

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
CONNECTICUT LOTTERY CORPORATION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2015*

**AUDITORS OF PUBLIC ACCOUNTS**  
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

## Table Of Contents

---

<b>INTRODUCTION</b> .....	1
Scope of Audit.....	2
<b>COMMENTS</b> .....	3
Foreword .....	3
Board of Directors and Administrative Officials .....	5
Other Audit Examinations.....	7
<b>RÉSUMÉ OF OPERATIONS</b> .....	7
State Accounts.....	7
Financial Operations .....	9
<b>STATE AUDITORS' FINDINGS AND RECOMMENDATIONS</b> .....	13
<b>RECOMMENDATIONS</b> .....	14
<b>CONCLUSION</b> .....	15

# STATE OF CONNECTICUT



## AUDITORS OF PUBLIC ACCOUNTS

State Capitol  
210 Capitol Avenue  
Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

June 2, 2016

### **AUDITORS' REPORT CONNECTICUT LOTTERY CORPORATION FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2015**

We have audited certain operations of the Connecticut Lottery Corporation (CLC) in fulfillment of our duties under Sections 1-122, 2-90, and 12-800 through 12-834 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2014 and 2015.

The objectives of our audit were to:

1. Evaluate the corporation's internal controls over significant management and financial functions;
2. Evaluate the corporation's compliance with policies and procedures internal to the corporation or promulgated by other state agencies, as well as certain legal provisions, including but not limited to whether the Connecticut Lottery Corporation has complied with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds, and the distribution of loans, grants, and other financial assistance, as applicable; and
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the corporation, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the corporation's management and was not subjected to the procedures applied in our audit of the corporation. For the areas audited, we identified:

1. No deficiencies in internal controls;
2. No apparent noncompliance with legal provisions; and
3. No need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Connecticut Lottery Corporation.

## **SCOPE OF AUDIT**

This audit was primarily limited to performing tests of the Connecticut Lottery Corporation's compliance with certain provisions of laws, regulations, contracts, and grant agreements, including but not limited to a determination of whether CLC has complied with its regulations concerning the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants and other financial resources

We also considered the Connecticut Lottery Corporation's internal control over its financial operations and its compliance with requirements that could have a material or significant effect on its financial operations in order to determine our auditing procedures for the purpose of evaluating CLC financial operations and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives. Our consideration of internal control included the five areas identified above.

Our audit included a review of transactions of CLC activities during the fiscal years in the five areas identified above and a review of other such areas as we considered necessary. The financial statement audits of the Connecticut Lottery Corporation for the fiscal years ended June 30, 2014 and 2015, were conducted by CLC independent public accountants.

## COMMENTS

### FOREWORD

The Connecticut Lottery Corporation operates primarily under Chapter 229a, Sections 12-800 through 12-834 of the General Statutes. Pursuant to Section 12-802 of the statutes, it is a public instrumentality and political sub-division of the state. Also pursuant to Chapter 12 of the General Statutes, CLC is classified as a quasi-public agency subject to various statutory requirements related to those agencies. As a quasi-public agency, the CLC financial information is included as an enterprise fund in the State of Connecticut's Comprehensive Annual Financial Report (CAFR) as a blended component unit of the state.

Sections 12-800 through 12-834 of the General Statutes established the Connecticut Lottery Corporation to take over the operation of the state lottery from the former Division of Special Revenue. The central purpose of CLC is to provide increased revenue to the state. As such, CLC was set up to operate and manage the lottery in an "entrepreneurial and business-like manner" as a quasi-public agency. The goal of the enabling legislation was to establish an environment relatively free from budgetary and other constraints of traditional state agencies, which could be more responsive to the marketplace.

By law, the Connecticut Lottery Corporation is not allowed to sell the lottery or to modify lottery games that would violate any agreement the state has with the Mashantucket Pequot, Mohegan, or any other federally recognized Native American Tribe. Also, Section 12-818 of the General Statutes requires CLC to transfer, in fiscal years ended June 30, 2014 and June 30, 2015, \$2,300,000 of revenue received from the sale of lottery tickets to the chronic gamblers treatment and rehabilitation account pursuant to Section 17a-713. In previous years, the required transfer was \$1,900,000.

CLC provides two categories of game products: instant scratch tickets and computer-based on-line games. During the audited period, CLC offered the following games within the two categories.

