

COLORADO LOTTERY
**STATEMENT OF LOTTERY REVENUES,
PRIZE DISBURSEMENTS AND OTHER EXPENSES**

(UNAUDITED)

FOR THE SECOND QUARTER ENDED

DECEMBER 31, 2007

**COLORADO LOTTERY
FINANCIAL STATEMENTS
(UNAUDITED)**

DISTRIBUTION

Honorable Bill Ritter, Jr.	Governor
Ms. Cary Kennedy	State Treasurer
Rep. Andrew Romanoff	Speaker of the House of Representatives
Sen. Joan Fitz-Gerald	President of the Senate
Sen. Andrew McElhany	Senate Minority Leader
Rep. Mike May	House Minority Leader
Mr. Dick Reeve	Chairman, Lottery Commissioner
Ms. Robin Wise	Vice-Chairman, Lottery Commissioner
Ms. Betty Martinez	Lottery Commissioner
Mr. Jerry McMahan	Lottery Commissioner
Ms. Tracie L. Keesee	Lottery Commissioner
Ms. Roxy Huber	Executive Director, Department of Revenue
Ms. Peggy Gordon	Director, Colorado Lottery
Mr. Tom Kitts	Deputy Director, Colorado Lottery
Mr. Leslie Shenefelt	State Controller
Ms. Sally Symanski	State Auditor
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STATE OF COLORADO

COLORADO LOTTERY DIVISION

Department of Revenue

Headquarters

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Bill Ritter, Jr.
Governor

Roxy Huber
Executive Director

Margaret Gordon
Lottery Director

January 22, 2008

State Treasurer and Members of the Colorado Lottery Commission:

Pursuant to CRS 24-35-204, the Colorado Lottery is required to furnish monthly, "a complete statement of lottery revenues, prize disbursements and other expenses."

The financial performance for the second quarter ended December 31, 2007 depicts total revenues of \$249.4 million, gross ticket sales of \$248.3 million, net income before proceeds distributions of \$61.1 million, and a net decrease in net assets of \$.3 million. Accordingly, a total of \$61.4 million in distributions will have been made by March 1, 2008 in the following manner; \$30.7 million to the Great Outdoors Colorado Fund, \$6.1 million to the Division of Parks and Outdoor Recreation, \$24.6 million to the Conservation Trust Fund, for distribution to cities and other local government agencies.

The attached financial statements for the second quarter ended December 31, 2007 have not been audited. They have been prepared in accordance with generally accepted accounting principles, using established accounting and internal control procedures. These procedures include, but are not limited to, documentation and accounting estimates, which support the production of reliable financial statements. As with any system of accounting and internal control procedures, there are inherent limitations, and the procedures cannot be relied upon to completely eliminate the occurrence of discrepancies, error or omissions, but should reduce that risk to a relatively low tolerable level.

Respectfully submitted,

A handwritten signature in black ink that reads "Barb Aggson".

Barb Aggson
Controller
Colorado Lottery

**COLORADO LOTTERY
FINANCIAL STATEMENTS
(UNAUDITED)**

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COLORADO LOTTERY
FINANCIAL HIGHLIGHTS
\$ IN MILLIONS
FOR THE SECOND QUARTERS ENDED DECEMBER 31, 2007 AND 2006

The table included below and the graphs included on page 2 present certain summarized operating results of the Colorado Lottery for the second quarters ended December 31, 2007 and 2006, and should be read in conjunction with the financial statements presented herein. The graphs included on page 2 are presented for the purpose of demonstrating the Colorado Lottery's compliance with certain statutes that pertain to its operations.

	For the second quarters ended December 31,			
	2008		2007	
	Total	Actual Percent	Total	Actual Percent
INCOME				
Gross Ticket Sales	\$248.25		\$217.33	
Nonoperating revenue	1.14		1.32	
TOTAL INCOME	249.39		218.65	
LESS:				
PRIZES	\$153.02	61.6% (1)	\$131.80	60.6% (1)
RETAILER COMMISSIONS AND BONUSES	\$18.65	7.5% (1)	\$16.26	7.5% (1)
ADMINISTRATIVE COSTS				
Ticket Costs and Vendor Fees	4.73		3.89	
Other Operating Expenses	11.86		9.72	
TOTAL ADMINISTRATIVE COSTS (Note 3)	16.59	6.7% (2)	13.61	6.2% (2)
	61.13		56.98	
NET CHANGE IN NET ASSETS	-0.31		-0.12	
PROCEEDS DISTRIBUTION	\$61.44	24.6% (2)	\$57.10	26.1% (2)

Note 1: Percent of gross ticket sales.

Note 2: Percent of total income.

Note 3: Total operating expenses per the statement of revenues, expenses and changes in fund net assets includes unappropriated expenses such as depreciation and accrued annual and sick leave. The actual administrative costs percentage would be slightly lower if they were removed from the calculation.

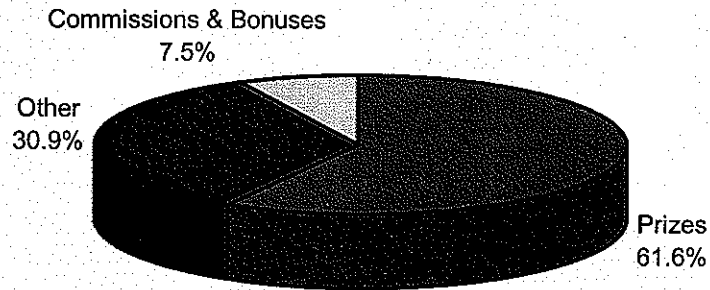
**COLORADO LOTTERY
FINANCIAL STATEMENTS
(UNAUDITED)**

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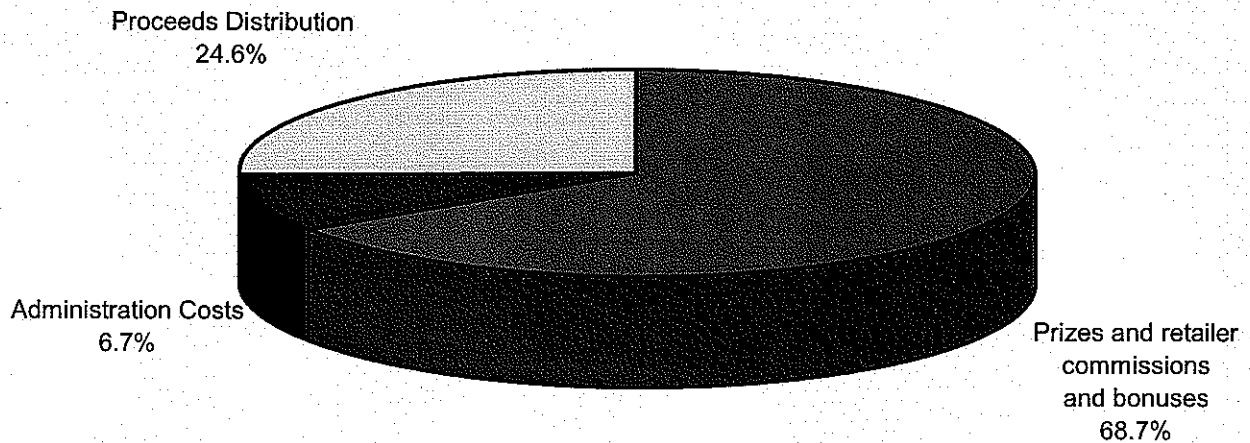
COLORADO LOTTERY
SUPPLEMENT OF FINANCIAL HIGHLIGHTS
FOR THE SECOND QUARTER
ENDED DECEMBER 31, 2007

PERCENT OF GROSS TICKET SALES



To depict compliance with the 50% prize payment statute and the commission/bonus rules.

PERCENT OF TOTAL INCOME



To depict status of administrative expenditures to date.

