

MISSION:

*It is the mission of
the Colorado Lottery
to maximize revenues
for proceeds recipients
in a way that
demonstrates the
integrity that is
appropriate for a
state agency.*

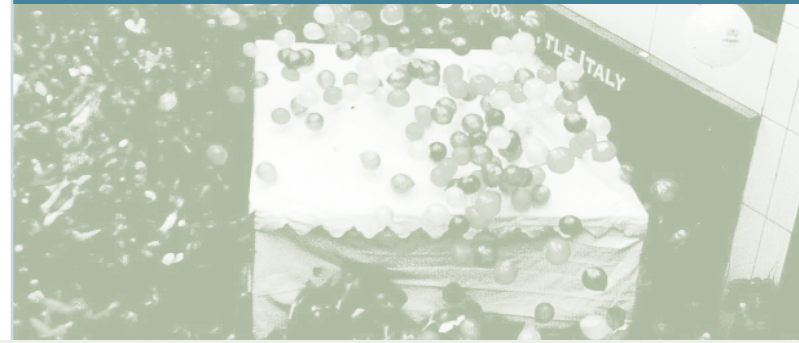
COLORADO LOTTERY



2002 ANNUAL REPORT

*The two sides of the
mission statement
are forever linked,
because maximum
revenue generation
cannot be achieved
without agency
responsibility, integrity
and security.*

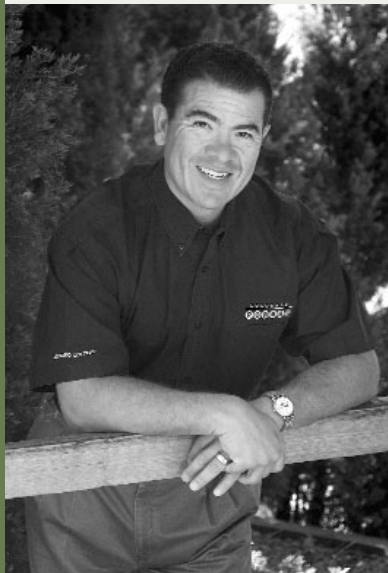




CELEBRATING THE PAST, AND THE FUTURE...

▶ *A Letter from the Director*

One of the greatest minds in the world, Albert Einstein, once said, "I never think about the future, it comes soon enough." Although we at the Lottery are continually planning for the future, in my mind, that statement seems true enough in 2003. I can still remember the excitement, fun and incredible accomplishments associated with the start-up of the Colorado Lottery on January 24, 1983. Our 20th anniversary is celebrated this year, and I am proud to have been a part of this agency over the past two decades.



The Lottery is about to embark on its third decade, and it seems logical to celebrate the past, but also prepare for the future. Although much has changed over the years, I continue to attribute our continued success to solid staff with diverse expertise, the ability to seek new opportunities, and our dedication to preserving the integrity of our agency. Security, innovation, and future technologies will pave the way to future success.

I have seen the agency grow from approximately \$40 million in proceeds generated in 1983, to over \$107 million last year. Each year, the challenge of rising above and beyond our previous year's revenue goal increases in difficulty. Proceeds returned to the state set a new record in 2002, but perhaps more importantly, the agency did so without compromising our principles and integrity.

In October 2002, I was elected president of the National Association of State and Provincial Lotteries (NASPL). NASPL's mission is to disseminate information and the benefits of North American lotteries, and to serve as a central information source so that the industry can share expertise and resources. As president of NASPL, I am looking forward to paving the way to new advancements in this industry, and to sharing information and experiences so that all lotteries can learn from one another to accomplish our individual goals.

The following document contains facts and figures about the Colorado Lottery in 2002. Thanks Colorado, for your support of our agency and the projects the Lottery has funded throughout our 20-year history. Those of us at the Lottery must never forget why we exist—to serve the state and raise proceeds to help preserve the environment and enhance our communities. We will continue to be your ticket to a more beautiful Colorado in 2003 and for years to come!