- **Scratch Games** are played by scratching off the latex covering of the play area on the ticket. A number of different instant games are in circulation during a given period, each with a determinate payout. Instant tickets were introduced to the market in September of 1975 and have become the largest contributor to total sales and resulting contributions to the State of Connecticut's General Fund. A total of 44 and 41 new games were introduced during the fiscal years ended June 30, 2014 and 2015, respectively.
- **Play3 Night** is an on-line game that is available to consumers on a daily basis. Players pick three numbers from a range and choose among different play options. This game has been in existence in similar form since 1977. Prizes range from \$25 to \$25,000 per day.
- **Play4 Night** is an on-line game that was introduced in 1980. Players select four numbers from a range and choose from different play options. Prizes range from \$25 to \$25,000 per day.

- **Lotto** is the original on-line jackpot game that was introduced in 1983. Two drawings are held each week. Players pick six numbers from a range of numbers. The minimum jackpot is \$1 million.
- **Cash 5** is an on-line game with a top prize of \$100,000 that was introduced in 1992 and is played seven days a week. Players pick five numbers ranging from 1 to 35.
- **Powerball** is a multi-state, multi-jurisdictional lottery game that is played twice each week. Players select six numbers from a range of numbers. The game was introduced to Connecticut players in 1995.
- **Play3 Day** and **Play4 Day** on-line games were introduced in February 1998. These games are played on a daily basis at mid-day. They are played in a similar manner as the Play3 Night and Play4 Night games.
- **Super Draw** is an online game that was introduced in October 2010. Drawings are held periodically at various times throughout the year. Ticket price has been set at either \$5 or \$10; sales are limited to a specific period of time, approximately three months. Each ticket is sold with a unique six-digit number. The winning numbers consist of the unique six-digit numbers randomly selected at each drawing. A total of thirteen drawings have been held since the introduction of the game, including four drawings in fiscal year 2015. The last game offered was on March 18, 2015.
- **Lucky for Life – New England’s Game** is conducted by CLC and the other five New England state lotteries. Drawings are held twice each week. The top prize is \$1,000 a day for life, with a minimum prize payout of 20 years. This game was introduced on March 11, 2012. CLC changed the matrix of the game on September 17, 2013. Player pick from two separate pools of numbers: five numbers from a pool of 43 balls and one lucky ball from a pool of 43 balls. This game essentially ended on January 26, 2015 and was replaced by an expanded version.
- **Lucky for Life – The Game of a Lifetime** is an expansion of the Lucky for Life – New England to 16 states. This new Lucky for Life game began on January 27, 2015 and offers a top prize of \$1,000 a day for life and a 2<sup>nd</sup> prize of \$25,000 a year for life. Players pick from two separate pools of numbers: five numbers from a pool of 48 balls and one lucky ball from a pool of 18 balls. This game offers larger prize amounts and improved odds of winning.
- **Mega Millions** is a multi-state lottery game that is played twice each week. Players select five numbers from a range of numbers and may also select a “Megaplier,” which can increase the potential payout. This game was introduced to Connecticut players in January 2010. In October 2013, the game was modified to add new features and a change in matrix.
- **5 Card Cash** is a terminal lottery game for which a player receives a two dollar game ticket identifying five playing cards associated with a standard deck of playing cards.

Each ticket purchased for the base price features two ways to win: an instant win component, and a drawing component. A player can win in the instant win component, the drawing component, or both. The player can win up to \$5,555 instantly and the same ticket can win up to \$255,555 in the daily drawing. There is an optional add-on feature in which a player can win an additional prize. The game was suspended on November 12, 2015 due to irregularities at some lottery retailers.

- **Lucky Links Day and Lucky Links Night** are terminal lottery games that were both introduced on April 26, 2015 with a base price of two dollars for which a player receives a game ticket featuring eight randomly selected numbers and a free spot. The player of each day or night game can win a prize of \$5 to \$50,000. For an additional one dollar, the player can purchase an optional add-on that multiplies the prize won by a factor of 2 for some prize amounts. The Lucky Links Day game and its drawings are separate from and independent of the Lucky Links Night game and its drawings.

