IN MULTI-STATE LOTTERY ASSOCIATION

The Lottery is a member of the Multi-State Lottery Association (MUSL) which operates games on behalf of participating state lotteries. The Lottery participates in the multi-state games of Powerball, Mega Millions and Lucky for Life lottery games.

Each lottery that is a member of MUSL and participates in a multi-state game sells game tickets through its retailers. The Lottery transfers amounts equivalent to its share of the estimated grand prize for Powerball and Mega Millions to MUSL, and those funds are held in trust. The Lottery transfers amounts equivalent to its share for lifetime prizes to MUSL for the Lucky for Life game. Lower-tier prizes are paid directly to the winners by each member lottery.

When winning grand prize tickets are drawn in Powerball and Mega Millions, the winner has the option of selecting a discounted lump-sum cash payment or installment payments that increase 5% annually over 30 years. If the winner selects the installment payments, MUSL purchases securities maturing over 30 years to fund the prize for MUSL members or the Mega Millions group purchases securities maturing over 30 years 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 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, 2019 and 2018, were as follows:

	2019	2018
Prize reserves held by MUSL	\$ 6,200,819	\$ 5,218,025
Prize liability due to MUSL	675,033	1,473,015

NOTE 7 – PENSION PLAN

All employees of the Lottery participate in the SERS, which is administered by the State Employees’ Retirement Commission. In addition, an actuarial study was performed, as of June 30, 2018, on the plan as a whole and does not separate information for employees of the Lottery. Therefore, certain pension disclosures otherwise required pursuant to GAAP are omitted. Information on the total plan funding status and progress, contribution required and trend information can be found in the State of Connecticut’s comprehensive annual financial report.

Plan Description — SERS is the single-employer defined benefit pension plan of the State of Connecticut’s primary government and its component units, covering substantially all of the full-time employees who are not eligible for another State-sponsored retirement plan. The plan is administered by the State Employees’ Retirement Commission and governed by Sections 5-152 to 5-192 of the Connecticut General Statutes.

NOTE 7 – PENSION PLAN (CONTINUED)

Benefits Provided — The Plan provides retirement, disability and death benefits. Employees are covered under one of five tiers, depending on when they were hired. 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 are eligible for an annual retirement benefit payable monthly for life, in an amount of 2% of the annual average earnings (which are based on the three highest years of service), subject to adjustment on receipt of social security benefits. Employees at age 55 with 10 years but less than 25 years of service, or at age 70 with 5 years of service, are entitled to a reduced benefit.

Tier II and Tier IIA employees who retire at or after age 60 with 25 years of service, or at age 65 with 10 years of service, or at age 70 with 5 years of service, are entitled to an annual retirement benefit payable monthly for life, in an amount of 1.33% of the average annual earnings (which are based on the three highest years of service) plus 5% of the average annual earnings in excess of the salary breakpoint in the year of retirement for each year of credited service. In addition, any years of service over 35 would be at 1.625%. Employees at age 55 with 10 years of credited service, are entitled to a reduced benefit.

Tier III employees' full retirement benefits are attained at age 63 with 25 years of service, or at age 65 with 10 years of service and are payable monthly for life in an amount equal to 1.33% of the average annual earnings (which are based on the three highest years of service) plus 5% of the average annual earnings in excess of the salary breakpoint in the year of retirement for each year of credited service. In addition, any years of service over 35 would be at 1.625%. Employees at age 58 with 10 years of service are entitled to a reduced benefit.

The SERS Tier IV consists of a defined benefit (DB) and defined contribution (DC) plan. Tier IV employees full retirement benefits under the DB plan is attained at age 63 with 25 years of service, or at age 65 with 10 years of service and are payable monthly for life in an amount of 1.30% of the average annual earnings (which are based on the five highest years of service). Employees at age 58 with 10 years of service are entitled to a reduced benefit. Employees pay a mandatory 1.0% into the DC plan and the State contributes 1.0% to the account. Employee contributions are vested immediately; employer contributions are 100% vested after completing three years of 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. Additionally, Tier II and Tier IIA normal retirement eligibility increases to age 63 and 25 years of benefit service or age 65 and 10 years of benefit service, and age 58 and 10 years of benefit service for early retirement effective July 1, 2022. 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.

The 2017 SEBAC Agreement included the addition of the SERS Tier IV for employees hired on or after July 1, 2017. The Tier IV plan includes both DB and DC structure.

NOTE 7 – PENSION PLAN (CONTINUED)

Contributions Made — The Lottery’s contributions to the plan were \$4,121,233 and \$3,368,200 for the fiscal years ended June 30, 2019 and 2018, respectively.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources — GASB 68 requires 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, 2019 and 2018, the Lottery reported a liability of \$50,615,060 and \$53,857,469, respectively, for its proportionate share of the net pension liability, which was measured as of June 30, 2019 and 2018, 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, 2019 and 2018, the SERS contribution rate was 62.25% and 60.24%, respectively. As of June 30, 2019 and 2018, the Lottery’s proportionate share was 0.23339% and 0.25560%, respectively.

For the year ended June 30, 2019 and 2018, the Lottery recognized pension expense of \$4,953,966 and \$2,967,443, respectively. Pension expense is reported in the Lottery’s financial statements as part of salaries and benefits expense.

At June 30, 2019, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between expected and actual experience	\$ 1,786,528	\$ –
Net difference between projected and actual earnings on pension plan investments	–	158,691
Change of assumptions	5,515,079	–
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,488,493	5,069,873
Lottery contributions subsequent to the measurement date	4,121,233	–
	<u>\$ 12,911,333</u>	<u>\$ 5,228,564</u>

CONNECTICUT LOTTERY CORPORATION
NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2019 AND 2018

NOTE 7 – PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources (Continued)

At June 30, 2018, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience	\$ 1,285,770	\$ –
Net difference between projected and actual earnings on pension plan investments	–	102,839
Change of assumptions	8,252,255	–
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,897,420	2,942,680
Lottery contributions subsequent to the measurement date	3,368,200	–
	<u>\$ 14,803,645</u>	<u>\$ 3,045,519</u>

Amounts reported as deferred outflows of resources related to Lottery contributions after the measurement date will be recognized as a reduction of the net pension liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,	
2020	\$ 1,468,358
2021	1,477,591
2022	1,176,729
2023	(251,065)
2024	(310,077)
	<u>\$ 3,561,536</u>

NOTE 7 – PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions — The total pension liability for the year ended June 30, 2019 was determined based on the annual actuarial funding valuation report prepared as of June 30, 2018. The following actuarial assumptions are summarized below as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Inflation	2.50%	2.50%
Salary increase, including inflation	3.50% - 19.50%	3.50% - 19.50%
Investment rate of return, net of investment expense, including inflation	6.90%	6.90%

The RP-2014 White Collar Mortality Table projected to 2020 by scale BB at 100% for males and 95% for females is used for the period after service retirement and for dependent beneficiaries. The RP-2014 Disabled Retiree Mortality Table at 65% for males and 85% for females is used for the period after disability. The projection of the mortality rates with Scale BB provide a sufficient margin in the assumed rates for mortality to allow for improvement in mortality experience.

Discount Rate — The discount rate used to measure the total pension liability was the long-term expected rate of return, 6.90%. 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 2138.

NOTE 7 – PENSION PLAN (CONTINUED)

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%
Inflation linked bonds	5.0%	1.0%
Cash	4.0%	0.4%

Sensitivity of the 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 6.90% for the years ended June 30, 2019 and 2018, 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
	(5.90%)	(6.90%)	(7.90%)
June 30, 2019	\$ 60,399,387	\$ 50,615,060	\$ 42,451,099
June 30, 2018	\$ 62,285,100	\$ 53,857,469	\$ 43,358,799

NOTE 8 - POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 7, the State provides post employment health care and life insurance benefits in accordance with State statutes, Sections 5-257(d) and 5-259(a), to all eligible employees who retire from the State, including employees of the Lottery.