Mark Zamarripa

Mark Zamarripa
Colorado Lottery Director



HIGHLIGHTS 2002

- ▶ Throughout 2002, new, untraditional Scratch games were created based on comments from consumers and retailers. Among these games were *Harley Davidson*, which featured six motorcycle winners, *Die Another Day*, which capitalized on the blockbuster James Bond movie created by MGM, and *Colorado Road Trip*, which featured new Chevrolet Avalanche vehicles as prizes.
- ▶ In April 2002, the Lottery introduced an “e-lets” program on its web site. E-lets allow players to register on-line for Lottery information, including information about games, promotions and jackpots. The Lottery web site has been instrumental in improving communications and customer service, and is one of the most frequently visited sites in Colorado.
- ▶ In July 2002, the Lottery once again conducted the popular second-chance charity drawing. This promotion offered players the opportunity to drop off non-winning tickets for a chance to win money for themselves and Colorado non-profits. In all, over \$20,000 was distributed to various charities.
- ▶ In July, Michael Bennet was appointed by Governor Bill Owens to serve as a Colorado Lottery Commissioner. Commissioner Bennet’s background in business and finance brings experience and knowledge to the board.
- ▶ In August 2002, the Lottery introduced an advertisement called “I am the Lottery.” This innovative new campaign focused on informing publics about the impact Colorado Lottery funds have had in communities across the state over the past 20 years.
- ▶ In September 2002, the Lottery held a “design the Lottery’s 20th Anniversary Scratch ticket” contest. The winning concept was called *20 Year Adventure*, to be introduced shortly after the Lottery’s anniversary.
- ▶ After more than 20 years in the lottery industry, Colorado Lottery Director Mark Zamarripa was elected president of the National Association of State and Provincial Lotteries (NASPL) in October 2002. Zamarripa received the honor during a ceremony in Baltimore, Maryland.
- ▶ In October 2002, Powerball was modified to accommodate two new states—Pennsylvania and South Carolina. The game format change allows for a wider distribution of prize money at the 5 of 6 prize matches, which creates more big winners when the jackpot reaches record levels.
- ▶ In December 2002, the Powerball jackpot reached the second highest amount in history. Andrew J. Wittaker of West Virginia was the lucky winner of \$315 million.



VISIONS OF 2003

- ▶ A major task in 2003 will be the continued development of a new computer infrastructure.
- ▶ Although the change won’t take effect until 2004, the Lottery is already preparing to transition to a new game vendor, Scientific Games International (SGI). SGI will provide the Lottery with the latest technologies and services for drawing-related games and activities.
- ▶ The Lottery’s Scratch product will continue to be a major focus in 2003. The center of attention will revolve around new methods of distribution, placement, and inventory.
- ▶ In recent years, the Lottery has increased its emphasis on utilizing the Internet to communicate information and improve customer service. In 2003, the Lottery will focus on expanding its Internet services, to include components such as Internet marketing, e-mail communications, and promotional drawing registration.
- ▶ Adapting to a continually changing environment at retail will be a priority in 2003. The Lottery will work in the areas of training, technology, and communications to increase product support and efficiencies.

LOTTERY RETAILERS

Lottery retailers are crucial to healthy sales. Retailers are located throughout the state allowing players to purchase products conveniently. Over the years, the Lottery has expanded to nearly 2,900 retail locations. Examples of retailers that sell Lottery products include grocery stores, convenience stores, and liquor stores. In recent years, Lottery retail outlets have also included untraditional locations, such as shopping outlets and eateries. In addition to exploring new locations, the Lottery is committed to improving customer service and awareness at existing retail outlets.

Retailers profit from each ticket they sell, another economic benefit of the Lottery. For Scratch tickets, retailers earn 7 cents for each dollar they sell, and for games that involve drawings (Powerball, Lotto, and Cash 5) retailers earn 6 cents per ticket sold. Including cashing bonuses and incentives, retailer commissions and bonuses average 7.65 percent. Lottery retailers received \$30 million in sales commissions in 2002. This past year, the Lottery instituted a business review report for each individual retailer, as well as chain accounts, to let retail management easily view how Lottery ticket sales benefit their bottom line.



