

***COLORADO LOTTERY
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION***

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

(UNAUDITED)

FOR THE TWO QUARTERS ENDED

DECEMBER 31, 2011

**COLORADO LOTTERY
FINANCIAL STATEMENTS
(UNAUDITED)**

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STATE OF COLORADO

COLORADO LOTTERY DIVISION
Department of Revenue

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John Hickenlooper
Governor

Barbara Brohl
Executive Director

Abel Tapia
Lottery Director

February 22, 2012

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 two quarters ended December 31, 2011 depicts total revenues of \$259.1 million, which includes gross ticket sales of \$258.7 million. Net income before proceeds distributions is \$55.6 million with a decrease in net assets of \$0.6 million. Accordingly, a total of \$56.2 million in distributions will have been made by March 1, 2012 in the following manner; \$28.1 million to the Great Outdoors Colorado Fund, \$5.6 million to the Division of Parks and Outdoor Recreation and \$22.5 million to the Conservation Trust Fund, for distribution to cities and other local government agencies.

The attached financial statements for the two quarters ended December 31, 2011 have not been audited. They have been prepared in accordance with generally accepted accounting principles, using established accounting and internal control procedures. These procedures 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 blue ink that reads "John Caligaris".

John Caligaris
Controller
Colorado Lottery

**COLORADO LOTTERY
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**INCLUDING STATEMENT OF LOTTERY REVENUES
PRIZE DISBURSEMENTS AND OTHER EXPENSES
(UNAUDITED)**

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COLORADO LOTTERY
 FINANCIAL HIGHLIGHTS
 \$ IN MILLIONS
 FOR THE TWO QUARTERS ENDED DECEMBER 31, 2011 AND 2010

The table included below and the graphs included on page 2 present certain summarized operating results of the Colorado Lottery for the two quarters ended December 31, 2011, and 2010 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 Two Quarters Ended December 31,			
	FY 2012		FY 2011	
	Total	Actual Percent	Total	Actual Percent
INCOME				
Gross Ticket Sales	\$258.67		\$252.96	
Nonoperating revenue	0.43		0.52	
TOTAL INCOME	259.10		253.48	
LESS:				
PRIZES	\$163.76	63.3% (1)	\$156.19	61.7% (1)
RETAILER COMMISSIONS AND BONUSES	\$19.87	7.7% (1)	\$19.27	7.6% (1)
ADMINISTRATIVE COSTS				
Ticket Costs and Vendor Fees	5.48		5.51	
Other Operating Expenses	14.35	(3)	13.23	
TOTAL ADMINISTRATIVE COSTS (Note 3)	19.83	7.7% (2)	18.74	7.4% (2)
	55.64		59.28	
NET CHANGE IN NET ASSETS	-0.60		0.49	
PROCEEDS DISTRIBUTION	\$56.24	21.7% (2)	\$58.79	23.2% (2)

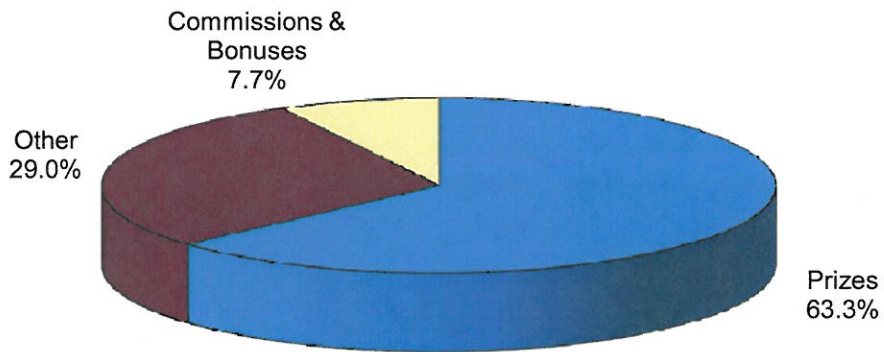
Note 1: Percent of gross ticket sales.

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.

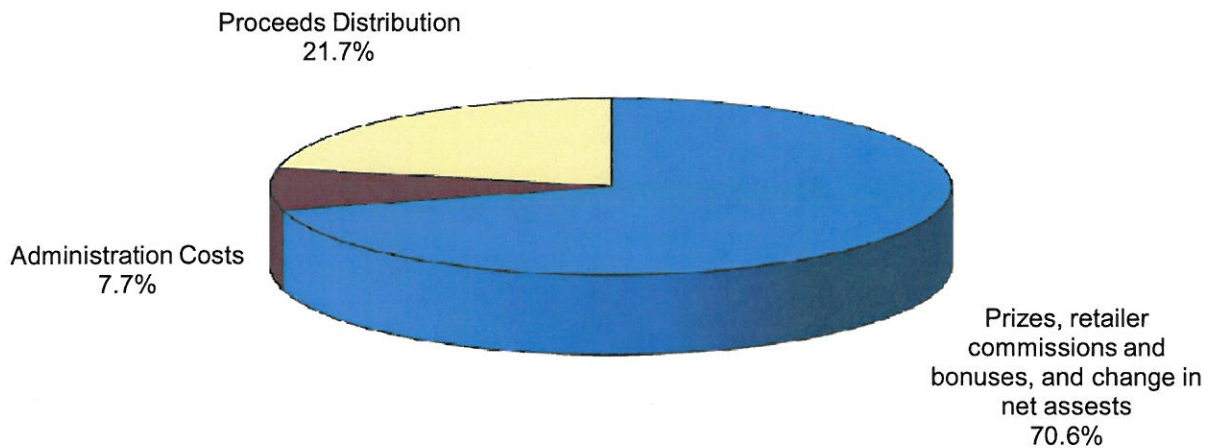
COLORADO LOTTERY
SUPPLEMENT OF FINANCIAL HIGHLIGHTS
FOR THE TWO QUARTERS
ENDED DECEMBER 31, 2011