Organizationally, the Connecticut Lottery Corporation is composed of seven major divisions:

**Finance**: Responsible for disbursements, accounts payable, collections, and revenue accountability.

**Legal**: Responsible for providing legal advice.

**Government Affairs**: Serves as the CLC liaison to the legislature.

**Operations and Administration**: Responsible for lottery claims; purchasing services; and receipt, control, and disbursement of game products. Provides information systems services, vendor compliance, and internet development.

**Human Resources**: Responsible for payroll and human resources.

**Marketing and Sales**: Responsible for designing and promoting game products and the monitoring of retailers for compliance with sales and game requirements.

**Security**: Responsible for fraud prevention, investigations, and enforcement of lottery policies governing retail sales agents, as well as security related to lottery buildings, assets, games and personnel.

### **Board of Directors and Administrative Officials**

Pursuant to Section 12-802 subsection (b) of the General Statutes, the Connecticut Lottery Corporation is governed by a 13 member board of directors consisting of 11 appointees of various elected officials and two state office holders. The State Treasurer and the Secretary of the Office of Policy and Management serve as ex-officio members on the board.

Of the 11 appointed members, five are appointed by, and serve at the pleasure of, the Governor. The Governor is required to appoint directors who have the skill, knowledge, and experience in the fields of management, finance, or operations in the private sector. The six remaining appointees are chosen by various legislative leaders. Appointed members serve at the pleasure of the appointing authority. Board members receive no compensation, but are entitled to reimbursement for expenses incurred in the performance of their duties.

As of June 30, 2015, the members of the board of directors were as follows:

**Ex Officio:**

Robert S. Dakers, designee of the Secretary of the Office of Policy and Management,  
Benjamin Barnes  
Robert Morgan, designee of State Treasurer Denise L. Nappier

**Governor's Appointments:**

James N. Farrell  
Frank A. Farricker, Chairperson  
Margaret L. Morton  
Michael P. Thompson  
Kia D. Floyd

**Legislative Appointments:**

Steven A. Bafundo  
Patrick Birney - Vice-Chairperson  
Diane Winston  
Natasha M. Pierre  
Jennifer J. Hamilton  
Meghan Culmo

Gale A. Mattison also served as vice chairperson of the board during the audited period. On November 13, 2014, the board elected Patrick Birney as vice chairperson. There were no vacancies on the board as of June 30, 2015.

Subsection (c) of Section 12-802 of the General Statutes provides that the chairperson of the board shall be appointed by the Governor with the advice and consent of the legislature. In May 2011, Frank A. Farricker was appointed chairperson and continues to serve in that capacity.

On February 29, 2008, Anne M. Noble was appointed to the position of president and chief executive officer of the Connecticut Lottery Corporation and continues to serve in that capacity.

## **Other Audit Examinations**

An independent certified public accountant audited the books and accounts of CLC for each of the fiscal years ended June 30, 2014 and 2015. Those reports each expressed an unqualified opinion on the financial statements and reported no material weaknesses in internal control.

Section 1-122 of the Connecticut General Statutes requires that quasi-public agencies such as the Connecticut Lottery Corporation have a compliance audit performed biennially. These audits should determine whether these agencies comply with their own regulations concerning affirmative action; personnel practices; the purchase of goods and services; the use of surplus funds; and the distribution of loans, grants and other financial assistance. In accordance with this statute, we performed a compliance audit of CLC for the fiscal years ended June 30, 2014 and 2015. We noted no weaknesses in compliance and internal control, as indicated in the State Auditors' Findings and Recommendations sections of this report.

## **RÉSUMÉ OF OPERATIONS**

The Connecticut Lottery Corporation has contracted with approximately 3,000 licensed retailers throughout the state to offer lottery games to the public. Only retailers who satisfy CLC's established criteria are recommended for licensure to the state Department of Consumer Protection. The Division of Special Revenue retained regulatory authority for such matters following the creation of the Connecticut Lottery Corporation. With the passage of Public Act 11-51, effective July 1, 2011, that authority was transferred to the Department of Consumer Protection.

On an ongoing basis, retailers deposit revenues generated from the sale of lottery games into fiduciary type bank accounts. Once a week, those deposits (less canceled tickets, prize payouts, and retailer commissions) are transferred into the CLC Operating Account held by a major bank. The Operating Account, along with other CLC bank accounts (Claims Account, Advance Account, Annuities Account, and Accounts Payable), is combined into a concentrator account for overnight investment. The concentrator is the main account that feeds all other accounts. Most of the CLC cash transactions flow in and out of this account.