COLORADO LOTTERY
STATEMENTS OF NET ASSETS
DECEMBER 31, 2007 AND 2006
(UNAUDITED)

ASSETS	2008	2007
Current Assets:		
Cash and Investments	\$ 31,093,744	\$ 27,172,052
Accounts Receivable, net of the allowance for doubtful accounts of \$255,413 2008 and \$226,566 in 2007	20,353,180	18,934,677
Consignment Inventory, at Cost	118,024	74,802
Warehouse Inventory, at Cost	730,680	734,275
Prepaid Expenses	275,265	191,269
Total Current Assets	52,570,893	47,107,075
Reserve and Restricted Assets:		
Cash and Investments-Operating Reserve	1,300,000	1,500,000
Cash and Investments-Licensed Agent Recovery Reserve Receipts	444,429	415,547
Prepaid Prize Expense with MUSL	4,025,188	3,701,792
Total Reserve and Restricted Assets	5,769,617	5,617,339
Capital Assets:		
Equipment	3,162,610	3,759,933
Leasehold Improvements	11,978	14,053
Less Accumulated Depreciation and Amortization	(2,606,881)	(3,060,412)
Total Capital Assets	567,707	713,574
TOTAL ASSETS	\$ 58,908,216	\$ 53,437,988
LIABILITIES		
Current Liabilities:		
Accounts Payable	3,125,795	2,518,886
Prize Liability	22,589,248	19,537,744
Payable to MUSL	0	0
Wages and Benefits	145,179	105,050
Accrued Annual and Sick Leave	0	0
Retailer Bonus Liability	680,157	928,266
Funds Available for Distribution	28,889,828	26,580,773
Deferred Revenue	257,156	208,522
Total Current Liabilities	55,687,363	49,879,241
Long-Term Liabilities:		
Accrued Annual and Sick Leave	808,138	821,724
Expired Warrants Liability	100,580	107,902
Total Long-Term Liabilities	908,718	929,626
TOTAL LIABILITIES	56,596,081	50,808,867
NET ASSETS		
Investment in Capital Assets	567,707	713,574
Restricted-Licensed Agent Recovery Reserve	444,429	415,547
Unrestricted-Operating Reserve	1,300,000	1,500,000
Unrestricted-Other	0	0
TOTAL NET ASSETS	2,312,136	2,629,121
TOTAL LIABILITIES AND NET ASSETS	\$ 58,908,216	\$ 53,437,988

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

COLORADO LOTTERY
 POWERBALL ANNUITY WINNERS TRUST FUND
 STATEMENTS OF NET ASSETS
 DECEMBER 31, 2007 AND 2006
 (UNAUDITED)

	<u>2008</u>	<u>2007</u>
ASSETS		
Current Assets:		
Interest Receivable	\$ 95,533	\$ 0
Long Term Assets:		
Long Term Investments-PB Annuity	<u>9,746,633</u>	<u>0</u>
TOTAL ASSETS	\$ <u><u>9,842,166</u></u>	\$ <u><u>0</u></u>
 NET ASSETS		
NET ASSETS, BEGINNING OF YEAR	0	0
Net Change in Net Assets	<u>9,842,166</u>	<u>0</u>
NET ASSETS, END OF PERIOD	\$ <u><u>9,842,166</u></u>	\$ <u><u>0</u></u>

COLORADO LOTTERY
 STATEMENTS OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET ASSETS
 FOR THE SECOND QUARTERS ENDED DECEMBER 31, 2007 AND 2006
 (UNAUDITED)

	2008	2007
OPERATING REVENUES		
Gross Ticket Sales	\$ 248,253,269	\$ 217,334,202
DIRECT OPERATING EXPENSES		
Prize Expense	153,219,061	132,517,010
Powerball Prize Variance	(202,072)	(719,833)
Retailer Commissions and Bonuses	18,647,481	16,257,463
Cost of Tickets and Vendor Fees	4,725,456	3,897,553
GROSS PROFIT ON SALE OF TICKETS	71,863,343	65,382,009
OTHER OPERATING EXPENSES		
Marketing and Communications	4,376,437	3,611,615
Administration Fees Paid to MUSL	54,446	54,446
Wages and Benefits	4,361,279	4,411,178
Professional Services	149,037	78,576
State Agencies Services	62,465	71,686
Department of Revenue Services	229,440	179,187
Travel	45,182	33,638
Equipment	540,280	83,562
Depreciation	80,147	77,900
Accrued Annual and Sick Leave	(9,704)	(16,990)
Space Rental	346,049	304,198
Rents for Equipment	11,611	14,933
Motorpool Leasing	176,728	164,713
Materials and Supplies	43,027	39,987
Telephone	51,518	54,295
On-Line Telecommunications	915,086	173,532
Data Processing Supplies and Services	8,897	37,044
Equipment Maintenance	175,660	131,192
Postage	30,813	26,042
Printing	5,130	18,757
Other	208,611	168,628
Total Other Operating Expenses	11,862,139	9,718,119
OPERATING INCOME	60,001,204	55,663,890
NONOPERATING REVENUES (EXPENSES)		
Other Revenue	60,698	422,043
Investment Income	1,078,844	894,262
Funds Distributed for Current Year	(32,561,756)	(30,522,416)
Funds Available for Distribution for Current Year	(28,889,828)	(26,580,773)
Total Nonoperating Revenues (Expenses)	(60,312,042)	(55,786,884)
NET INCOME (LOSS)	\$ (310,838)	\$ (122,994)
NET ASSETS, BEGINNING OF YEAR	2,622,974	2,752,115
Net Change in Net Assets	(310,838)	(122,994)
NET ASSETS, END OF PERIOD	\$ 2,312,136	\$ 2,629,121

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

COLORADO LOTTERY
 POWERBALL ANNUITY WINNERS TRUST FUND
 STATEMENTS OF CHANGES IN NET ASSETS
 FOR THE SECOND QUARTERS ENDED DECEMBER 31, 2007 AND 2006
 (UNAUDITED)

	2008	2007
REVENUES		
Interest Income	\$ 95,533	\$
Trust Fund Additions	9,746,633	
TOTAL REVENUES	9,842,166	0
EXPENSES		
Trust Fund Deductions	0	0
NET CHANGE IN NET ASSETS	\$ 9,842,166	\$ 0

COLORADO LOTTERY
STATEMENTS OF CASH FLOWS
FOR THE SECOND QUARTER ENDED DECEMBER 31, 2007 & 2006
(UNAUDITED)

	2008	2007
Cash flows from operating activities:		
Cash received from retailers	\$ 246,327,949	\$ 213,764,139
Cash paid in prizes	(154,203,420)	(129,432,309)
Cash payments to suppliers	(11,235,874)	(7,567,388)
Cash paid in retailer commissions	(16,510,067)	(14,439,321)
Cash payments to employees for services	(4,912,428)	(5,086,938)
Cash paid in retailer bonus	(1,946,077)	(1,302,869)
Cash received (used) - other	159,321	3,390
Net cash provided by operating activities	57,679,404	55,938,704
Cash flows from non-capital financing activities:		
Distribution of net proceeds	(61,267,874)	(59,318,720)
Net cash used by noncapital financing activities	(61,267,874)	(59,318,720)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(16,530)	(57,046)
Cash flows from investing activities:		
Interest received	1,078,844	894,262
	1,078,844	894,262
Net increase (decrease) in cash and investments	(2,526,156)	(2,542,800)
Cash and investments, Beginning of Year (including \$426,058 and \$398,064, respectively, in restricted accounts)	35,364,329	31,630,399
Cash and investments, End of Period, (including \$444,429 and \$415,547 respectively, in restricted accounts)	\$ 32,838,173	\$ 29,087,599
<i>Reconciliation of operating income to net cash provided by operating activities:</i>		
Operating income	\$ 60,001,204	\$ 55,663,890
Adjustments to reconcile operating income to net cash		
Depreciation	80,147	77,900
Loss on disposition of equipment	65,592	19,623
Other revenue	60,698	422,043
(Increase) Decrease in Prepaid Prize Expense with MUSL	(128,720)	6,988
Change in:		
Accounts Receivable	(2,072,897)	(3,094,620)
Ticket Inventory	(124,510)	16,458
Other Assets	(200,800)	(146,049)
Liabilities	(1,310)	2,972,471
Net cash provided by operating activities	\$ 57,679,404	\$ 55,938,704

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

Colorado Lottery
Notes to Financial Statements
December 31, 2007 and 2006

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Colorado Lottery (the Lottery) began operations April 30, 1982 under the provisions of Section 24-35-202, C.R.S. The Lottery operates under a commission and provides operation and service of lottery games as authorized by the statute. The Lottery's revenues are predominantly earned from the sale of lottery products, including scratch, Lotto, Powerball and Cash 5.