WINNERS

Colorado Lottery games are fun to play, and everyday thousands of people win prizes—large and small. In 2002, \$233 million in prizes were distributed to Lottery players. In addition to cash prizes, Lottery game and promotional drawings included prizes such as Chevrolet Avalanche pickup trucks, Volkswagen Beetles, Harley Davidson Motorcycles, and Top Flite Golf equipment.



CORPORATE RESPONSIBILITY

Over the past five years, the Lottery has expanded its emphasis to address problem gambling in Colorado. As a result, the Lottery's corporate responsibility is incorporated into every facet of its operations—from advertising to creating new games, from marketing to customer service.

The Lottery follows strict guidelines when portraying itself to the public. In addition, the Play Responsibly campaign (created and funded by the Lottery) encourages responsible play through signage at retailers and informational brochures. In addition, players can find information on how to seek assistance through a toll-free hotline number.

Once again in 2002, the Lottery worked closely with organizations such as the Problem Gambling Coalition of Colorado to address issues in this area. The Lottery is dedicated to continuing its commitment to serving Coloradans responsibly.

TECHNOLOGY

In 2003, the Lottery's conversion to a new computer system will also be intertwined with the migration to a new on-line (e.g. games that involve drawings) vendor. This new vendor, Scientific Games International, will begin their Colorado contract in 2004. The Colorado Lottery plans to utilize SGI technologies to improve services to players and the retail network. Plans for the future include quicker and more accurate validations, new ticket terminals, and improved communications to retailers and players.

CUSTOMER SERVICE

The Colorado Lottery has long valued its commitment to providing players and audiences with timely and accurate information. In addition to the development of its web site as a tool for customer service, the Lottery initiated programs such as e-Rep Rap, which is an e-mail newsletter with information about sales, upcoming game launches, promotions and meetings to communicate more efficiently with retailers and players. In addition, publications such as the 2003 Colorado Lottery retrospective and proceeds brochures help convey key messages about the benefits of Lottery revenues.

DIVERSITY

In 2002, the Colorado Lottery won a Governor's State Top Achievement Recognition (STAR) Award for Diversity. The Lottery was recognized for its commitment to inclusive behavior throughout the organization, and in its public outreach.

This marks the second time that the Lottery has won an award for diversity since fiscal year 2001. The agency also was honored with a Diversity Leaders Award from the Denver Minority and Women Chambers' Coalition in 2000.

The Lottery seeks to integrate diversity throughout the organization. The people who make up the Commission and staff represent various ethnicities, ages, lifestyles and cultures. The experiences of these individuals are put to use in making operations and marketing decisions. The Lottery participates in community events that specifically celebrate cultural diversity. Informational literature is translated into various languages to include non-English speaking populations.

The Lottery has a well-developed program to provide products and services to individuals with disabilities. All retail locations are checked for accessibility prior to licensing. Internally, the Lottery has a track record of making accommodations for disabled staff. Throughout Colorado, Lottery proceeds continue to help make park and recreation amenities accessible as well.



GAMES

► Scratch

Scratch tickets continued to be the leader in all Lottery products in 2002. Lottery Scratch sales equaled 59 percent of overall ticket sales. Much of the success of Scratch tickets can be attributed to new, innovative designs, and the willingness to explore untraditional concepts. Scratch sales totaled \$253.8 million in 2002.

Games featured alternatives to cash prizes, like *Go for the Green*, *Colorado Road Trip*, and *Harley Davidson*. The Lottery also introduced new play-styles in games like *Crossword*. *Crossword* featured a familiar, extended play-style, and its popularity among players resulted in three additional versions of the game—*Bonus Crossword*, *Crossword Doubler*, and *Crossword Extra*. Other Scratch games introduced in 2002 included innovative themes such as *Jumbo Bucks*, *Fruit Loot*, *Vegas Action*, *Downtown Doubler*, *Buzz N Bucks*, *Luck of the Dice*, *Crazy 8s*, *7-11-21*, *Reindeer Games*, and *Winner Wonderland*.