Section 12-806 subsection (b)(13) and Section 12-806b of the General Statutes require CLC to pay the Office of Policy and Management (OPM) for costs incurred by the Department of Consumer Protection for regulatory oversight of the lottery. Accordingly, CLC made quarterly payments to OPM totaling \$2,620,514 in the fiscal year ended June 30, 2014 and \$2,421,440 in the fiscal year ended June 30, 2015.

## **State Accounts**

Section 3-27a of the General Statutes allows the Connecticut Lottery Corporation to deposit excess funds with the State Treasurer in an appropriate fund. Excess funds represent the amount in cash accounts not immediately needed to meet current operating requirements. The concentrator account, as described above, is evaluated daily, and available cash is invested with the State Treasurer in a short-term investment fund that provides a safe return on investment.

Deposits with the State Treasurer's Short Term Investment Fund (STIF) totaled \$3,027,408 and \$2,991,013 as of June 30, 2014, and June 30, 2015, respectively. The average annual STIF rate of return was 0.14 percent during the fiscal year ended June 30, 2014 and 0.15 percent during the fiscal year ended June 30, 2015.

On a weekly basis, the Connecticut Lottery Corporation transfers the excess of sales revenue over the cost of game prizes, retailer commissions, and operational and administrative costs to the General Fund. Transfers to the General Fund from operations totaled \$319,500,000 in the fiscal year ended June 30, 2014, and \$319,700,000 in the fiscal year ended June 30, 2015.

The Connecticut Lottery Corporation incurs long-term liabilities as the result of game prizes paid out in the form of periodic payments. To meet those future obligations, CLC purchases annuities from insurance companies. This debt represents remaining periodic payments owed to Lotto, Lucky-for-Life, and instant game winners. Annuity contracts and related liabilities are reported at their discounted present value in the CLC financial statements. Outstanding long-term annuities payable declined from \$128,583,612 at June 30, 2013, to \$125,384,680 at June 30, 2014, and \$119,397,354 at June 30, 2015. This is because CLC purchased over \$31 million of annuities in fiscal year 2013 but only \$10.7 million and \$4.8 million in fiscal years ended June 20, 2014 and 2015, respectively. Furthermore, the balance of long-term annuities is reduced in each audit year as annuities mature.

The Connecticut Lottery Corporation employees are considered employees of the State of Connecticut per Section 12-802 subsection (e) of the General Statutes, and are covered under the State Employees Retirement System. Effective July 1, 2014, the Connecticut Lottery Corporation adopted and implemented Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent To the Measurement Date*. Together, GASB 68 and 71 require cost-sharing employers to recognize liabilities, deferred outflows of resources, deferred inflows of resources and expenses for their proportionate share of the pension plan's total liability. The recognition of deferred inflows and deferred outflows of resources is applicable for any pension contributions made subsequent to the measurement date of the net pension liability and the end of the government's reporting period.

The Connecticut Lottery Corporation elected to apply the "cumulative effect" method and recorded an adjustment as of July 1, 2014 to reduce beginning net position by \$46,214,785 in accordance with GASB 68. Likewise, as of July 1, 2014, CLC recorded an adjustment to increase beginning net position by \$1,923,687 for contributions made to the State Employees' Retirement System (SERS) during the fiscal year ended June 30, 2014. CLC's audited financial statement reported pension expense of \$3,538,724, deferred outflow of resources in the amount of \$2,181,341 and deferred inflow of resources in the amount of (\$1,593,716) during the fiscal year ended June 30, 2015.

CLC payroll is processed through a direct link with the state's automated payroll system. That system produces reports on the amount of salaries and fringe benefit costs incurred during the previous biweekly period. An amount equal to the costs incurred for salaries and fringe benefits is wire transferred by CLC into a State Treasurer's account to cover those costs. The

operating expenses for salaries and benefits were \$15,749,208 for the fiscal year ended June 30, 2013, \$17,139,804 for the fiscal year ended June 30, 2014, and \$17,698,258 for the fiscal year ended June 30, 2015. The total for fiscal year 2014 represents a 10.3 percent increase over the previous year. This increase is due primarily to a 23 percent increase in contributions made to State Employee's Retirement System (SERS) and a 5.5 percent increase in full-time salaries, when compared to expenses incurred in fiscal year 2013. Specifically, SERS contributions and full-time salaries increased by almost \$1 million and nearly \$500,000, respectively, in fiscal year 2014.