The financial statements reflect only activities of the Lottery, an enterprise fund of the State of Colorado, for the second quarters ended December 31, 2007 and 2006. The Lottery is an agency of the State of Colorado. The financial statements are intended to present the financial position and results of operations and cash flows of only that portion of the State of Colorado that is attributable to the transactions of the Lottery in accordance with accounting principles generally accepted in the United States of America.

The accounting policies of the Lottery conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Fund Accounting

Government resources are allocated to, and accounted for, in separate sub-entities called funds, based upon the purposes for which the resources are to be spent and the means by which spending activities are controlled. A fund is a fiscal and accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, net assets, revenues and expenditures.

Colorado Lottery

Notes to Financial Statements

December 31, 2007 and 2006

Enterprise Fund

The Lottery accounts for its operations as an enterprise fund. The intent of the State of Colorado Legislature is that the Lottery's cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. As permitted by Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Lottery has elected to apply only those applicable Financial Accounting Standards Board Statements and interpretations issued prior to November 30, 1989.

The Lottery defines operating revenues as those earned as a direct result of the fund's principal ongoing operations, i.e., the sale of lottery products. Operating expenses include expenses incurred in earning those revenues such as the cost of tickets, vendor fees, retailer commissions and bonuses, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Basis of Accounting

Basis of accounting refers to when revenues, expenditures or expenses are recognized in the accounts and reported in the financial statements. The Lottery accounts for funds using the accrual basis of accounting. Revenues from scratch ticket sales are recognized at the point of ticket pack activation. Revenues from Lotto, Powerball, and Cash 5 ticket sales are recognized using the specific performance method whereby sales are recognized at the point that the play becomes active for the next drawing. Expenses are recognized when they are incurred.

Budget

By October 24th of each year, the Department of Revenue Executive Director submits to the Office of State Planning and Budgeting a proposed legislative budget for the fiscal year commencing the following July 1. The legislative budget includes proposed expenditures and the means of financing them.

Public hearings are conducted by the Joint Budget Committee to obtain clarification and taxpayer comments. Prior to June 30, the budget is legally enacted through passage of a law referred to as the Long Bill.

During the fiscal year, the approved legislative budget may be modified due to roll-forward authorization, supplemental budget approval or line item transfer authorization. All modifications must be approved by the State Controller and the Office of State Planning and/or Budgeting and the Legislature.

Colorado Lottery
Notes to Financial Statements
December 31, 2007 and 2006

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist of amounts due from retailers for activated scratch ticket packs and uncollected on-line sales. Accounts receivable are stated at the amount billed to retailers plus scratch ticket packs activated not yet settled. Accounts receivable are ordinarily due seven days after the issuance of the invoice and are electronically transferred from the retailer's accounts into the Lottery's account.

Allowance for doubtful accounts represents a provision for receivables that will probably not be collected in the future. Consideration of the economic climate, credit-worthiness of individual account debtors, bankruptcy of debtor, discontinuance of debtor's business, failure of repeated attempts to collect and barring of collection by statute of limitations are factors used in considering when an account becomes uncollectible. The accrual of a loss contingency is required when a loss is probable and/or can be reasonably estimated.

The Lottery uses the specific identification method to determine expected uncollectibles. Under the provisions of Section 24-35-219, C.R.S., licensed agent recovery reserve receipts are collected from the retailers to cover uncollectible accounts. The accounts receivable and the licensed agent recovery reserve are shown net of estimated uncollectible receivables of \$255,413 and \$226,566 as of December 31, 2007 and 2006, respectively.

Consignment Inventory

Inventory on consignment represents non-activated ticket inventory in the possession of retailers who act as agents of the Lottery. The Lottery retains title to these tickets since retailers have the right to return non-activated tickets; therefore, the tickets are included in the inventory and reported on the statements of net assets. Consignment inventory is stated at cost using the specific identification method.

Warehouse Inventory

Warehouse inventory represents unsold tickets in possession of the Lottery and is stated at cost, using the specific identification method.

Supplies Inventory

The State of Colorado's threshold for recording supplies inventories is \$100,000 per location. The supplies inventory of the Lottery consistently falls below the \$100,000 threshold per location. Accordingly, no supplies inventory appears on the statements of net assets.

Colorado Lottery
Notes to Financial Statements
December 31, 2007 and 2006

Prepaid Prize Expense

As part of the Lottery's agreement with MUSL, for the Powerball game, a certain percentage of sales must be paid to MUSL for set prize and grand prize reserves.

Fixed Assets

Equipment and leasehold improvements are stated at cost. Beginning January 1, 2004, the Lottery adopted the state policy of capitalizing equipment only if the cost exceeds \$5,000 and has a useful life of more than one year. Depreciation for equipment is computed on the straight-line method over estimated useful lives ranging from three to ten years. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful lives of the improvements. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and resulting gains or losses are recognized in current operations.

Accrued Wages and Benefits

During each fiscal year, the state changes the pay date for the month of June for all state employees, deferring the date from the last working day of June to the first working day of July. For the Lottery, this created a liability for accrued wages at June 30, 2007 and 2006 of \$745,042 and \$780,257, respectively.

Prize Liability and Prize Expense

Under the provisions of Section 24-35-210 (9), C.R.S., the Lottery must pay no less than fifty percent (50%) of total ticket sales as prizes. In the aggregate, all games to date are planned to pay 50% or more of total ticket sales in prizes. Additional prize expense and corresponding liability may be incurred as a result of market fluctuations in the cost of annuities used to pay Lotto jackpots (see Note 10).

All scratch, online and special drawing prizes are accounted for using the accrual basis of accounting. The liability for scratch prizes and online prizes is recognized at the point of retail sale. The liability for special drawing prizes is accrued on the first day of sales.

Payments of scratch prize amounts of \$150 or less may be made at the Lottery or at the retail outlet; payment of scratch prize amounts of \$151 to \$599 may be made at the retailer level at the option of the retailer or at the Lottery. Scratch prizes of \$600 or more are paid by the Lottery. Retailers are given credit for prize payments they make on a daily basis. Prizes may be claimed up to 180 days after game-end. After the final claim date, any unclaimed scratch prizes will result in a decrease to prize expense and any prizes claimed in excess of the liability accrued will result in an increase to prize expense. Net unclaimed scratch prizes resulted in a decrease to prize expense of \$2,215,005 for the second quarter ended December 31, 2007 and \$1,995,543 for the second quarter ended December 31, 2006.

Colorado Lottery

Notes to Financial Statements

December 31, 2007 and 2006

Payments of cumulative online prize amounts of \$150 or less on a single ticket may be made at the Lottery or at the retail outlet; payment of cumulative prize amounts of \$151 to \$599 on a single ticket may be made at the retailer level at the option of the retailer or at the Lottery. Payment of cumulative prize amounts of \$600 or more on a single ticket must be made at the Lottery. Retailers are given credit for prize payments they make on a daily basis. Online prizes may be claimed up to 180 days after the date of the drawing. After the final claim date, unclaimed online prizes will result in a decrease to prize expense so long as the aggregate prize expense of all games exceeds or equals the statutory 50% of sales. In the event that the expiration of an unclaimed prize would result in the aggregate prize expense of all games to fall below the statutory 50% level, the unclaimed prize amount would remain in prize expense and be paid out to players as a guaranteed additional prize. Unclaimed online prizes resulted in a decrease to prize expense of \$2,020,448 for the second quarter ended December 31, 2007 and \$2,403,708 for the second quarter ended December 31, 2006.

Powerball Prize Variance expense (revenue) represents a portion of the Powerball 50% prize expense accrual (as mandated by game rule) that is transferred to or received from the Multi-State Lottery Association (MUSL). Powerball Prize Variance expense occurs when Colorado's liability, which consists of the low-tier prizes won by Colorado players plus Colorado's contribution to the jackpot, is less than the 50% accrual. If Colorado's Powerball liability, at the end of any interim reporting period, exceeds the 50% accrual, revenue is recognized. In the event that Colorado's total Powerball liability in any week should exceed the 50% accrual, MUSL will reimburse the excess to the Lottery.