New technologies in printing allowed the Lottery to explore bolder and brighter ticket designs. Printing processes such as color pulsing, four-color overprints, and specialty inks and coatings made tickets more exciting and diverse than ever before.



The Lottery also initiated a new top-prize giveaway feature for select Scratch games in 2002. This feature allows players to submit non-winning tickets into second-chance drawings to win cash and/or merchandise prizes.

► Powerball

Beginning its second year in 2002, Powerball continued to be a favorite among players, and led all drawing-format games in sales, netting \$78.7 million. Two new states joined Powerball in 2002, prompting a change to the play-style "matrix." The change allows the jackpot to continue to reach high levels, and at the same time distributes more money to the secondary prize amount when the jackpot reaches record levels.

Colorado also remained the industry leader in PowerPlay sales in 2002. PowerPlay is a feature in which players can multiply any prize won (except the jackpot) by 2, 3, 4 or 5 times the original amount.

In addition to the high jackpots featured in Powerball (regularly over \$100 million), funds from Powerball stay in Colorado to help parks, recreation, and other environmental projects.

Powerball will continue to be a focal point to drawing format games in Colorado in 2003. The Multi-State Lottery Association, which oversees Powerball, and its board of directors, will adapt the game to changing player preferences, and will provide fun and excitement for its players.

► Lotto

"Colorado's Game," Lotto, produced \$51.8 million in 2002. Although Lotto sales were affected somewhat by the introduction of Powerball, it remains a major revenue producer. Lotto features lower odds to win the jackpot than Powerball, and produced winners ranging from \$2 million to \$9.5 million in 2002. In all, nine people won the jackpot last year.

A new advertising campaign helped revitalize Lotto sales in 2002. In addition, promotions such as "Catch the Lotto Bug" provided players with the chance to win Volkswagen Beetles in addition to cash prizes.

The largest jackpot of the year, \$16 million, was divided between two winners, Michael Menard of Littleton and Tupy Davis of Arvada.

► Cash 5

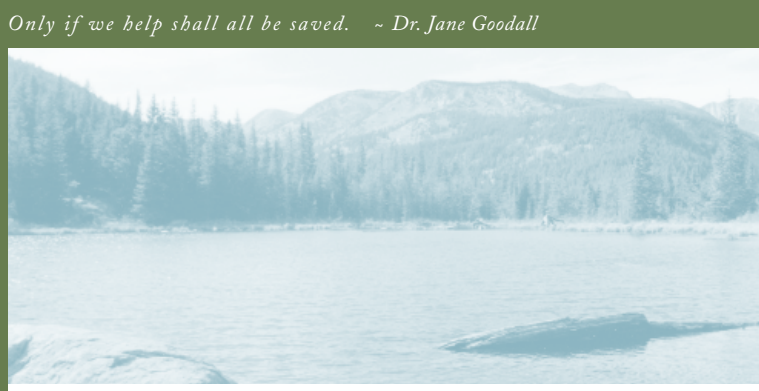
Introduced in 1996, Cash 5 plays like Lotto, yet offers better odds of winning. Cash 5 is extremely popular among its playership, and is the only drawing-style game that holds drawings every day of the week (except Sunday). Players win prizes for matching 2, 3, 4 or 5 of 5 numbers. Cash 5 sales totaled \$13.2 million in 2002, with 55 people winning the top prize of \$20,000.

DEMOGRAPHICS

Lottery demographics are about as diverse as the lottery games themselves. The Colorado Lottery has been conducting annual demographic studies since 1983. Consistently, research has shown that the typical Lottery player is a reflection of the typical Coloradan. Lottery player demographics vary across the board in age, ethnicity, education and income. (see graph on page 6)

POWERBALL

Colorado Lottery



PUBLIC APPROVAL

A key goal of the Lottery is to operate efficiently, and with the integrity that is expected from a state agency. In addition to selling Lottery games, the agency is committed to communicating the benefits of its products to retailers, recipients of proceeds, communities, players, and other key audiences.

The Lottery has regularly conducted image studies to determine how audiences feel about the agency, and to help isolate areas of improvement. Image studies allow the Lottery to access the awareness and image of the Colorado Lottery as an organization, and its contribution to the state of Colorado.