### Financial Operations

The Connecticut Lottery Corporation operates as an enterprise activity and is included in the State of Connecticut's Comprehensive Annual Financial Report within that category. The accrual basis of accounting is used in accordance with generally accepted accounting principles (GAAP). CLC applies applicable pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989, unless those pronouncements conflict with or contradict the pronouncements of the Governmental Accounting Standards Board.

The following is a comparative summary of operations. This financial information was obtained from the Connecticut Lottery Corporation's audited financial statements for the fiscal years ended June 30, 2013, 2014, and 2015.

	<b>Fiscal Year Ended June 30,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Total Sales	\$ 1,143,973,444	\$ 1,112,404,534	\$ 1,122,694,950
Prize Expense	(707,735,790)	(668,791,859)	(699,062,914)
All Other Expenses	(113,740,831)	(111,547,307)	(110,621,592)
Excess of Sales Over Expenses	322,496,823	332,065,368	313,010,444
Other and Nonoperating			
Revenues	86,664	73,984	126,123
Subtotal	322,583,487	332,139,352	313,136,567
Transfers to State of			
Connecticut	(4,721,440)	(4,920,514)	(4,842,050)
Income Available	317,862,047	327,218,838	308,294,517
Transfers to General Fund	(319,700,000)	(319,500,000)	(312,100,000)
<b>Change in Net Assets</b>	<b>\$ (1,837,953)</b>	<b>\$ 7,718,838</b>	<b>\$ (3,805,483)</b>

In accordance with Section 12-812 of the General Statutes, the Connecticut Lottery Corporation transfers the excess balance of lottery earnings to the General Fund on a weekly basis. These transfers represent an estimate of lottery sales revenues less operating expenditures, and are summarized as follows:

	<b>Fiscal Year Ended June 30,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Total Weekly Transfers	\$ 319,700,000	\$ 319,500,000	\$ 312,100,000
Percent of Total Annual Lottery Sales	28 percent	28.7 percent	27.8 percent

Instant tickets made up approximately 60.1 percent of total sales by game for the fiscal year ended June 30, 2015, and 59.4 percent for each of the fiscal years ended June 30, 2014 and June 30, 2013. Prize expenses incurred during the fiscal years ended June 30, 2015, 2014 and 2013 represent 61.9, 60.1 and 62.3 percent, respectively, of the total net lottery sales.

As presented in its audited financial statements, the CLC Statement of Net Assets for June 30, 2013, 2014, and 2015, follows:

	<b>June 30, 2015</b>	<b>June 30, 2014</b>	<b>June 30, 2013</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 10,173,767	\$ 7,703,433	\$ 11,163,687
Accounts Receivable, Net of Allowance	31,108,885	30,736,003	34,497,710
Prepaid Annuities for Prizes	10,956,590	13,863,543	18,448,868
Accrued Interest Receivable	1,881,995	2,208,845	2,808,573
Ticket Inventory, Net of Allowance	3,030,828	2,562,102	2,082,854
Prepaid Expenses	459,310	505,592	200,377
<b>Total Current Assets</b>	<b>57,611,375</b>	<b>57,579,518</b>	<b>69,202,069</b>
<b>Noncurrent Assets</b>			
Investments for Prize Payments at Present Value	119,397,354	125,384,680	128,583,612
Prize Reserve Held by Multi-State Lottery Association	4,736,132	5,379,412	5,063,840
Property, Plant and Equipment, Net	1,179,717	1,388,147	1,684,712
Advances to High Tier Claim Centers	250,000	250,000	200,000
<b>Total Noncurrent Assets</b>	<b>125,563,203</b>	<b>132,402,239</b>	<b>135,532,164</b>
<b>Total Assets</b>	<b>183,174,578</b>	<b>189,981,757</b>	<b>204,734,233</b>
<b>DEFERRED OUTFLOW OF RESOURCES</b>			
Deferred Amount for Pensions	\$ 2,181,341	\$ -	\$ -