Retailer Bonus Liability

Under provisions 5.10 and 10.10 of the Colorado Lottery Commission Rules and Regulations effective as of July 1, 1997:

“ . . .the Director may provide such additional compensation to licensees as is deemed appropriate by the Director to further the sale of lottery tickets, so long as such additional compensation is made equally available to all licensees and does not exceed a total of Seven Tenths Percent (.7%) for Lotto, Sixty-five Hundredths Percent (.65%) for Powerball, Ninety-six Hundredths Percent (.96%) for Cash, and a total of Five-Tenths Percent (.5%) plus One Percent of all scratch prizes up to and including \$599.99 for Scratch.”

A portion of the additional compensation shall be used to pay each licensee, as a bonus, an amount (cashing bonus) equal to one percent (1%) of each prize paid by the licensee up to and including \$599.99.

At the Director's discretion, the residual resulting after paying the cashing bonuses may be used to provide additional compensation to licensees and/or to decrease the bonus expense by reverting the excess amount.

The cashing bonus is accrued as tickets are sold and paid as winning tickets are redeemed. Any cashing bonuses unclaimed at the end of the claim period result in a reduction of bonus expense.

Colorado Lottery
Notes to Financial Statements
December 31, 2007 and 2006

Licensed Agent Recovery Reserve

Under the provisions of Section 24-35-219, C.R.S., a Licensed Agent Recovery Reserve was established on January 1, 1988 to maintain surety bond receipts collected from Lottery retailers. Billing rates are established by the Executive Director of the Department of Revenue and are reviewed on an annual basis. Retailers have the option to obtain private surety bond coverage at a rate of \$2,000 surety coverage per outlet at their discretion. As of December 31, 2007 and December 31, 2006, the Lottery has reserved \$444,429 and \$415,547, respectively.

Lottery Fund Net Assets

In accordance with Section 24-35-210 (4.1)(a), C.R.S., the Lottery Commission shall reserve "sufficient monies, as of the end of the fiscal year, to ensure the operation of the Lottery for the ensuing year." The Lottery Commission approved a reserve of \$1 million of the net assets for fiscal year 1989. This remained in effect until the implementation of GASB 34, which required a net asset balance sufficient to cover the net value of an agency's capital assets. Accordingly, at the June 2002 Commission meeting, the Lottery Commission approved a balance in net assets "equal to net value of the Lottery's capital assets." Effective July 1, 2004, under Senate Bill 04-204, this reserve is required to be held in cash and investments. In April 2005, the Lottery set up a separate operating reserve independent of the net capital asset reserve in the amount of \$1.7 million. The amount held in this operating reserve will be reviewed annually and adjusted accordingly. The annual review was completed in September 2007 and the reserve was reduced to \$1.3 million in accordance with the review.

Equipment Expense

Included in "The Statement of Revenues, Expenses, and Changes in Fund Net Assets" is an account titled equipment. This account reports the book value of assets, which are disposed of during the year, fixed asset purchases made during the year, which are not capitalized. (See Fixed Asset Footnote, page 20), software purchases and other miscellaneous equipment transactions.

Compensated Leave

All permanent employees of the Lottery may accrue annual and sick leave based on length of service subject to certain limitations on the amount that will be paid on termination. In addition, employees who are classified as non-exempt from overtime pay have accumulated overtime which must be taken as compensatory time or paid. The estimated cost of compensated absences for which employees are vested is as follows:

Colorado Lottery
Notes to Financial Statements
December 31, 2007 and 2006

	<u>DEC 31, 2007</u>	<u>DEC 31, 2006</u>	<u>Decrease</u>
Annual leave	\$ 670,831	\$ 701,777	\$ (30,946)
Sick leave	<u>132,985</u>	<u>117,996</u>	<u>14,989</u>
Total annual and sick leave	803,816	819,773	(15,957)
Compensatory time	<u>4,322</u>	<u>1,951</u>	<u>2,371</u>
Total compensated leave	\$ <u>808,138</u>	\$ <u>821,724</u>	\$ <u>(13,586)</u>

Expired Warrants Liability

Expired warrants liability represents the expiration of aged uncashed warrants and imprest checks over one (1) year old which expired on or before June 30, 2003. In accordance with Section 15-12-914 (2), C.R.S., recipients are entitled to claim payment up to 21 years after original date of issue. Pursuant to Section 24-35-212 (2), C.R.S., the amount of these uncashed warrants shall remain in the Lottery fund. Pursuant to the Unclaimed Property Act, Section 38-13-113, C.R.S., the funds to cover the liability for any uncashed warrants, which expire after June 30, 2003 are transferred to the Unclaimed Property Fund. The Lottery must request reimbursement from the Unclaimed Property Fund for any warrants presented for payment that expired after June 30, 2003.

Deferred Revenue

The Lottery offers players the option to purchase online tickets for draws in advance. The tickets are purchased through the terminal, referred to as Advance Play, and allows the player to purchase online tickets good for up to 13 weeks. The revenues generated from these advance plays are recognized as the draws occur. Revenues for future draws are classified as a liability.

A detail of deferred revenue at December 31, 2007 and 2006, is as follows:

	<u>2008</u>	<u>2007</u>
Advance Play - Lotto	\$ 86,739	\$ 70,955
Advance Play - Powerball	113,723	93,138
Advance Play - Powerplay	30,492	24,875
Advance Play - Cash 5	<u>26,202</u>	<u>19,554</u>
Total deferred revenue	\$ <u>257,156</u>	\$ <u>208,522</u>

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Promotional Activity

The Lottery engages in two types of promotional activities in an attempt to enhance sales and to increase the player base. Specific promotional coupons are distributed to players through special promotions and can be redeemed at any lottery office for a specified lottery product. No promotional coupons were redeemed in the second quarters ended December 31, 2007 and December 31, 2006 respectively. Scratch tickets for specific games are given away as a more direct approach to introduce players to lottery games. During the second quarters ended December 31, 2007 and 2006, scratch tickets with a total face value of \$35,303 and \$41,900, respectively, were given away. Scratch ticket and coupon promotions are valued at cost. For the second quarters ended December 31, 2007 and 2006, \$22,555 and \$31,892, respectively, were recorded as costs related to free tickets and coupons. These costs were included in Marketing and Communications expense in the statements of revenues, expenses and changes in fund net assets for coupons redeemed and scratch tickets given away.

Note 2: Cash and Investments

Cash

Cash includes petty cash, change funds, an imprest fund, two depository accounts and cash on deposit with the State Treasurer. A detail of cash at December 31, 2007 and 2006 is as follows:

	2008	2007
Petty cash	\$ 800	\$ 800
Change funds	70,000	70,000
Imprest fund	750,000	750,000
Depository accounts	30,000	30,000
Cash on deposit with State Treasurer	<u>30,242,944</u>	<u>26,321,252</u>
 Total unrestricted cash and investments	 <u>31,093,744</u>	 <u>27,172,052</u>
 Restricted cash and investments – Licensed Agent Recovery Reserve Receipts on deposit with State Treasurer	 444,429	 415,547
Operating Reserve on deposit with State Treasurer	<u>1,300,000</u>	<u>1,500,000</u>
 Total restricted cash and investments	 <u>1,744,429</u>	 <u>1,915,547</u>
Total cash and investments	<u>\$ 32,838,173</u>	<u>\$ 29,087,599</u>

Cash on Deposit with State Treasurer

Under the provisions of Section 24-35-210 (6), C.R.S., the State Treasurer shall invest the monies of the Lottery in excess of operating and prize payment expenses and all authorized transfers. Interest or any other return on investments is paid to the Lottery Fund account on a monthly basis. Actual interest payments are determined by the State Treasurer. The actual allocated interest rate for fiscal years 2007 and 2006 was 4.70% and 3.92%, respectively.