Plan Description — 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 SEBAC 2011 Agreement between the State of Connecticut and 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.

Contributions Made — The Lottery's contributions to the plan were \$2,756,875 and \$2,474,845 for the fiscal years ended June 30, 2019 and 2018, respectively.

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources — GASB 75 requires the Lottery to recognize a net OPEB liability for the difference between the present value of the projected benefits for the past service known as the total OPEB liability (TOL) and the restricted resources held in trust for the payment of OPEB benefits, known as the fiduciary net position (FNP). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the FNP and additions to/deductions from 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, 2019 and 2018, the Lottery reported a liability of \$47,074,834 and \$54,381,510, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability as of June 30, 2019 was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by the actuarial valuation as of that date based on actuarial experience studies. The Lottery's allocation of the net OPEB liability was based on covered payroll multiplied by the OPEB contribution rate at each measurement date. For the years ended June 30, 2019 and 2018, the rate was 37.06% and 36.58%, respectively. As of June 30, 2019 and 2018, the Lottery's proportion was 0.27267% and 0.31321%, respectively.

CONNECTICUT LOTTERY CORPORATION
NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2019 AND 2018

NOTE 8 - POST EMPLOYMENT BENEFITS (CONTINUED)

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

For the years ended June 30, 2019 and 2018, the Lottery recognized OPEB expense of \$2,178,435 and \$4,112,867, respectively. OPEB expense is reported in the Lottery's financial statements as part of salaries and benefits expense.

At June 30, 2019, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ —	\$ 24,895
Change of assumptions	—	2,619,692
Changes in proportion and differences between employer contributions and proportionate share of contributions	957,432	5,740,261
Lottery contributions subsequent to the measurement date	2,756,875	—
	<u>\$ 3,714,307</u>	<u>\$ 8,384,848</u>

At June 30, 2018, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between expected and actual experience	\$ —	\$ 1,304,652
Net difference between projected and actual earnings on OPEB plan investments	—	61,558
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,237,383	—
Lottery contributions subsequent to the measurement date	2,474,845	—
	<u>\$ 3,712,228</u>	<u>\$ 1,366,210</u>

NOTE 8 – POST EMPLOYMENT BENEFITS (CONTINUED)

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

Amounts reported as deferred outflows of resources related to Lottery contributions after the measurement date will be recognized as a reduction of the net OPEB liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,	
2020	\$ (1,688,290)
2021	(1,688,290)
2022	(1,688,296)
2023	(1,664,079)
2024	(698,461)
	\$ (7,427,416)
	(7,427,416)

Actuarial Methods and Assumptions — The total OPEB liability in the June 30, 2018 actuarial valuation was determined using data as of June 30, 2017. The key actuarial assumptions are summarized below:

Salary increase	3.25% to 19.50% varying by years of service and retirement system
Discount rate	3.95%
Investment rate of return	6.90%
Health care trend rates:	
Medical	6.50% graded to 4.50% over 4 years
Prescription Drug	8.00% graded to 4.50% over 7 years
Dental and Part B	4.50%
Administrative expense	3.00%

Mortality Rates

- *Healthy* – RP-2014 White Collar Mortality Table projected to 2020 by Scale BB at 100% for males and 95% for females.
- *Disabled* – RP-2014 Disabled Retiree Mortality Table at 65% for males and 85% for females.

Discount Rate — The discount rate used to measure the total OPEB liability at June 30, 2019 was 3.95%. The discount rate is a blend of the long-term expected rate of return on OPEB Trust assets and a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rate of AA/Aa or higher (3.87% as of June 30, 2018 and 3.58% as of June 30, 2017). The blending is based on the sufficiency of projected assets to make projected benefit payments.

CONNECTICUT LOTTERY CORPORATION
NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2019 AND 2018

NOTE 8 – POST EMPLOYMENT BENEFITS (CONTINUED)

Expected Rate of Return on Investments — The long-term expected rate of return on OPEB 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 rate of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption 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%
Inflation linked bonds	5.0%	1.0%
Cash	4.0%	0.4%
	<u>100%</u>	

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rates — The following presents the Lottery’s proportionate share of the net OPEB liability calculated using the discount rate of 3.95% and 3.68% for the years ended June 30, 2019 and 2018, respectively, as well as the proportionate share of the net pension liability using a 1% increase or decrease from the current discount rate as of June 30, 2019:

	1% Decrease (2.68%)	Discount Rate (3.68%)	1% Increase (4.68%)
Net OPEB Liability			
June 30, 2019	\$ 54,603,370	\$ 47,074,834	\$ 40,961,180
June 30, 2018	63,120,624	54,381,510	47,300,965

NOTE 8 – POST EMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

— The following presents the Lottery’s proportionate share of the net OPEB liability, as well as what the Lottery’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rates	1% Increase
Net OPEB Liability			
June 30, 2019	\$ 40,096,852	\$ 47,074,834	\$ 55,916,947
June 30, 2018	46,734,185	54,381,510	64,069,662

NOTE 9 – LEASE COMMITMENTS

The Lottery offices are located in Rocky Hill, Connecticut, 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 commenced on July 1, 2014 and expired on June 30, 2018. The combined rental amount for these facilities is \$5,896 per month. Extensions have been executed through June 30, 2022 at a combined rental amount of \$6,418 per month.

The Lottery leased instant ticket vending machines under noncancelable operating leases which expired in September 2018. The Lottery leases various office equipment under noncancelable operating leases on various dates through April 2023. All equipment lease obligations are payable in monthly installments.

Similar to all Lottery equipment operated by our retailers, Keno terminals and monitors are leased through Scientific Games, the primary gaming system vendor. The Lottery made up-front payments to the vendor through April 2018, which allows the Lottery to utilize the Keno equipment until the end of the lease term in April 2023.

The Lottery executed a lease for player activated terminals (PATs) in July 2018. The Lottery will make up-front payments to the vendor through December 2018, which allows the Lottery to utilize the PATs until the end of the lease term in April 2023. This contract is coterminous with the gaming system contract.

As of June 30, 2019 and 2018, the Lottery recorded \$2,892,857 and \$3,664,286, respectively, of prepaid expenses related to the lease of the Keno terminals and monitors, of which \$2,121,428 and \$2,892,857 is long term and recorded as other assets in the accompanying statements of net position.

Total lease expense for facilities and equipment was \$3,820,063 and \$2,911,888 for the fiscal years ended June 30, 2019 and 2018, respectively.

NOTE 9 – LEASE COMMITMENTS (CONTINUED)

Future payments for the aforementioned leases are summarized as follows:

Years Ending June 30,		
2020	\$	2,846,731
2021		2,846,731
2022		2,823,845
2023		2,305,173
	\$	10,822,480

NOTE 10 – RISK MANAGEMENT

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

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

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

During each of the years ended June 30, 2019 and 2018, there were no claims or settlements that have exceeded insurance coverage.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

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



**REQUIRED
SUPPLEMENTARY
INFORMATION**

CONNECTICUT LOTTERY CORPORATION

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

Last Five Fiscal Years	2019	2018	2017	2016	2015
Lottery's portion of the net pension liability	0.23339%	0.25560%	0.24243%	0.24525%	0.27865%
Lottery's proportionate share of the net pension liability	\$ 50,615,060	\$ 53,857,469	\$ 55,669,017	\$ 40,525,323	\$ 44,624,031
Lottery's covered-employee payroll	\$ 10,468,988	\$ 9,946,740	\$ 10,200,510	\$ 10,490,319	\$ 10,032,666
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	483.48%	541.46%	545.75%	386.31%	444.79%
Plan fiduciary net position as a percentage of the total pension liability	36.62%	36.25%	31.69%	39.23%	39.54%