<b>Total Assets and Deferred Outflow of Resources</b>	<u>\$ 185,355,919</u>	<u>\$ 189,981,757</u>	<u>\$ 204,734,233</u>
 <b>LIABILITIES AND NET ASSETS</b>			
<b>Current Liabilities</b>			
Annuities Payable	\$ 11,254,922	\$ 14,134,357	\$ 19,140,744
Prizes Payable	26,236,864	23,334,788	33,373,826
Accrued Interest Payable	1,881,995	2,208,845	2,808,573
Accounts Payable and Accrued Expenses	12,833,238	10,581,723	14,227,034
Due to Regional Games	367,293	911,913	-
Due to Multi-State Lottery Association	503,622	512,868	1,416,788
Deferred Revenue	773,769	855,370	721,539
<b>Total Current Liabilities</b>	<u>53,851,703</u>	<u>52,539,864</u>	<u>71,688,504</u>
 <b>Long-Term Liabilities</b>			
Deferred Rent Liability	543,627	582,674	621,721
Net Pension Liability	44,624,031	-	-
Long-term Salaries and Benefits Payable	-	-	84,695
Long-term Annuities Payable	<u>119,397,354</u>	<u>125,384,680</u>	<u>128,583,612</u>
<b>Total Long-Term Liabilities</b>	<u>164,565,012</u>	<u>125,967,354</u>	<u>129,290,028</u>
 <b>Total Liabilities</b>	 <u>218,416,715</u>	 <u>178,507,218</u>	 <u>200,978,532</u>
 <b>DEFERRED INFLOW OF RESOURCES</b>			
Deferred Amount for Pensions	\$ 1,593,716	\$ -	\$ -
Invested in Capital Assets Unrestricted	1,179,717	1,388,147	1,684,712
Restricted	<u>(35,834,229)</u>	<u>10,086,392</u>	<u>2,070,989</u>
<b>Total Net Assets</b>	<u>(34,654,512)</u>	<u>11,474,539</u>	<u>3,755,701</u>
 <b>Total Liabilities and Net Assets</b>	 <u>\$ 185,355,919</u>	 <u>\$ 189,981,757</u>	 <u>\$ 204,734,233</u>

The Connecticut Lottery Corporation's assets decreased from \$204,734,233 for the fiscal year ended June 30, 2013, to \$189,981,757 for the fiscal year ended June 30, 2014, and decreased again to \$183,174,578 for the fiscal year ended June 30, 2015. The primary reason for the modest decrease in the fiscal year ended June 30, 2014 was a decrease in current assets of \$11,622,551 and a decrease in investments and noncurrent assets of \$2,833,360. The decrease of \$6,630,606 in the fiscal year ended June 30, 2015, was due primarily to a decrease in investments and non-current assets.

Total liabilities also decreased by \$22,471,314 during the fiscal year ended June 30, 2014, but increased by \$39,909,497 during the fiscal year ended June 30, 2015. The decline in fiscal year 2014 was attributed to the reduction of both current and long-term annuities payable, and prizes payable. The major factor for the increase in total liabilities during the fiscal year ended June 30, 2015 was CLC's reporting of \$44.6 million in additional long-term pension liabilities. As previously discussed, this pension liability is associated with the CLC adoption and implementation of GASB 68 to account for the CLC proportionate share of the State Employee's Retirement System cost sharing plan. This large increase in long-term and total liabilities is offset by a decline in long-term annuities payable of almost \$6 million.

**STATE AUDITORS' FINDINGS AND RECOMMENDATIONS**

Our review of the Connecticut Lottery Corporation for the fiscal years ended June 30, 2014 and 2015 did not reveal any areas that require corrective action.

## RECOMMENDATIONS

Our prior audit report contained two recommendations, which follow:

*Status of Prior Audit Recommendations:*

- CLC should initiate the occupational license process for new employees in a more timely manner to comply with Section 12-802a of the Connecticut General Statutes. We tested for compliance with these procedures in the current audit and noted that CLC is in compliance. The finding is not being repeated.
- CLC should file a list of prospective vendors with the State Elections Enforcement Commission on a monthly basis to comply with Section 9-612 subsection (h)(1) of the General Statutes. We tested for compliance with these procedures in the current audit and noted that CLC is in compliance. The finding is not being repeated.

*Current Audit Recommendations:*

Our current audit has not revealed any areas that require comment.

**CONCLUSION**

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the officials and employees of the Connecticut Lottery Corporation during our examination.



Marva N. Robinson  
Associate Auditor

Approved:



John C. Geragosian  
Auditor of Public Accounts



Robert M. Ward  
Auditor of Public Accounts