Colorado residents have expressed strong support for the Colorado Lottery and the purposes for which it was established in every survey since 1991. In the 2002 survey (conducted by the Howell Research Group in April), 83 percent of those surveyed indicated they were in favor of the Colorado Lottery.

PROCEEDS

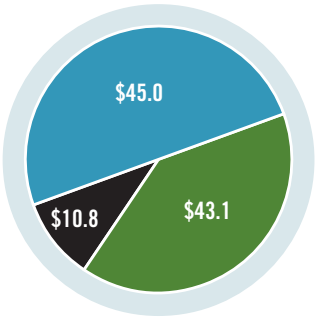
Over the past 20 years, thousands of projects have been funded with Lottery revenues. No matter where you go in Colorado, odds are you've benefited regularly from Lottery revenues. Projects, large and small, have included playgrounds in parks, neighborhood bike paths, open space buffers separating communities, the protection of endangered species, and new recreation centers—just to name a few. The following is a closer look at Colorado Lottery proceeds recipients in 2002.

Colorado Proceeds Distribution for Calendar Year 2002

Up to 50% Great Outdoors Colorado Trust Fund*

10% The Colorado Division of Parks and Outdoor Recreation

40% The Conservation Trust Fund



(Dollars in Millions)

* GOCO is capped at \$35 million in 1992 dollars. Any funds in excess of that go to address school health and safety issues. In 2002, \$8.5 million was distributed for school, health and safety.

► Great Outdoors Colorado

Established in 1992, Great Outdoors Colorado Trust Fund (GOCO) receives its funding solely through Lottery revenues. GOCO uses proceeds to fund open space, local parks and recreation, state parks, wildlife protection, and environmental projects. More than \$45 million was distributed to GOCO in 2002.

► Conservation Trust Fund

Local parks and recreation providers—towns, cities, counties, and special districts—receive money from this fund based on population. More than \$43.1 million was distributed through the Conservation Trust Fund in 2002 for land acquisitions, equipment purchases, facility development, park maintenance, and renovation or restoration of local facilities.

► Colorado Division of Parks and Outdoor Recreation

Colorado's 40 state parks use Lottery money for open space and land acquisition, trail system construction and maintenance, equipment and facility purchases, and maintenance and renovation of state parks' facilities. Approximately \$10.8 million was distributed to Colorado State Parks in 2002.

► School Health and Safety

The passing of Referendum E (which allows the Lottery to participate in multi-state games such as Powerball) changed the current proceeds distribution formula. The Great Outdoors Colorado Trust Fund receives up to 50 percent of Lottery proceeds; however, this fund is capped at \$35 million (in 1992 dollars) according to the consumer price index. Under this new legislation, spillover from the Great Outdoors Colorado Trust Fund that was formerly designated to the General Fund will be used to address health and safety issues in public schools. Approximately \$8.5 million was distributed to this fund in 2002.

CONTINUING TO BE YOUR TICKET...

The Colorado Lottery is not the same as it was 20 years ago. When the Lottery first started, it offered one Scratch ticket. Today the Lottery has three games with drawings and introduces over 30 Scratch tickets a year, each offering various looks, prizes and play-styles. Over the years the agency has utilized new technology, initiated new customer service standards, improved security standards, and adapted to changing environments. One thing at the Colorado Lottery will remain the same—the agency's dedication to working to serve Coloradans, and help improve the state we call home.



COLORADO LOTTERY CALENDAR YEAR STATEMENT OF REVENUE, PRIZE DISBURSEMENT, AND EXPENSES (IN MILLIONS)