Notes to Schedule

- Change of benefit terms
- A 3-year freeze on all salary increases for fiscal years ending 2017, 2018 and 2019
 - The annual COLA for those retiring on or after July 1, 2022 is based on the annual rate of increase in CPI-W from 0.0% to 2.0%, plus 60% of the annual rate of increase in CPI-W from 3.33% to 6.0% plus 75% of the annual rate increase in SPI-W above 6.0% and with a cap on the COLA rate of 7.5%.
 - A COLA moratorium for those retiring on or after July 1, 2022 for the first 30 months of retirement benefits. If rate of increase in CPI-W exceeds an annualized rate of 5.5% during the initial 18-month period of receiving retirement benefits, the COLA provided beginning with the 31st monthly benefit includes an additional adjustment based on the annual COLA rate as determined above using the annualized rate over the 18-month period. The COLA rate applied is reduced by 2.5% and then multiplied by 1.5 to reflect the 18-month period.
 - Increase to all non-Tier IV members' contribution rates by 1.5% of compensation effective July 1, 2017 and an additional 0.5% of compensation effective July 1, 2019.
 - In years where employer contribution increase due to poor asset returns, half the increase is applied to Tier IV member contribution rate of up to 2% in total.
 - Tier IV Hybrid Plan Structure for All New Hires (Non-Hazardous and Hazardous) after July 1, 2017:
 - i. Non-Hazardous has same retirement eligibility as Tier III
 - ii. Non-hazardous benefit multiplier is 1.30% with no breakpoint
 - iii. Hazardous duty requires 25 years of service to retire
 - iv. Employees contribute 3% more than Tier III employees into the DB Plan.
 - v. Employers contribute 1% and employees must contribute at least 1% to DC portion of Hybrid Plan

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 EMPLOYEE'S RETIREMENT SYSTEM (SERS)

Last Nine Fiscal Years	2019	2018	2017	2016	2015
Contractually required contribution	\$ 4,121,233	\$ 3,368,200	\$ 4,456,603	\$ 4,233,893	\$ 3,803,384
Contributions in relation to the contractually required contribution	4,121,233	3,368,200	4,456,603	4,233,893	3,803,384
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Lottery's covered-employee payroll	10,468,988	9,946,740	10,200,510	10,490,319	10,032,666
Contributions as a percentage of covered-employee payroll	39.37%	33.86%	43.69%	40.36%	37.91%

Last Nine Fiscal Years (continued)	2014	2013	2012	2011
Contractually required contribution	\$ 3,401,159	\$ 2,752,875	\$ 2,482,079	\$ 2,288,551
Contributions in relation to the contractually required contribution	3,401,159	2,752,875	2,482,079	2,288,551
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Lottery's covered-employee payroll	9,348,981	9,055,510	8,989,782	8,897,944
Contributions as a percentage of covered-employee payroll	36.38%	30.40%	27.61%	25.72%

Notes to Schedule

Valuation date:	June 30, 2018
Measurement date:	June 30, 2018

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percent of pay, closed 5-year phase into level dollar
Single equivalent amortization period	25.1 years
Asset valuation method	5-year smoothed market
Inflation	2.50%
Salary increase	3.50-19.50%, including inflation
Investment rate of return	6.90%, net of investment-related expense
Mortality	The RP-2014 White Collar Mortality Table projected to 2020 by scale BB at 100% for males and 95% for females is used for the period after service retirement and for dependent beneficiaries. The RP-2014 Disabled Retiree Mortality Table at 65% for males and 85% for females is used for the period after disability.

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 LOTTERY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

Last Three Fiscal Years	2019	2018	2017
Lottery's portion of the net OPEB liability	0.27267%	0.31321%	0.30441%
Lottery's proportionate share of the net OPEB liability	\$ 47,074,834	\$ 54,381,510	\$ 52,487,844
Lottery's covered-employee payroll	\$ 10,468,988	\$ 9,946,740	\$ 10,200,510
Lottery's proportionate share of the net OPEB liability as a percentage of its covered payroll	449.66%	546.73%	514.56%
Plan fiduciary net position as a percentage of the total OPEB liability	4.69%	3.03%	1.94%

Notes to Schedule

Assumption changes since prior valuation:

- The discount rate was updated in accordance with GASB statement No. 75 to 3.95% as of June 30, 2018.

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 LOTTERY'S CONTRIBUTIONS TO THE STATE'S OTHER POST EMPLOYMENT BENEFIT PROGRAM

Last Four Fiscal Years	2019	2018	2017	2016
Contractually required contribution	\$ 2,756,875	\$ 2,474,845	\$ 2,090,376	\$ 1,221,774
Contributions in relation to the contractually required contribution	2,756,875	2,474,845	2,090,376	1,221,774
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Lottery's covered-employee payroll	\$ 10,468,988	\$ 9,946,740	\$ 10,200,510	\$ 10,490,319
Contributions as a percentage of covered-employee payroll	26.33%	24.88%	20.49%	11.65%

Notes to Schedule

Valuation date: Actuarially determined contribution for fiscal year ending June 30, 2018 was determined with the June 30, 2017 actuarial valuation.

Measurement date: June 30, 2018

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percent of growing payroll, closed, 30 years
Remaining amortization period	20 years as of June 30, 2018
Asset valuation method	Market value
Salary increases	3.25% to 19.50% varying by years of service and retirement system.
Mortality	Healthy: RP-2014 White Collar Mortality Table projected to 2020 by Scale BB at 100% for males and 95% for females Disabled: RP-2014 Disabled Retiree Mortality Table at 65% for males and 85% for females

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.



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***

To the Board of Directors
The Connecticut Lottery Corporation
Rocky Hill, Connecticut

We have audited, in accordance with the 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, the financial statements of the business-type activities of The Connecticut Lottery Corporation as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise The Connecticut Lottery Corporation's basic financial statements, and have issued our report thereon dated September 18, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Connecticut Lottery Corporation'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Connecticut Lottery Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of The Connecticut Lottery Corporation'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 a 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 Connecticut Lottery Corporation's financial statements are free from 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 results of that testing, and not to provide an opinion on the effectiveness of The Connecticut Lottery Corporation'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 Connecticut Lottery Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
September 18, 2019



SUPPLEMENTAL SCHEDULES

CONNECTICUT LOTTERY CORPORATION
SCHEDULE OF PROFIT MARGINS BY GAME TYPE, YEAR ENDED JUNE 30, 2019

PROFIT CONTRIBUTIONS (\$ in 000s)

	Instant	Play3 Night	Play4 Night	Play3 Day	Play4 Day	Lotto
NET SALES	\$ 736,443	\$ 72,253	\$ 72,656	\$ 54,460	\$ 50,328	\$ 35,032
DIRECT COSTS						
Gross prize expense	\$ 516,523	\$ 37,311	\$ 29,791	\$ 32,350	\$ 23,472	\$ 18,537
Unclaimed prize credit	(7,872)	(571)	(852)	(306)	(415)	(205)
Use of unclaimed prize reserve	1	–	3	–	–	–
Net prize expense	\$ 508,652	\$ 36,740	\$ 28,942	\$ 32,044	\$ 23,057	\$ 18,332
Retailer commissions	\$ 42,043	\$ 3,982	\$ 3,854	\$ 3,047	\$ 2,703	\$ 1,787
Online systems	6,583	649	715	490	452	317
Marketing, advertising and promotion	6,039	558	559	421	388	293
Production expenses	6,710	58	58	55	54	23
Total direct costs	\$ 570,027	\$ 41,987	\$ 34,128	\$ 36,057	\$ 26,654	\$ 20,752
GROSS PROFIT	\$ 166,416	\$ 30,266	\$ 38,528	\$ 18,403	\$ 23,674	\$ 14,280