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In addition, the State Treasurer pools these deposits and invests them in securities approved by Section 24-75-601.1, C.R.S. The Lottery reports its share of the Treasurer's unrealized gains and losses based on its participation in the State Treasurer's pool only at fiscal year-end. Effective July 1, 1997, with the Lottery's initial adoption of Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all of the Treasurer's investments, which include the net Licensed Agent Recovery Reserve Receipts, are reported at fair value, which is determined based on quoted market prices. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the pool. Additional information on the Treasurer's pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Lottery's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the State of Colorado; bonds of any city, county, school district or special road district of the State of Colorado; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2007 and 2006, respectively, \$1,260,169 and \$678,833 of the Lottery's bank balances of \$1,360,169 and \$778,833, respectively, were exposed to custodial credit risk as follows:

	2008	2007
Uninsured and collateralized (see below)	\$ 1,260,169	\$ 678,833
Uninsured and collateral held by pledging financial institution	100,000	100,000
	\$ 1,360,169	\$ 778,833

The Lottery accounts are held in Public Deposit Protection Act (PDPA) qualified institutions, thus balances held in the Lottery's accounts in excess of \$100,000 are secured through PDPA with guaranteed securities.

Statements of Cash Flows

The statements of cash flows is prepared under the direct method then adjusted for prize payments and commission and bonus payments to retailers, which are netted from cash received from retailers and applied against accounts receivable balances. For cash flow purposes, cash and investments include restricted cash and investments held by the State Treasurer in its cash and investment pool.

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Categorization of Deposits and Investments

The Lottery's total bank balances are classified in the following three categories of credit risk:

Category 1 – Insured or collateralized with securities held by the Lottery or by its agent in the Lottery's name

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the Lottery's name

Category 3 – Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Lottery's name

Additionally, the Lottery classifies its investments in the following three categories of credit risk:

Category 1 – Insured or registered, or securities held by the Lottery or its agent in the Lottery's name

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Lottery's name

Category 3 – Uninsured and unregistered, with securities held by the counterparty; or by its trust department or agent but not in the Lottery's name, including the portion of the carrying amount of any repurchase agreement that exceeds the market value of the underlying securities, if any

The cash deposits bank balance of \$1,360,169 is categorized as follows as of December 31, 2007:

Category 1	\$	100,000
Category 2	\$	1,260,169

For Cash on Deposit with State Treasurer, the State Treasurer's investments as of December 31, 2007 are Category 1 investments and its cash deposits are principally Category 2 deposits.

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Note 3: Schedule of Changes in Fixed Assets

Capital assets being depreciated:

	<u>June 30, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Dec 31, 2007</u>
Equipment	\$ 3,772,194	\$ 16,530	\$ (626,115)	\$ 3,162,609
Leasehold improvements	<u>14,053</u>	<u>—</u>	<u>(2,075)</u>	<u>11,978</u>
Total capital assets being depreciated	<u>3,786,247</u>	<u>16,530</u>	<u>(628,190)</u>	<u>3,174,587</u>
Less accumulated depreciation for equipment	(3,076,684)	(80,146)	560,730	(2,596,100)
Leasehold improvements	<u>(12,647)</u>	<u>—</u>	<u>1,867</u>	<u>(10,780)</u>
Total accumulated depreciation	<u>(3,089,331)</u>	<u>(80,146)</u>	<u>562,597</u>	<u>(2,606,880)</u>
 Total capital assets, being depreciated, net	 <u>\$ 696,916</u>	 <u>\$ (63,616)</u>	 <u>\$ (65,593)</u>	 <u>\$ 567,707</u>
	<u>June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Dec 31, 2006</u>
Equipment	\$ 3,902,715	\$ 57,046	\$ (199,829)	\$ 3,759,932
Leasehold improvements	<u>14,053</u>	<u>—</u>	<u>—</u>	<u>14,053</u>
Total capital assets being depreciated	<u>3,916,768</u>	<u>57,046</u>	<u>(199,829)</u>	<u>3,773,985</u>
Less accumulated depreciation for equipment	(3,150,070)	(77,900)	180,206	(3,047,764)
Leasehold improvements	<u>(12,647)</u>	<u>—</u>	<u>—</u>	<u>(12,647)</u>
Total accumulated depreciation	<u>(3,162,717)</u>	<u>(77,900)</u>	<u>180,206</u>	<u>(3,060,411)</u>
 Total capital assets, being depreciated, net	 <u>\$ 754,051</u>	 <u>\$ (20,854)</u>	 <u>\$ (19,623)</u>	 <u>\$ 713,574</u>

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Note 4: Operating Leases

The Lottery occupies office and warehouse space in Pueblo, Denver, Colorado Springs, Grand Junction and Fort Collins. Rental payments are contingent upon the continuing availability of funds. Specific lease information follows:

Pueblo

Office – The Lottery entered into an agreement with Midtown RLLLP on April 19, 2005. The lease agreement began on June 27, 2005 and expires on June 30, 2015. The lease contains an option to renew for two additional five-year terms commencing on July 1, 2015. There are no other provisions for extension or renewal.

Warehouse – The Lottery leases primary warehouse space from Santa Fe 250 LLC. The Lottery entered into a lease extension agreement, which began September 1, 2002 and expired June 30, 2007. A second amendment to the lease was signed on April 12, 2007 extending the lease for two additional years effective July 1, 2007 and expiring on June 30, 2009. There are no other provisions for extension or renewal.

Denver

Office – The Lottery occupied office and warehouse space in the Galleria Towers Building in Denver. The lease agreement, which began on October 30, 1990, was amended on May 14, 1999 and extended the ending date for the lease from June 30, 1999 to June 30, 2006. On March 10, 2006 the Lottery entered into a second amendment to the lease agreement with Galleria extending the original lease for a thirty-six month period ending on June 30, 2009. The amended lease includes a five-year renewal option. There are no other provisions for extension or renewal.

Warehouse – The Lottery entered into a lease agreement with Yukon Denver Valley, Inc. to occupy warehouse space. The lease agreement began on September 1, 1999 and expired on August 31, 2004. The Lottery exercised its option to extend the lease through August 31, 2009 on June 11, 2004.

Fort Collins

The Lottery occupies space leased by the Department of Revenue and is responsible for reimbursing the Department of Revenue for lease payments.

Grand Junction

The Lottery occupies space in the Grand Junction State Services Building and is responsible for reimbursing the Capital Complex Division for lease payments.

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Colorado Springs

The Lottery occupies warehouse space in a building located at 2818 Janitell Road in Colorado Springs, Colorado. The lease agreement, which began on August 1, 2003, expired on June 30, 2006. The Lottery had the option to exercise two 12-month extensions under the new lease, extending the lease through June 30, 2008. On May 27, 2007, the Lottery exercised its second option to extend the lease through June 30, 2008.

Operating lease expense incurred for the first quarters ended September 30, 2007 and 2006 and future minimum lease payments for fiscal years ending June 30, 2009 through 2013 and later years are as follows:

<u>LOCATION</u>			<u>FUTURE</u>	<u>MINIMUM</u>	<u>LEASE</u>	<u>PAYMENTS</u>		
	<u>2007</u>	<u>2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>LATER YEARS</u>
Pueblo Office	\$116,757	\$116,757	\$218,013	\$ 218,013	\$224,630	\$231,247	\$238,203	\$498,031
Pueblo Warehouse	50,839	58,296	114,596	0	0	0	0	0
CoSprgs Warehouse	6,487	6,741	0	0	0	0	0	0
Denver	56,365	89,715	191,392	0	0	0	0	0
Denver Warehouse	49,033	50,737	104,486	17,499	0	0	0	0
Fort Collins	19,644	19,644	0	0	0	0	0	0
Grand Junction	<u>2,569</u>	<u>2,954</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>\$ 301,694</u>	<u>\$ 344,844</u>	<u>\$628,487</u>	<u>\$ 235,512</u>	<u>\$224,630</u>	<u>\$231,247</u>	<u>\$238,203</u>	<u>\$498,031</u>

Note 5: Other Revenue

A schedule of other revenue for the second quarters ended December 31, 2007 and 2006 follows:

	<u>2008</u>	<u>2007</u>
License fees	\$ 36,878	\$ 31,687
Fines and penalties	0	265,650
Assignment fees	300	1,549
Net Licensed Agent Recovery Reserve Receipts	18,371	17,483
Reimbursements from MUSL	0	86,561
Other	<u>5,149</u>	<u>19,113</u>
Total	<u>\$ 60,698</u>	<u>\$ 422,043</u>

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Note 6: Distribution of Net Proceeds

In accordance with Section 33-60-104, C.R.S., distributions of net proceeds shall be made on a quarterly basis. The State Treasurer shall distribute net lottery proceeds as follows: forty percent (40%) to the Conservation Trust Fund, ten percent (10%) to the Division of Parks and Outdoor Recreation and all the remaining net lottery proceeds in trust to the State Board of the Great Outdoors Colorado Trust Fund up to the statutory limit. Under Section 33-60-104(2), C.R.S., the limit is \$35 million as adjusted annually based on the consumer price index. Any excess over the limit shall be transferred to the State Public School Fund as a contingency reserve set forth in Section 22-54-117(1.6)(a), C.R.S.