Calendar Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
INCOME												
Ticket Sales	\$209.7	\$246.0	\$280.9	\$322.6	\$343.7	\$343.1	\$365.3	\$386.4	\$367.9	\$349.0	\$397.0	\$397.5
Other Income	\$2.4	\$2.2	\$1.7	\$1.6	\$1.8	\$1.8	\$1.8	\$2.3	\$1.7	\$1.8	\$2.6	\$6.5
TOTAL	\$212.1	\$248.2	\$282.6	\$324.2	\$345.5	\$344.9	\$367.1	\$388.7	\$369.6	\$350.8	\$399.6	\$404.0
EXPENSES												
Prizes*	\$109.2	\$131.9	\$163.8	\$184.3	\$197.0	\$202.1	\$214.8	\$230.8	\$226.5	\$215.1	\$233.7	\$233.0
Commissions	\$12.6	\$14.8	\$17.1	\$19.7	\$22.0	\$21.5	\$21.3	\$28.5	\$27.9	\$26.5	\$30.1	\$30.0
Other	\$23.7	\$25.8	\$29.0	\$29.8	\$30.1	\$30.2	\$32.5	\$34.4	\$31.7	\$31.1	\$33.4	\$32.6
Net Income	\$66.6	\$76.1	\$72.7	\$90.4	\$96.4	\$91.1	\$98.7	\$95.0	\$83.5	\$78.1	\$102.4	\$108.4
PROCEEDS												
State Parks	\$4.1	\$5.8	\$5.5	\$6.8	\$8.5	\$8.2	\$9.0	\$9.5	\$8.4	\$7.8	\$10.2	\$10.8
Conservation Trust Fund	\$16.2	\$23.2	\$21.9	\$27.1	\$34.1	\$33.1	\$36.1	\$38.1	\$33.5	\$31.3	\$40.7	\$43.1
Great Outdoors Colorado	-	-	\$10.9	\$23.2	\$20.3	\$16.3	\$21.5	\$22.5	\$41.8	\$37.9	\$50.8	\$45.3
State Public School Fund	-	-	-	-	-	-	-	-	-	-	-	\$8.5
General Fund	-	-	-	-	-	-	-	-	-	\$1.3	-	-
Capital Construction	\$46.3	\$46.9	\$34.4	\$33.3	\$33.5	\$33.5	\$32.1	\$24.9	-	-	-	-
TOTAL	\$66.6	\$75.9	\$72.7	\$90.4	\$96.4	\$91.1	\$98.7	\$95.0	\$83.7	\$78.3	\$101.7	\$107.7

* These figures represent prize accrual, or prizes won but not necessarily claimed. Actual prizes paid for Calendar Year 2002 was \$215,318,731.

WHO PLAYS THE LOTTERY?

Category	Population	Players	Category	Population	Players	Category	Population	Players
AGE			INCOME			ETHNICITY		
18-24	7%	7%	Less than \$15,000	6%	7%	White/Not Hispanic	76%	70%
25-34	16%	16%	\$15,000-\$24,999	8%	8%	Hispanic/Latino	15%	22%
35-44	23%	20%	\$25,000-\$34,999	11%	11%	African/American	4%	6%
45-54	20%	23%	\$35,000-\$49,999	12%	13%	Native American	2%	1%
55-64	22%	23%	\$50,000-\$74,999	17%	17%	Asian	3%	2%
65+	11%	10%	\$75,000 or more	19%	19%	Other	0%	0%
No Response	0%	0%	No Response	28%	25%	No Response	0%	0%
TOTAL	100%	100%	TOTAL	100%	100%	TOTAL	100%	100%
GENDER			EDUCATION			<p>Results of a custom survey conducted in April 2002 by The Howell Research Group, Denver, Colorado. Overall margin of error is $\pm 4.5\%$. "Population" represents the sample of 501 adult Colorado residents who were selected randomly to be interviewed for the study. "Players" are those who reported that they had played a Lottery game in the past 30 days.</p>		
Male	50%	55%	Less than 12 Yrs	5%	9%			
Female	50%	45%	HS Graduate	21%	26%			
TOTAL	100%	100%	Some College	27%	29%			
			College Graduate	30%	23%			
			Postgrad Degree	15%	12%			
			No Response	2%	1%			
			TOTAL	100%	100%			

LOTTERY
COMMISSION:

Javonni Willis, *Chair*

Stephen Hess, *Vice Chair*

Micheal Acree

Timothy Bachicha

Michael Bennet



Your ticket to a more
beautiful Colorado.

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