PROFIT MARGIN (% OF NET SALES)

	Instant	Play3 Night	Play4 Night	Play3 Day	Play4 Day	Lotto
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
DIRECT COSTS						
Gross prize expense	70.1%	51.6%	41.0%	59.4%	46.6%	52.9%
Unclaimed prize credit	-1.1%	-0.8%	-1.2%	-0.6%	-0.8%	-0.6%
Use of unclaimed prize reserve	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net prize expense	69.1%	50.8%	39.8%	58.8%	45.8%	52.3%
Retailer commissions	5.7%	5.5%	5.3%	5.6%	5.4%	5.1%
Online systems	0.9%	0.9%	1.0%	0.9%	0.9%	0.9%
Marketing, advertising and promotion	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Production expenses	0.9%	0.1%	0.1%	0.1%	0.1%	0.1%
Total direct costs	77.4%	58.1%	47.0%	66.2%	53.0%	59.2%
GROSS PROFIT	22.6%	41.9%	53.0%	33.8%	47.0%	40.8%

Cash5	Powerball	Mega Millions	Lucky for Life	5 Card Cash	Lucky Links	Keno	CT Super Draw	Total
\$ 31,168	\$ 81,446	\$ 72,634	\$ 18,872	\$ -	\$ 5,696	\$ 102,923	\$ -	\$ 1,333,911
\$ 19,794	\$ 40,702	\$ 36,466	\$ 13,052	\$ (30)	\$ 3,680	\$ 66,759	\$ 1	\$ 838,408
(557)	(2,616)	(998)	(547)	-	(72)	(435)	(105)	(15,551)
-	-	-	-	-	-	-	2.00	6
\$ 19,237	\$ 38,086	\$ 35,468	\$ 12,505	\$ (30)	\$ 3,608	\$ 66,324	\$ (102)	\$ 822,863
\$ 1,759	\$ 4,166	\$ 3,712	\$ 1,137	\$ -	\$ 318	\$ 5,787	\$ -	\$ 74,295
280	725	649	169	-	51	2,462	-	13,542
272	1,458	1,284	169	-	49	1,007	-	12,497
72	211	12	47	-	114	19	3	7,436
\$ 21,620	\$ 44,646	\$ 41,125	\$ 14,027	\$ (30)	\$ 4,140	\$ 75,599	\$ 99	\$ 930,633
\$ 9,548	\$ 36,800	\$ 31,509	\$ 4,845	\$ 30	\$ 1,556	\$ 27,324	\$ (99)	\$ 403,278
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
63.5%	50.0%	50.2%	69.2%	0.0%	64.6%	64.9%	0.0%	62.9%
-1.8%	-3.2%	-1.4%	-2.9%	0.0%	-1.3%	-0.4%	0.0%	-1.2%
0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
61.7%	46.8%	48.8%	66.3%	0.0%	63.3%	64.4%	0.0%	61.7%
5.6%	5.1%	5.1%	6.0%	0.0%	5.6%	5.6%	0.0%	5.6%
0.9%	0.9%	0.9%	0.9%	0.0%	0.9%	2.4%	0.0%	1.0%
0.9%	1.8%	1.8%	0.9%	0.0%	0.9%	1.0%	0.0%	0.9%
0.2%	0.3%	0.0%	0.2%	0.0%	2.0%	0.0%	0.0%	0.6%
69.4%	54.8%	56.6%	74.3%	0.0%	72.7%	73.5%	0.0%	69.8%
30.6%	45.2%	43.4%	25.7%	100.0%	27.3%	26.5%	100.0%	30.2%

CONNECTICUT LOTTERY CORPORATION
SCHEDULE OF PROFIT MARGINS BY GAME TYPE, YEAR ENDED JUNE 30, 2018

PROFIT CONTRIBUTIONS (\$ in 000s)

	Instant	Play3 Night	Play4 Night	Play3 Day	Play4 Day	Lotto
NET SALES	\$ 730,692	\$ 69,923	\$ 71,838	\$ 51,693	\$ 49,031	\$ 18,815
DIRECT COSTS						
Gross prize expense	\$ 511,062	\$ 34,993	\$ 39,999	\$ 27,025	\$ 20,771	\$ 9,945
Unclaimed prize credit	(4,976)	(510)	(727)	(299)	(390)	(167)
Use of unclaimed prize reserve	1	–	–	–	1	1,227
Net prize expense	\$ 506,087	\$ 34,483	\$ 39,272	\$ 26,726	\$ 20,382	\$ 11,005
Retailer commissions	\$ 41,692	\$ 3,852	\$ 3,908	\$ 2,857	\$ 2,628	\$ 1,013
Online systems	7,103	679	700	502	478	181
Marketing, advertising and promotion	6,380	483	497	358	340	133
Production expenses	8,140	55	55	54	54	15
Total direct costs	\$ 569,402	\$ 39,552	\$ 44,432	\$ 30,497	\$ 23,882	\$ 12,347
GROSS PROFIT	\$ 161,290	\$ 30,371	\$ 27,406	\$ 21,196	\$ 25,149	\$ 6,468

PROFIT MARGIN (% OF NET SALES)

	Instant	Play3 Night	Play4 Night	Play3 Day	Play4 Day	Lotto
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
DIRECT COSTS						
Gross prize expense	69.9%	50.0%	55.7%	52.3%	42.4%	52.9%
Unclaimed prize credit	-0.7%	-0.7%	-1.0%	-0.6%	-0.8%	-0.9%
Use of unclaimed prize reserve	0.0%	0.0%	0.0%	0.0%	0.0%	6.5%
Net prize expense	69.3%	49.3%	54.7%	51.7%	41.6%	58.5%
Retailer commissions	5.7%	5.5%	5.4%	5.5%	5.4%	5.4%
Online systems	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Marketing, advertising and promotion	0.9%	0.7%	0.7%	0.7%	0.7%	0.7%
Production expenses	1.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Total direct costs	77.9%	56.6%	61.9%	59.0%	48.7%	65.6%
GROSS PROFIT	22.1%	43.4%	38.1%	41.0%	51.3%	34.4%

Cash5	Powerball	Mega Millions	Lucky for Life	5 Card Cash	Lucky Links	Keno	CT Super Draw	Total
\$ 31,214	\$ 88,135	\$ 42,158	\$ 19,577	\$ –	\$ 5,942	\$ 86,428	\$ 2,146	\$ 1,267,592
\$ 18,591	\$ 43,881	\$ 21,158	\$ 11,696	\$ (227)	\$ 3,554	\$ 56,326	\$ 1,464	\$ 800,238
(505)	(1,373)	(383)	(439)	–	(84)	(397)	–	(10,250)
–	–	–	–	–	–	–	1,373	2,602
\$ 18,086	\$ 42,508	\$ 20,775	\$ 11,257	\$ (227)	\$ 3,470	\$ 55,929	\$ 2,837	\$ 792,590
\$ 1,795	\$ 4,508	\$ 2,170	\$ 1,071	\$ –	\$ 330	\$ 4,869	\$ 130	\$ 70,823
304	835	403	191	–	58	2,253	22	13,709
131	1,511	902	213	–	42	1,624	161	12,775
61	46	20	40	–	106	3	2	8,651
\$ 20,377	\$ 49,408	\$ 24,270	\$ 12,772	\$ (227)	\$ 4,006	\$ 64,678	\$ 3,152	\$ 898,548
\$ 10,837	\$ 38,727	\$ 17,888	\$ 6,805	\$ 227	\$ 1,936	\$ 21,750	\$ (1,006)	\$ 369,044
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
59.6%	49.8%	50.2%	59.7%	0.0%	59.8%	65.2%	68.2%	63.1%
-1.6%	-1.6%	-0.9%	-2.2%	0.0%	-1.4%	-0.5%	0.0%	-0.8%
0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	64.0%	0.2%
57.9%	48.2%	49.3%	57.5%	0.0%	58.4%	64.7%	132.2%	62.5%
5.8%	5.1%	5.1%	5.5%	0.0%	5.6%	5.6%	6.1%	5.6%
1.0%	0.9%	1.0%	1.0%	0.0%	1.0%	2.6%	1.0%	1.1%
0.4%	1.7%	2.1%	1.1%	0.0%	0.7%	1.9%	7.5%	1.0%
0.2%	0.1%	0.0%	0.2%	0.0%	1.8%	0.0%	0.1%	0.7%
65.3%	56.1%	57.6%	65.2%	0.0%	67.4%	74.8%	146.9%	70.9%
34.7%	43.9%	42.4%	34.8%	100.0%	32.6%	25.2%	-46.9%	29.1%