Income available for distribution at December 31:

	2008	2007
Operating Income	\$ 60,001,204	\$ 55,663,890
Plus: Other Revenue	60,698	422,043
Investment Income	1,078,844	894,262
Income before distributions	\$ 61,140,746	\$ 56,980,195
Change in licensed agent recovery reserve	(18,371)	(17,483)
Change in fair market value of investments	0	0
Change in Operating Reserve	200,000	100,000
Other changes in net assets	129,209	40,477
Income available for distribution	61,451,584	57,103,189
Less distributions prior to year-end	(32,561,756)	(30,522,416)
Income available for distribution	\$ 28,889,828	\$ 26,580,773

	Accrued at June 30, 2007	Proceeds Distributions Expenses	Distributions Paid	Accrued at Dec 31, 2007
Great Outdoors Colorado	\$ 6,133,152	\$ 30,725,793	\$ (22,414,031)	\$ 14,444,914
State Public School Fund	8,219,905	0	(8,219,905)	0
Conservation Trust Fund	11,482,448	24,580,632	(24,507,149)	11,555,931
Division of Parks and Outdoor Recreation	2,658,076	6,145,159	(5,914,252)	2,888,983
	\$ 28,706,118	\$ 61,451,584	\$ (61,267,874)	\$ 28,889,828

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	Accrued at June 30, 2006	Proceeds Distributions Expenses	Distributions Paid	Accrued at Dec 31, 2006
Great Outdoors Colorado	\$ 1,852,837	\$ 28,551,596	\$ (17,114,046)	\$ 13,290,387
State Public School Fund	12,545,316	0	(12,545,316)	0
Conservation Trust Fund	11,518,521	22,841,276	(23,727,487)	10,632,310
Division of Parks and Outdoor Recreation	<u>2,879,630</u>	<u>5,710,317</u>	<u>(5,931,871)</u>	<u>2,658,076</u>
	<u>\$ 28,796,304</u>	<u>\$ 57,103,189</u>	<u>\$ (59,318,720)</u>	<u>\$ 26,580,773</u>

Note 7: Pension Plan

Plan Description

Most of the Lottery's employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost-sharing multiple-employer plan administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800 759-PERA (7372) or by visiting www.copera.org.

Prior to January 1, 2006, state employees and employees of local school districts were members of the combined State and School Division of PERA. On January 1, 2006, that combined division was segregated into a State Division and a separate School Division. PERA's financial statements at December 31, 2005, presented the state and school portions of the trust as a single division.

Non-higher education employees hired by the state after January 1, 2006, are allowed 60 days to elect to participate in a defined contribution retirement plan administered by the state's Deferred Compensation Committee rather than becoming a member of PERA. If that election is not made, the employee becomes a member of PERA, and the member is allowed 60 days from commencing employment to elect to participate in a defined contribution plan administered by PERA rather than the defined benefit plan.

PERA members electing the defined contribution plan are allowed an irrevocable election between the second and fifth year to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. However, making this election subjects the member to the rules in effect for those hired on or after January 1, 2007, as discussed below. Employer contributions to both defined contribution plans are the same as the contributions to the PERA defined benefit plan.

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Defined benefit plan members (except state troopers) vest after five years of service, and are eligible for full retirement based on their original hire date as follows:

- Hired before July 1, 2005 – age 50 with 30 years of service, age 60 with 20 years of service or at age 65 with 5 years of service.
- Hired between July 1, 2005 and December 31, 2006 - any age with 35 years of service, at age 55 with 30 years of service, at age 60 with 20 years of service, or at age 65 with 5 years of service.
- Hired on or after January 1, 2007 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service.

Members are also eligible for retirement benefits, without a reduction for early retirement based on their original hire date as follows:

- Hired before January 1, 2007 - age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- Hired on or after January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more.

State troopers and judges comprise a small percentage of plan members but have higher contribution rates, and state troopers are eligible for retirement benefits at different ages and years of service.

Members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5 percent times the number of years of service times the highest average salary (HAS). For retirement before January 1, 2009, HAS is calculated as one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit and limited to a 15 percent increase between periods. For retirements after January 1, 2009 or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

Retiree benefits are increased annually based on their original hire date as follows:

- Hired before July 1, 2005 – 3.5 percent, compounded annually.
- Hired between July 1, 2005 and December 31, 2006 – the lesser of 3 percent of the actual increase in the national Consumer Price Index.
- Hired on or after January 1, 2007 – the lesser of 3 percent or the actual increase in the national Consumer Price Index, limited to a 10 percent reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 percent of the employer contributions for this population.)

Members disabled who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined

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to be permanently disabled. If a member dies before retirement, their eligible children under the age of 18 (23 if a full-time student) or their spouse may be entitled to a single payment or monthly benefit payments. If there is no eligible child or spouse then financially dependent parents, beneficiaries, or the member's estate, may be entitled to a survivor's benefit.

Funding Policy

The contribution requirement of plan members and their employers are established, and may be amended, by the General Assembly. Salary subject to PERA contribution is gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code.

Most employees contribute 8% (10% for state troopers) of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2006, to December 31, 2006, the state contributed 10.65% (13.35% for state troopers and 14.16% for the judicial branch) of the employee's salary. From January 1, 2007 through June 30, 2007 the state contributed 11.15 percent (13.85 percent for state troopers and 14.66 percent for the Judicial Branch). During all of Fiscal Year 2007, 1.02% of the employees total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2005, the division of PERA in which the state participates was underfunded with an infinite amortization period, which means that the unfunded actuarially accrued liability would never be fully funded at the current contribution rate.

In the 2004 legislative session, the general assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional .5% of salary beginning January 1, 2006, another .5% of salary in 2007, and subsequent year increases of .4% of salary until the additional payment reaches 3% in 2012.

In the 2006 legislative session, the general assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries paid beginning January 1, 2008. The SAED is scheduled to increase by one half percentage point through 2013 resulting in a cumulative increase of three percentage points. For state employers, each year's one half percentage point increase in the SAED will be deducted from the amount of changes to state employees' salaries and used by the employer to pay the SAED. Both the AED and SAED will terminate when funding levels reach 100%.

Historically members have been allowed to purchase service credit at reduced rates. However, legislation passed in the 2006 session required, that future agreements to purchase service credit be sufficient to fund the related actuarial liability.

The Lottery's contributions to the Defined Benefit Plan and the Health Care Trust Fund for the fiscal years ended June 30, 2007, 2006, and 2005, were \$670,425, \$651,980, and \$622,597, respectively. These contributions met the contribution requirement for each year.

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Note 8: Voluntary Tax-deferred Retirement Plans

PERA offers a voluntary 401K plan entirely separate from the defined benefit pension plan. The state offers a 457 deferred compensation plan and certain agencies and institutions of the state offer a 403b or 401(a) plans.

Note 9: Post Employment Benefits and Life Insurance

HEALTH CARE PROGRAM

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Trust Fund; the program was converted to a trust fund in 1999. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. Effective July 1, 2000, the maximum monthly subsidy is \$230.00 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; and \$115.00 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5% for each year less than 20 years.