STATISTICAL SECTION

CONNECTICUT LOTTERY CORPORATION

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION ACTUAL VS. BUDGET (\$000s), YEAR ENDED JUNE 30, 2019

	Actual	Budget	Over/(Under) Budget	% Change
SALES				
OPERATING REVENUE	\$ 1,338,563	\$ 1,288,500	\$ 50,063	3.9%
Less sales returns, cancellations and promotions	(4,652)	0	(4,652)	–
Total operating revenue	\$1,333,911	\$ 1,288,500	\$ 45,411	3.5%
COST OF SALES AND OPERATING EXPENSES				
COST OF SALES				
Prize expense	\$ 822,863	\$ 799,744	\$ 23,119	2.9%
Retailer commissions	74,295	72,154	2,141	3.0%
Gaming systems	13,542	15,874	(2,332)	(14.7%)
Marketing, advertising, and promotions	12,496	13,989	(1,492)	(10.7%)
Production expenses	7,436	8,788	(1,352)	(15.4%)
Total cost of sales	\$ 930,632	\$ 910,549	\$ 20,084	2.2%
OPERATING EXPENSES				
Salaries and benefits	\$ 20,759	\$ 22,053	\$ (1,294)	(5.9%)
Other operating expenses	3,623	3,839	(217)	(5.6%)
Depreciation and amortization	272	305	(33)	(10.9%)
Bad debt expense	122	200	(78)	(39.1%)
Total operating expenses	\$ 24,776	\$ 26,397	\$ (1,622)	(6.1%)
OTHER OPERATING REVENUE	\$ 61	\$ 30	\$ 31	104.0%
Operating income	\$ 378,565	\$ 351,584	\$ 26,981	7.7%
NONOPERATING REVENUES (EXPENSES)				
Interest income from investments on annuities	\$ 5,866	\$ 0	\$ 5,866	–
Interest income	481	285	196	68.8%
Interest expense on annuity payments	(5,866)	0	(5,866)	–
Annuity assignment	16	5	11	220.0%
Total nonoperating revenues	\$ 497	\$ 290	\$ 207	71.5%
CHANGE IN NET POSITION BEFORE				
PAYMENTS TO STATE FUNDS	\$ 379,062	\$ 351,874	\$ 27,188	7.7%
Payments to Chronic Gamblers' Fund	2,300	2,300	0	0.0%
Payments to Office of Policy and Management	2,999	2,999	0	0.0%
Payments to State's General Fund	370,000	346,575	23,425	6.8%
Change in net position	\$ 3,763	\$ 0	\$ 3,763	N/A

CONNECTICUT LOTTERY CORPORATION

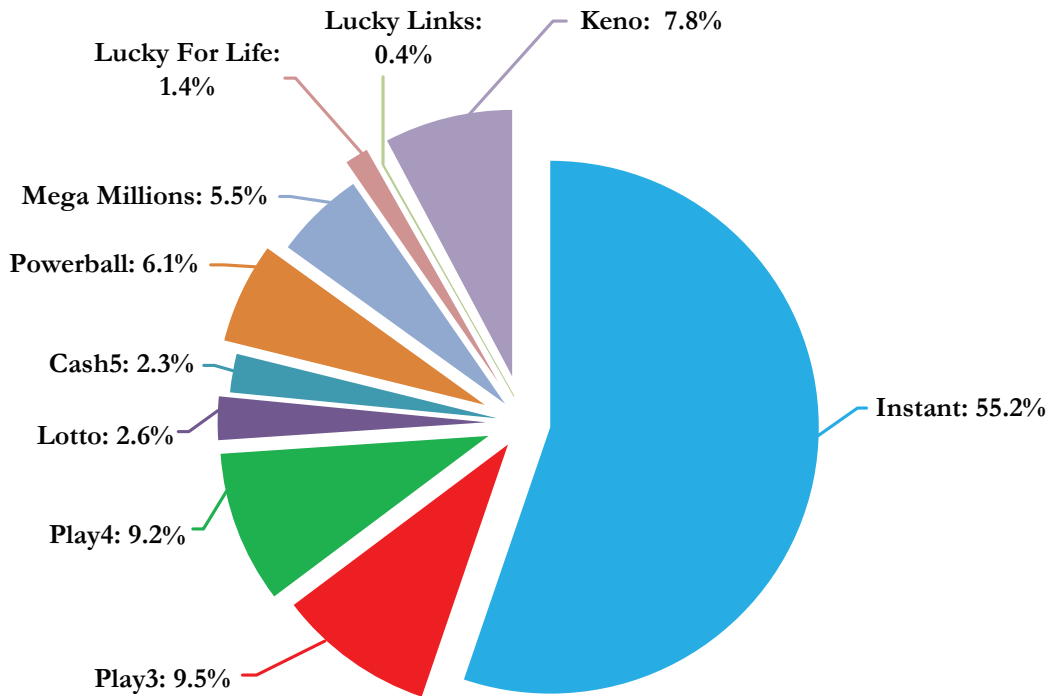
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION BY GAME TYPE (\$000s), YEAR ENDED JUNE 30, 2019

	Instant	Play3 Night	Play4 Night	Play3 Day	Play4 Day	Lotto
SALES						
OPERATING REVENUE	\$ 736,443	\$ 73,062	\$ 73,417	\$ 55,028	\$ 50,810	\$ 35,050
Less sales returns, cancellations and promotions	0	(809)	(761)	(569)	(482)	(18)
Total operating revenue	\$ 736,443	\$ 72,253	\$ 72,656	\$ 54,459	\$ 50,328	\$ 35,032
COST OF SALES AND OPERATING EXPENSES						
COST OF SALES						
Prize expense	\$ 508,652	\$ 36,740	\$ 28,941	\$ 32,044	\$ 23,057	\$ 18,332
Retailer commissions	42,043	3,982	3,854	3,048	2,704	1,787
Gaming systems	6,583	649	715	490	452	317
Marketing, advertising, and promotion	6,038	558	559	421	388	293
Production expenses	6,710	58	58	55	55	23
Total cost of sales	\$ 570,026	\$ 41,987	\$ 34,127	\$ 36,058	\$ 26,656	\$ 20,752
OPERATING EXPENSES						
Salaries and benefits	\$ 12,734	\$ 616	\$ 822	\$ 565	\$ 770	\$ 616
Other operating expenses	2,235	109	145	99	135	108
Depreciation and amortization	169	8	11	7	10	8
Bad debt expense	69	7	7	5	5	3
Total operating expenses	\$ 15,207	\$ 740	\$ 985	\$ 676	\$ 920	\$ 735
OTHER OPERATING INCOME	\$ 32	\$ 3	\$ 3	\$ 2	\$ 2	\$ 1
Operating income	\$ 151,244	\$ 29,529	\$ 37,548	\$ 17,728	\$ 22,755	\$ 13,544
NON-OPERATING REVENUES (EXPENSES)						
Interest income from investments on annuities	\$ 4,067	\$ 0	\$ 0	\$ 0	\$ 0	\$ 415
Interest income	266	26	26	20	18	13
Interest expense on annuity payments	(4,067)	0	0	0	0	(415)
Annuity assignment	10	0	0	0	0	0
Total non-operating revenues	\$ 276	\$ 26	\$ 26	\$ 20	\$ 18	\$ 13
CHANGE IN NET POSITION BEFORE PAYMENTS TO STATE FUNDS						
PAYMENTS TO STATE FUNDS	\$ 151,520	\$ 29,555	\$ 37,574	\$ 17,747	\$ 22,773	\$ 13,557
Payments to Chronic Gamblers' Fund	1,231	122	123	91	85	57
Payments to Office of Policy and Management	1,605	159	161	119	111	75
Payments to State's General Fund	147,708	29,003	36,977	17,392	22,183	13,292
Change in net position	\$ 977	\$ 272	\$ 314	\$ 145	\$ 394	\$ 133

Cash 5	Powerball	Mega Millions	Lucky for Life	5 Card Cash	Lucky Links	Keno	CT Super Draw	Total
\$ 31,193	\$ 81,464	\$ 72,643	\$ 20,833	\$ 0	\$ 5,697	\$ 102,923	\$ 0	\$ 1,338,563
(24)	(18)	(10)	(1,961)	0	(1)	0	0	(4,652)
\$ 31,169	\$ 81,446	\$ 72,633	\$ 18,872	\$ 0	\$ 5,696	\$ 102,923	\$ 0	\$ 1,333,911
\$ 19,237	\$ 38,086	\$ 35,468	\$ 12,505	\$ (30)	\$ 3,608	\$ 66,324	\$ (102)	\$ 822,863
1,759	4,166	3,712	1,137	0	318	5,787	0	74,295
280	725	649	169	0	51	2,462	0	13,542
272	1,458	1,285	169	0	49	1,008	0	12,496
72	211	12	47	0	114	19	3	7,436
\$ 21,620	\$ 44,646	\$ 41,126	\$ 14,027	\$ (30)	\$ 4,140	\$ 75,600	\$ (99)	\$ 930,632
\$ 616	\$ 719	\$ 719	\$ 719	\$ 0	\$ 411	\$ 1,453	\$ 0	\$ 20,759
108	126	126	135	0	72	217	8	3,623
8	10	10	10	0	5	16	0	272
3	6	5	2	0	1	10	0	122
\$ 735	\$ 861	\$ 860	\$ 866	\$ 0	\$ 489	\$ 1,696	\$ 8	\$ 24,776
\$ 1	\$ 5	\$ 6	\$ 1	\$ 0	\$ 0	\$ 4	\$ 0	\$ 61
\$ 8,814	\$ 35,945	\$ 30,655	\$ 3,981	\$ 30	\$ 1,068	\$ 25,632	\$ 92	\$ 378,565
\$ 0	\$ 0	\$ 0	\$ 1,384	\$ 0	\$ 0	\$ 0	\$ 0	\$ 5,866
11	29	26	7	0	2	37	0	481
0	0	0	(1,384)	0	0	0	0	(5,866)
0	0	0	6	0	0	0	0	16
\$ 11	\$ 29	\$ 26	\$ 13	\$ 0	\$ 2	\$ 37	\$ 0	\$ 497
\$ 8,825	\$ 35,973	\$ 30,681	\$ 3,994	\$ 30	\$ 1,070	\$ 25,669	\$ 92	\$ 379,062
53	140	185	33	0	10	170	0	2,300
69	183	242	43	0	13	222	0	2,999
8,653	35,050	29,637	3,979	0	1,037	25,088	0	370,000
\$ 51	\$ 600	\$ 617	\$ (61)	\$ 30	\$ 11	\$ 190	\$ 92	\$ 3,763

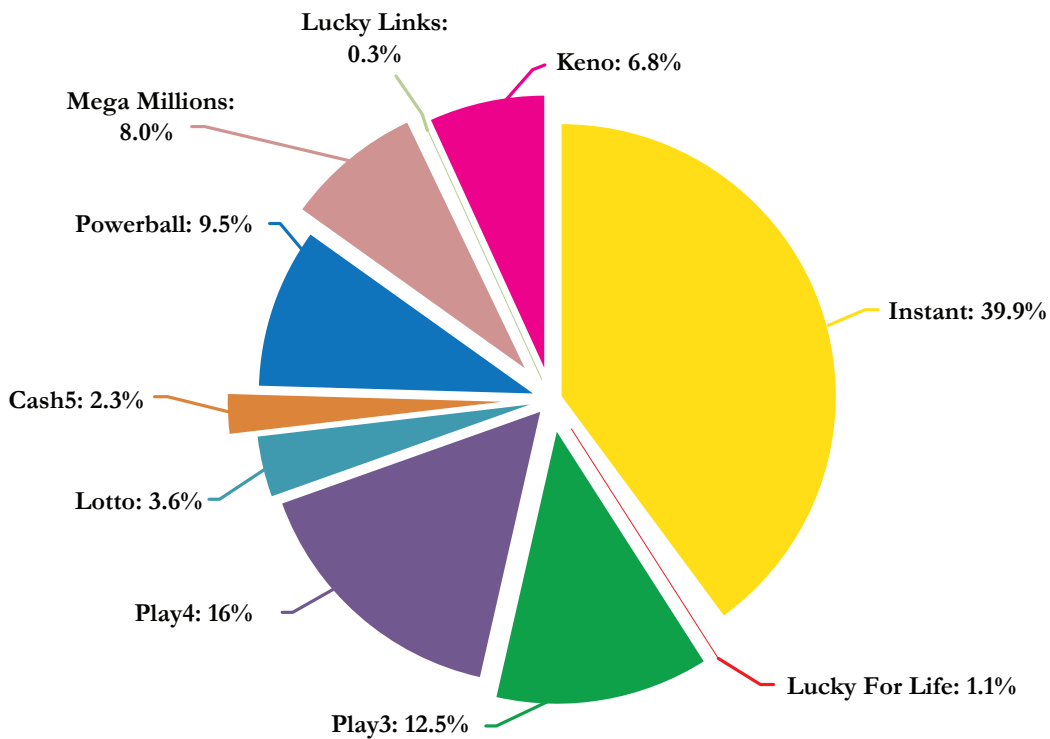
REVENUE BY GAME

FISCAL YEAR 2019 TOTAL SALES: \$1,333,911,284



GENERAL FUND PAYMENTS BY GAME

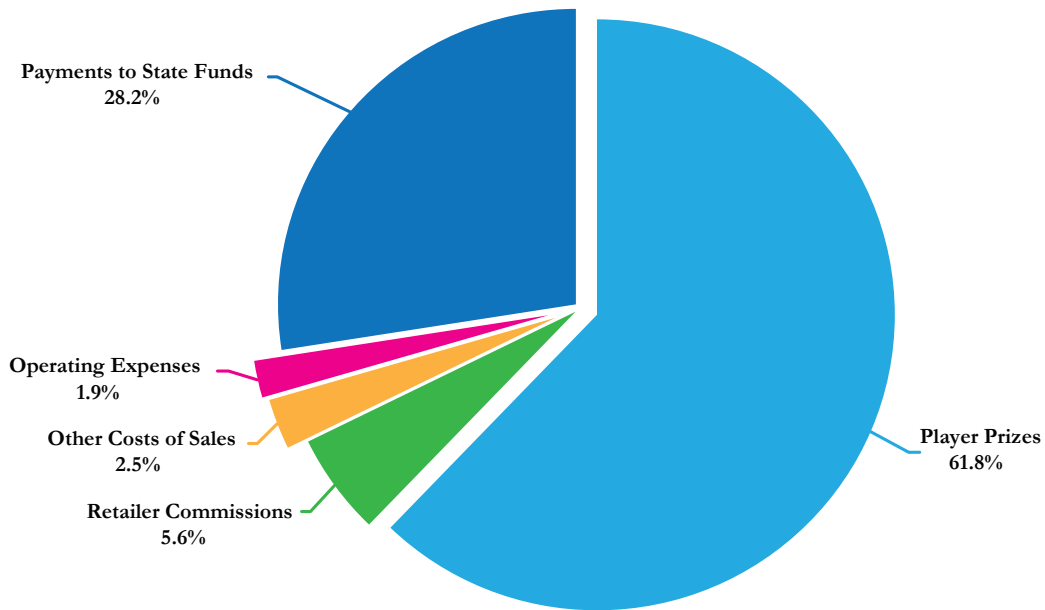
FISCAL YEAR 2019 TOTAL PAYMENTS: \$370,000,000