The Health Care Trust Fund is maintained by an employer's contribution as discussed above in Note 7.

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured medical benefit plans and another carrier for prescription benefits, and with several health maintenance organizations providing services within Colorado. As of December 31, 2006 and 2005, there were 42,433 and 41,080 enrollees in the plan respectively.

Life Insurance Program

During Fiscal Year 2007, PERA provided its members access to a group decreasing term life insurance plan offered by Unum Provident in which 41,101 members participated. Active members may join the Unum Provident Plan and continue coverage into retirement. Premiums are collected by monthly payroll deduction or other means. In addition, PERA maintained coverage for 12,790 members under closed group plans underwritten by Anthem Life, Prudential, and New York Life.

Note 10: Contingencies and Commitments

Prize Annuities – The Lottery purchases annuity contracts in the name of individual jackpot prize winners. Although the annuity contracts are in the name of the individual winners, the Lottery retains title to the annuity contracts. The Lottery remains liable for the payment of the guaranteed minimum prizes in the event the insurance companies issuing the annuity contracts default. The

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following guaranteed minimum prize payments for which annuity contracts have been purchased are due in varying amounts through October 10, 2036.

Specified prize payments	\$ 487,976,910
Lifetime prize payments	<u>40,320,000</u>
Total guaranteed minimum prize payments	<u>\$ 528,296,910</u>

Self-insurance – The State of Colorado currently self-insures its agencies, officials and employees for the risks of losses to which they are exposed. That includes general liability, motor vehicle liability, workers’ compensation and medical claims. The State Risk Management Fund is a restricted General Fund used for claims adjustment, investigation, defense and authorization for the settlement and payment of claims or judgments against the state except for employee medical claims. The State Employees and Officials Insurance Fund is an Internal Service Fund established for the purpose of risk, financing employees’ and officials’ medical claims. Property claims are not self-insured; rather, the state has purchased insurance.

Colorado employers are liable for occupational injuries and diseases of their employees. Benefits are prescribed by the Worker’s Compensation Act of Colorado for medical expenses and loss of wages resulting from job-related disabilities. The state utilizes the services of Pinnacol Assurance (formerly Colorado Compensation Insurance Authority), a related party, to administer its plan. The state reimburses Pinnacol Assurance for the current cost of claims paid and related administrative expenses.

The Lottery participates in the Risk Management Fund. State agency premiums are based on an assessment of risk exposure and historical experience. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include 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. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

The limits of liability for which the state accepts responsibility pursuant to Section 24-10-114(1), C.R.S., are as follows:

Liability	Limits of Liability
General and automobile	Each person \$150,000 Each occurrence \$600,000

Medical and Disability Benefits

The Group Benefit Plans Fund is a Pension and Other Employee Benefits Fund established for the purpose of risk financing employee and state-official medical claims. The fund includes several medical plan options ranging from provider of choice to managed care. Before January 1, 2000, the State offered a variety of medical plans; some of the plans were fully insured while others were

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self-insured using Anthem Blue Cross Blue Shield as the plan administrator. Between January 1, 2000 and June 30, 2005, self-insured plans were no longer offered, and the state and its employees paid premiums for insurance purchased to cover medical claims. The State's contribution to the premium is fixed in statute; state employees pay the difference between the statutory contribution and the premium set by the insurer. Employee healthcare premiums are allowed on a pretax basis under the State's flexible spending account benefits plan.

Effective July 1, 2005. The State terminated the Anthem Blue Cross Blue Shield plans and began offering five self-funded plan options administered by Great-West Healthcare. After July 1, 2005, the State will continue to offer the fully insured Kaiser HMO plan and the San Luis Valley HMO plan, as well as, three self-funded dental options administered by Delta Dental Plan of Colorado.

Before January 1, 1999, the Group Benefit Plans Fund provided an employer-paid short-term disability plan for all employees. On January 1, 1999, PERA began covering short-term disability claims for state employees eligible under its retirement plan. The Group Benefit Plans Fund continues to provide short-term disability coverage for employees not yet qualified for the retirement plan and secondary benefits for employees also covered under the PERA short-term disability plan.

The Group Benefit Plans program provides an employee with 60 percent of their pay beginning after 30 days of disability or the exhaustion of the employee's sick leave balance, whichever is later. This benefit expires six months after the beginning of the disability. Although fully insured, the Group Benefit Plans disability program includes a risk-sharing feature that provides experience rating refunds and a termination premium that is calculated as earned premium less the aggregate of incurred claims, claim reserve, retention charge and refunds paid previously over the term of the contract. Refunds, when applicable, are paid annually while deficits are carried forward.

Furniture and Equipment – The State of Colorado carries a \$15,000 deductible replacement policy on all state owned furniture and equipment. For each loss incurred, the Lottery is responsible for the first \$1,000 of the deductible and the State of Colorado is responsible for the next \$14,000. Any loss in excess of \$15,000 is covered by the insurance carrier up to replacement cost.

Gaming Operations Commitments – The Lottery has entered into long-term contracts with certain significant vendors related to providing scratch tickets and online data processing services in support of the Lottery's gaming operations. The online data processing contract expires on October 31, 2012 per the contract amendment dated January 26, 2005. Renewal options include one additional two-year period and two additional periods of ninety days for conversion and turnover purposes. The total cost of the initial contract period is not to exceed \$70,616,975.

The Lottery entered into two contracts with the scratch vendors on January 9 and 16, 2006. The contracts expired on November 30, 2007. The State, in its sole discretion, may require continued performance for three additional twelve (12) month periods on both contracts. In addition, in the event that a contract with a successor contractor cannot be signed prior to the expiration or termination date of this contract, the State reserves the right to extend this contract for maximum of one hundred eighty (180) days or until a new contract is executed. There are no other provisions for extension or renewal. The total costs of the contracts for the initial contract period were not to exceed \$5,666,667 each for the respective contracts. In May 2007, one scratch vendor (purchaser) purchased the other scratch vendor (purchasee). A novation agreement was signed

Colorado Lottery

Notes to Financial Statements

December 31, 2007 and 2006

assigning all of the rights of the purchasee to the purchaser. The state exercised its option to extend the contract with the purchaser for an additional twelve month period starting on December 1, 2007 and ending on November 30, 2008. The maximum amount available to cover both the original contract period and the extension for fiscal year 2008, which ends on June 30, 2008 is \$3,862,335.33.

The Lottery was approved as a member of the MUSL on February 26, 2001 and thus entered into an agreement with MUSL on June 6, 2001 to become a member and participate in Powerball games. As a member, the Lottery agrees to abide by the terms of the Multi-State Agreement dated September 16, 1987 and to any amendments to that agreement duly made by the board. The Lottery will remain a member indefinitely. Pursuant to this agreement, the Lottery will make payments to MUSL for administrative fees, weekly prize expenses, promotional purchases, miscellaneous reimbursements and assessments and contributions to the prize reserves. The total amount to be contributed by the Lottery to the prize reserves as of December 31, 2007 is \$4,170,000 and is based on a percentage of sales. The total amount of the prize reserves funded as of December 31, 2007 was \$4,025,188 shown as prepaid prize expense – MUSL on the statements of net assets. MUSL reserves the right to hold funds which do not exceed 110% of the required balance. If the actual balance in the reserves should exceed 110% of the required balance, MUSL will refund any funds in excess of the 110% threshold.

Other Major Vendor Commitments – The Lottery entered into a long-term contract with an advertising agency to provide advertising services to promote the Lottery's products. The contract period began on September 1, 2007 and will expire on June 30, 2010. The Lottery has the option to renew the contract for two (2) additional twelve-month periods. The total cost of the initial contract period is not to exceed \$25,100,000.

Litigation – In fiscal year 2001, a plaintiff filed a class action suit claiming that the Lottery breached its contract with players by continuing to sell instant tickets in games in which the top prize had already been claimed. In fiscal year 2006, the District Court found in favor of the Lottery. Although the plaintiff exercised his right to appeal, it is the opinion of Lottery's management that the ultimate outcome of this matter will not have a material impact on the Lottery's financial statements.