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

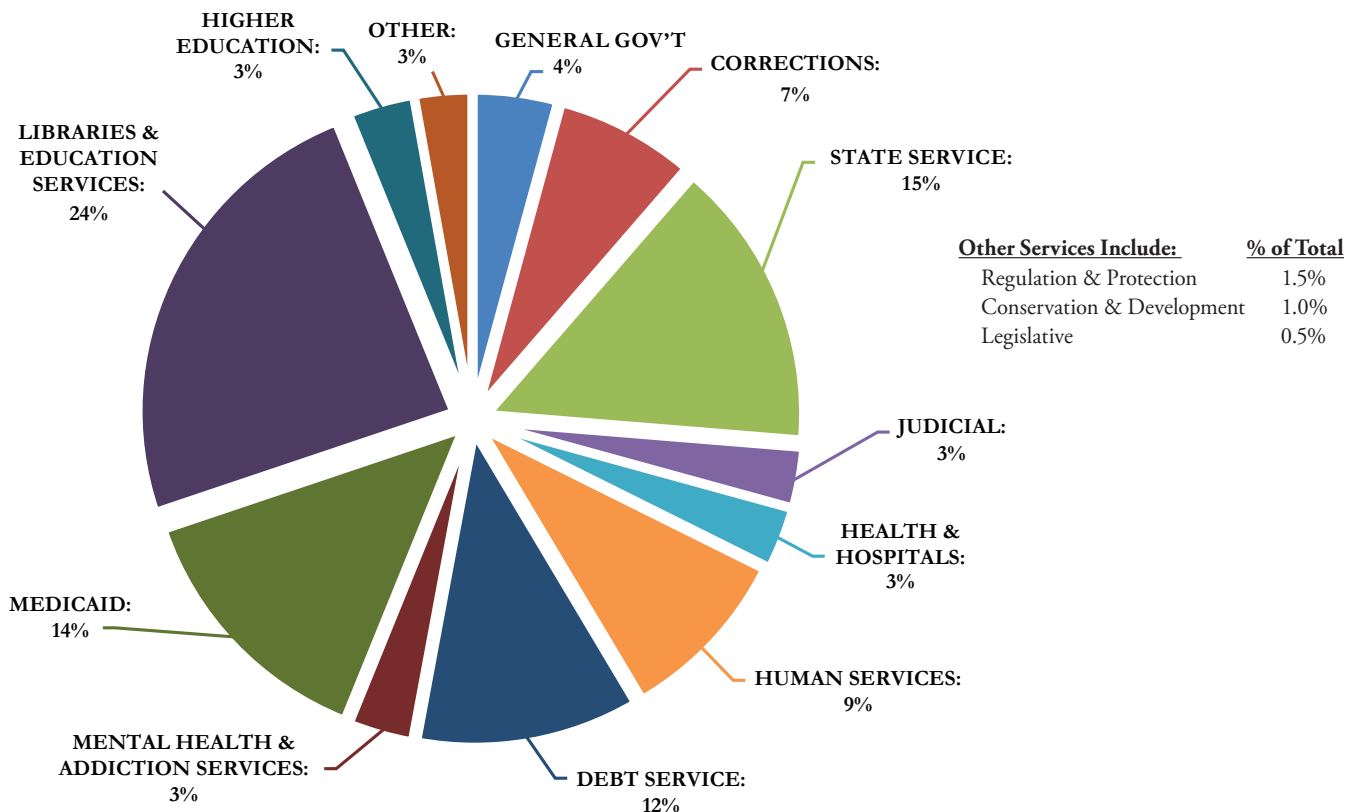
FISCAL YEAR 2019 TOTAL SALES: \$1,334,469,713



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

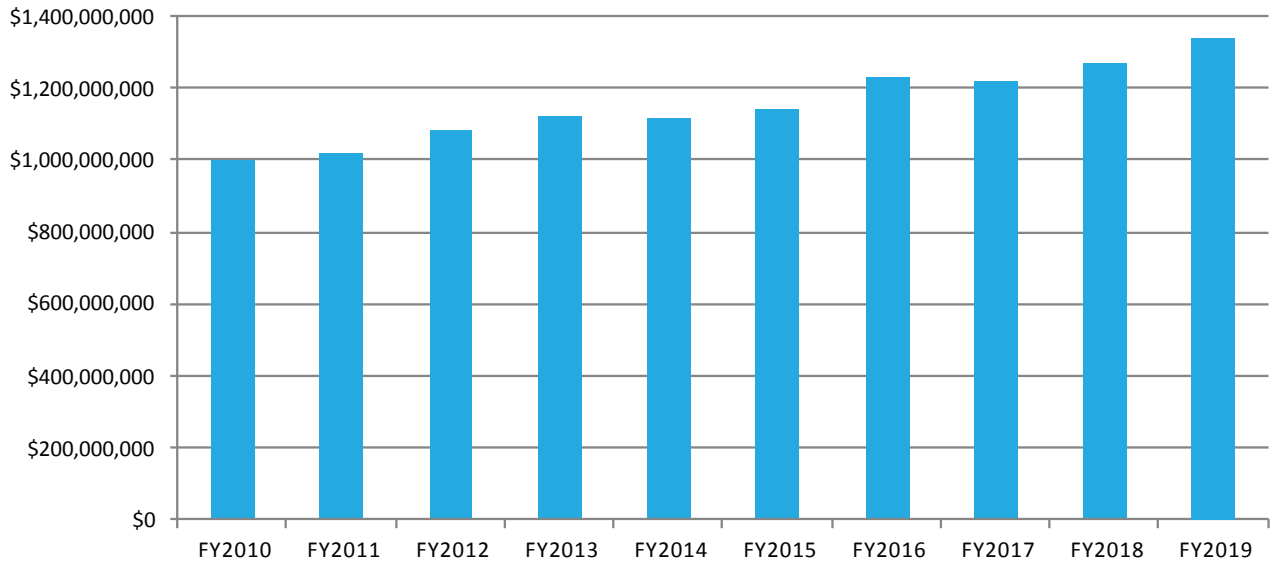
STATE SERVICES SUPPORTED BY LOTTERY PAYMENTS TO THE GENERAL FUND

FISCAL YEAR 2019 PAYMENTS TO THE GENERAL FUND: \$370,000,000

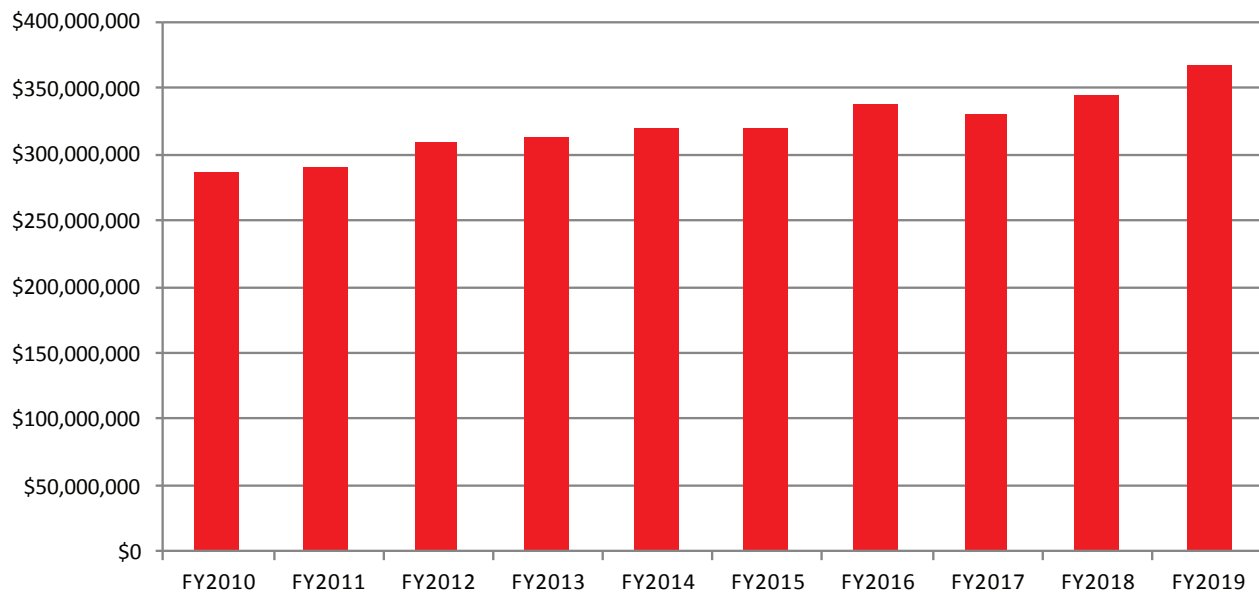


Based on Fiscal Year 2019 General Fund Percentages Appropriated by the Legislature. Source: Connecticut State Budget 2018-2019

REVENUES FOR THE LAST TEN FISCAL YEARS



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

	2010	2011	2012	2013
Operating Revenue				
Instant	\$ 593,374	\$ 610,568	\$ 653,310	\$ 667,255
Daily Games ⁽¹⁾	211,317	225,381	220,061	233,619
Lotto	29,904	24,341	27,372	22,149
Cash5	35,041	34,243	33,781	32,565
Powerball	85,282	60,280	74,281	107,383
Mega Millions	11,231	33,185	40,628	23,728
Lucky for Life ⁽²⁾	30,698	23,815	26,871	30,432
CT Super Draw	0	4,801	5,436	5,564
5 Card Cash	0	0	0	0
Lucky Links	0	0	0	0
Keno	0	0	0	0
Total Operating Revenue	\$ 996,847	\$ 1,016,614	\$ 1,081,740	\$ 1,122,695
Costs				
Prizes	\$ 608,755	\$ 620,134	\$ 659,898	\$ 699,063
Retailer commissions	55,885	56,964	60,740	62,765
Other cost of sales ⁽³⁾	23,703	26,129	27,435	27,993
Total cost of sales	\$ 688,343	\$ 703,227	\$ 748,073	\$ 789,821
PAYMENTS TO STATE'S GENERAL FUND				
	\$ 285,500	\$ 289,300	\$ 310,000	\$ 312,100

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

⁽²⁾ "Lucky for Life" revenue includes "Lucky-4-Life" revenue for the years 2009 through 2012. "Lucky for Life" began in 2012.

⁽³⁾ "Other Cost of Sales" are comprised of online systems, marketing, advertising and promotions and production expenses.

2014	2015	2016	2017	2018	2019
\$ 660,230	\$ 687,967	\$ 742,296	\$ 720,623	\$ 730,692	\$ 736,443
235,883	231,755	245,062	240,083	242,485	249,696
21,591	20,143	19,429	18,305	18,815	35,032
32,318	31,220	30,994	30,079	31,214	31,169
82,725	66,502	106,271	78,619	88,135	81,446
37,567	32,369	29,406	29,107	42,158	72,633
25,095	21,523	21,709	20,405	19,577	18,872
4,355	2,896	0	0	0	0
12,641	46,322	13,107	0	2,146	0
0	3,276	10,053	6,858	5,942	5,696
0	0	12,444	72,182	86,428	102,923
<hr/>					
\$ 1,112,405	\$ 1,143,973	\$ 1,230,769	\$ 1,216,262	\$ 1,267,591	\$ 1,333,911
<hr/>					
\$ 668,792	\$ 707,735	\$ 760,269	\$ 756,289	\$ 792,590	\$ 822,863
62,077	64,270	68,688	67,984	70,823	74,295
28,695	28,232	30,908	31,510	35,135	33,474
<hr/>					
\$ 759,564	\$ 800,237	\$ 859,865	\$ 855,783	\$ 898,548	\$ 930,632
<hr/>					
\$ 319,500	\$ 319,700	\$ 337,500	\$ 330,000	\$ 345,000	\$ 370,000
<hr/>					

CONNECTICUT LOTTERY CORPORATION

COMPARATIVE INDUSTRY STATISTICS

Based upon data published in *La Fleur's 2019 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 2018, 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 2018:

State/District	Population (Millions)	Ticket Sales (Millions \$)	Sales Per Capita (Dollars)
1 Massachusetts	6.9	\$ 5,279.7	\$ 765.0
2 Georgia	10.5	4,282.5	407.0
3 New York	19.5	7,938.8	406.0
4 New Jersey	8.9	3,359.1	377.0
5 Michigan	10.0	3,578.1	358.0
6 Connecticut	3.6	1,267.6	355.0
7 South Carolina	5.1	1,750.2	344.0
8 Maryland	6.0	2,042.8	338.0
9 Pennsylvania	12.8	4,200.6	328.0
10 Florida	21.3	6,700.8	315.0

B. NET INCOME PER CAPITA - FY 2018:

State/District	Population (Millions)	Net Income (Millions \$)	Net Income Per Capita (Dollars)
1 Massachusetts	6.9	\$ 997.3	\$ 144.54
2 New Jersey	8.9	1,070.0	120.09
3 Georgia	10.5	1,135.3	107.92
4 Connecticut	3.6	343.7	96.29
5 Michigan	10.0	930.8	93.08
6 South Carolina	5.1	437.9	86.21
7 Pennsylvania	12.8	1,093.6	85.37
8 Florida	21.3	1,752.8	82.29
9 Virginia	8.5	606.2	71.15
10 D.C.	0.7	49.6	70.80

C. OPERATING EXPENSES* AS PERCENTAGE OF SALES - FY 2018:

State/District	Ticket Sales (Millions \$)	Operating Expenses (Millions \$)	Expense %
1 Massachusetts	\$ 5,279.7	\$ 100.3	1.9%
2 South Carolina	1,750.2	42.7	2.4%
3 Florida	6,700.8	176.7	2.6%
4 New Jersey	3,359.1	114.7	3.4%
5 Tennessee	1,616.4	63.0	3.9%
6 Pennsylvania	4,200.6	171.8	4.1%
7 North Carolina	2,605.3	108.4	4.2%
8 Georgia	4,282.5	178.9	4.2%
9 Texas	5,626.9	237.0	4.2%
10 Missouri	1,400.2	64.7	4.6%
11 Michigan	3,578.1	169.3	4.7%
12 Connecticut	1,267.6	60.9	4.8%
13 Virginia	2,139.8	105.6	4.9%
14 West Virginia	177.0	10.9	6.2%
15 Illinois	2,926.4	198.3	6.8%

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

CONNECTICUT LOTTERY CORPORATION

2019 ANNUAL REPORT

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THE 2019 ANNUAL REPORT IS AVAILABLE AT

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