Note 11: Tax, Spending and Debt Limitations

In November 1992, the Colorado voters passed Section 20, Article X of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and all local governments. In the same general election, Article XXVII was passed creating the State Board of the Great Outdoors Colorado Trust Fund. The simultaneous passage of these two constitutional amendments raised questions as to whether there are irreconcilable conflicts between the two amendments.

The General Assembly determined in Section 24-77-102 (17) (b) (IX), C.R.S., that the net proceeds from the Lottery are excluded from the scope of "state fiscal year spending" for purposes of TABOR. The Colorado Supreme Court, in response to an interrogatory from the General Assembly, approved that determination.

Colorado Lottery
Notes to Financial Statements
December 31, 2007 and 2006

TABOR is complex and subject to further legislative and judicial interpretation. The Lottery believes it is in compliance with both of these constitutional amendments.

Note 12: Related Party Transactions

The Lottery, as an agency of the State of Colorado, paid fees to other agencies of the state for auditing, legal and other services and vehicle and office rent. The Lottery also pays fees to the Department for indirect costs. Interagency charges were \$490,778 and \$437,357 for the second quarters ended December 31, 2007 and 2006, respectively.

COLORADO LOTTERY
SCHEDULE OF REVENUE AND COSTS FOR SCRATCH AND ON-LINE GAMES
FOR THE SECOND QUARTER ENDED DECEMBER 31, 2007

	Games in Progress				FY 08	FY 07
	Scratch	Lotto	Powerball	Cash 5	Total	Scratch and On-Line
TICKET SALES	\$163,498,270	\$22,417,447	\$53,155,134	\$9,182,418	248,253,269	\$455,916,812
PRIZE EXPENSE	(111,732,723)	(11,344,553)	(25,220,375)	(4,921,410)	(153,219,061)	(280,000,739)
POWERBALL PRIZE VARIANCE	N/A	N/A	202,072	N/A	202,072	3,084,334
NET REVENUE AFTER PRIZES	<u>51,765,547</u>	<u>11,072,894</u>	<u>28,136,831</u>	<u>4,261,008</u>	<u>95,236,280</u>	<u>179,000,407</u>
COMMISSIONS, BONUSES, TICKET COSTS & VENDOR FEES (Note 1)						
Retailer Commission	(11,423,027)	(1,345,507)	(3,190,174)	(551,359)	(16,510,067)	(30,292,703)
Retailer Bonus	(1,558,728)	(146,864)	(346,100)	(85,722)	(2,137,414)	(3,375,679)
Cost of Tickets Sold	(1,397,565)	N/A	N/A	N/A	(1,397,565)	(2,142,602)
Telecomm Reimbursements	234,518	32,155	76,245	13,171	356,089	691,716
On-Line Vendor Fees	(2,431,108)	(332,289)	(784,357)	(136,226)	(3,683,980)	(6,648,858)
TOTAL	<u>(16,575,910)</u>	<u>(1,792,505)</u>	<u>(4,244,386)</u>	<u>(760,136)</u>	<u>(23,372,937)</u>	<u>(41,768,126)</u>
GROSS PROFIT ON SALE OF TICKETS	<u>\$35,189,637</u>	<u>\$9,280,389</u>	<u>\$23,892,445</u>	<u>\$3,500,872</u>	<u>\$71,863,343</u>	<u>\$137,232,281</u>
AVERAGE DAILY TICKET SALES	<u>\$888,578</u>	<u>\$121,834</u>	<u>\$288,887</u>	<u>\$49,904</u>	<u>\$1,349,203</u>	<u>\$1,249,087</u>

Note 1: Administrative costs of Lottery operations, including wages, advertising and other expenses are not shown.

COLORADO LOTTERY
SCHEDULE OF PERCENT OF PRIZE EXPENSE TO GROSS TICKET SALES
FOR THE SECOND QUARTER ENDED DECEMBER 31, 2007

	Games in Progress				Powerball	FY 08
	Scratch	Lotto	Powerball	Cash 5	Prize Variance	Total
Prize Expense	\$111,732,723	\$11,344,553	\$25,220,375	\$4,921,410	-\$202,072	\$153,016,989
(/) Ticket Sales	<u>163,498,270</u>	<u>22,417,447</u>	<u>53,155,134</u>	<u>9,182,418</u>	<u>N/A</u>	<u>248,253,269</u>
Prize %	<u>68.34%</u>	<u>50.61%</u>	<u>47.45%</u>	<u>53.60%</u>		<u>61.64%</u>

COLORADO LOTTERY
BUDGET STATUS
FOR THE SECOND QUARTER ENDED DECEMBER 31, 2007

	FY08 Budget (Note 1)	Amount Expended (Note 3)	Amount Available	Percent Expended (Note 2)
Personal Services	\$8,838,092	\$4,127,976	\$4,710,116	46.7%
Amortization Equal	86,110	33,152	52,958	38.5%
Suppl Amortization Equalization	17,940	0	17,940	0.0%
Workmen's Compensation	69,045	34,523	34,522	50.0%
Unemployment Benefits	976	0	976	0.0%
Health and Life	555,542	260,674	294,868	46.9%
Short Term Disability	9,329	4,359	4,970	46.7%
Operating	1,203,156	699,249	503,907	58.1%
DOR Postage Allocation	1,990	259	1,731	13.0%
Leased Space	725,755	343,095	382,660	47.3%
Leased Space-Grand Junction	7,981	2,954	5,027	37.0%
Risk Management	29,763	14,882	14,881	50.0%
Vehicle Lease Payments	145,297	64,086	81,211	44.1%
Variable Vehicle	155,734	0	155,734	0.0%
Travel	113,498	45,182	68,316	39.8%
Purch. Of Services-Computer Center	2,698	1,306	1,392	48.4%
Marketing, Communications & Sales	8,643,420	4,283,136	4,360,284	49.6%
Communications Services	2,183	1,092	1,091	50.0%
Payments to MNT	313,985	156,984	157,001	50.0%
Payments to Other Agencies	239,410	55,129	184,281	23.0%
Legal Services	36,136	7,335	28,801	20.3%
Indirect Costs	458,880	229,440	229,440	50.0%
Ticket Costs-Scratch	3,529,350	1,397,565	2,131,785	39.6%
Research	250,000	93,300	156,700	37.3%
Vendor Fees	10,875,511	4,876,359	5,999,152	44.8%
Prize Payments	336,721,380	153,219,061	183,502,319	45.5%
Retailer Compensation	41,773,750	18,647,481	23,126,269	44.6%
Multi-State Lottery Funds	177,433	54,446	122,987	30.7%
CMAC Project	10,697	0	10,697	0.0%
Powerball Prize Variance	9,752,000	3,808,165	5,943,835	39.1%
Rollforwards	37,695	37,695	0	100.0%
TOTAL	<u>\$424,784,736</u>	<u>\$192,498,885</u>	<u>\$232,285,851</u>	<u>45.32%</u>

FY08 Staffing (FTE) 126.0 (Appropriated) 121.1 (Projected)

Reconciliation of Expenses per "Statement of Revenues, Expenses and Changes in Retained Earnings" to Budgeted Expenditures:

Expenses Per Statement of Revenues, Expenses and Changes in Retained Earnings

Prize Expense	153,219,061
Powerball Prize Variance	(202,072)
Commissions and Bonuses	18,647,481
Cost of Tickets & Vendor Fees	4,725,456
Operating Expenses	11,862,139
Total Expenses per Statement of Revenues, Expenses and Changes in Retained Earnings	<u>188,252,065</u>
Plus: Powerball Variance classified as revenue	4,010,237
Telecommunications offset classified as revenue	356,089
Loss on Disposal of Equipment classified as revenue	(65,593)
Less: Non-appropriated expenses and other adjustments	
Depreciation	(80,147)
Accrued Annual and Sick Leave	9,704
Sub-Total	<u>192,482,355</u>
Plus: Capitalized Fixed Assets	16,530
	<u>192,498,885</u>

Note 1 - FY08 budget includes Lottery Long Bill and transfers from the Department of Revenue and anticipated supplemental funding.

Note 2 - Percent of fiscal year elapsed through December 31, 2007 is 50 %.

Note 3 - Amount expended includes expenditures for both capitalized and non-capitalized equipment.