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, 2011 AND 2010
(UNAUDITED)

ASSETS	FY 2012	FY 2011
Current Assets:		
Cash and Investments	\$ 30,047,375	\$ 43,372,012
Accounts Receivable, net of the allowance for doubtful accounts of \$176,378 in 2011 and \$181,074 in 2010	22,803,118	22,128,182
Consignment Inventory, at Cost	129,358	108,565
Warehouse Inventory, at Cost	1,183,457	1,094,293
Prepaid Expenses	171,629	137,273
Total Current Assets	54,334,937	66,840,325
Reserve and Restricted Assets:		
Cash and Investments-Operating Reserve	1,300,000	1,400,000
Cash and Investments-Licensed Agent Recovery Reserve Receipts	421,668	381,661
Prepaid Prize Expense with MUSL	4,699,710	3,969,594
Total Reserve and Restricted Assets	6,421,378	5,751,255
Capital Assets:		
Equipment	6,397,953	6,939,203
Leasehold Improvements	64,711	0
Less Accumulated Depreciation and Amortization	(3,201,023)	(2,832,995)
Total Capital Assets	3,261,641	4,106,208
TOTAL ASSETS	\$ 64,017,956	\$ 76,697,788
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 3,076,723	\$ 2,711,428
Prize Liability	24,710,417	33,280,244
Payable to MUSL	0	585,954
Wages and Benefits	158,066	207,097
Accrued Annual and Sick Leave	0	0
Retailer Bonus Liability	835,028	875,278
Funds Available for Distribution	29,387,765	32,231,457
Total Current Liabilities	58,167,999	69,891,458
Long-Term Liabilities:		
Accrued Annual and Sick Leave	798,180	844,006
Expired Warrants Liability	68,468	74,455
Total Long-Term Liabilities	866,648	918,461
TOTAL LIABILITIES	59,034,647	70,809,919
NET ASSETS		
Investment in Capital Assets	3,261,641	4,106,208
Restricted-Licensed Agent Recovery Reserve	421,668	381,661
Restricted-Operating Reserve	1,300,000	1,400,000
Unrestricted-Other	0	0
TOTAL NET ASSETS	4,983,309	5,887,869
TOTAL LIABILITIES AND NET ASSETS	\$ 64,017,956	\$ 76,697,788

COLORADO LOTTERY
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE TWO QUARTERS ENDED DECEMBER 31, 2011 AND 2010
(UNAUDITED)

	<u>FY 2012</u>	<u>FY 2011</u>
OPERATING REVENUES		
Gross Ticket Sales	\$ 258,666,615	\$ 252,964,099
DIRECT OPERATING EXPENSES		
Prize Expense	162,381,118	156,003,306
Powerball Prize Variance	579,443	611,132
Mega Millions Prize Variance	796,245	(428,504)
Retailer Commissions and Bonuses	19,872,181	19,275,726
Cost of Tickets and Vendor Fees	<u>5,484,047</u>	<u>5,510,823</u>
GROSS PROFIT ON SALE OF TICKETS	<u>69,553,581</u>	<u>71,991,616</u>
OTHER OPERATING EXPENSES		
Marketing and Communications	6,793,766	6,342,662
Administration Fees Paid to MUSL	69,110	74,909
Wages and Benefits	4,495,691	4,291,312
Professional Services	267,097	151,467
State Agencies Services	61,467	107,094
Department of Revenue Services	247,683	268,874
Travel	77,701	82,182
Equipment	53,027	85,008
Depreciation	540,245	298,845
Accrued Annual and Sick Leave	(8,762)	(109,371)
Space Rental	358,868	354,397
Rents for Equipment	15,853	14,363
Motorpool Leasing	195,079	178,887
Materials and Supplies	83,773	72,750
Telephone	81,452	71,226
On-Line Telecommunications	181,408	185,340
Data Processing Supplies and Services	14,766	21,525
Equipment Maintenance	229,607	209,039
Postage	29,798	37,970
Printing	7,645	5,851
Delivery Expense	489,761	429,152
Other	66,342	52,243
Total Other Operating Expenses	<u>14,351,377</u>	<u>13,225,725</u>
OPERATING INCOME	<u>55,202,204</u>	<u>58,765,891</u>
NONOPERATING REVENUES (EXPENSES)		
Other Revenue	183,766	58,711
Investment Income	250,843	454,056
Funds Distributed for Current Year	(26,851,187)	(26,560,354)
Funds Available for Distribution for Current Year	<u>(29,387,765)</u>	<u>(32,231,457)</u>
Total Nonoperating Revenues (Expenses)	<u>(55,804,343)</u>	<u>(58,279,044)</u>
NET INCOME (LOSS)	<u>\$ (602,139)</u>	<u>\$ 486,847</u>
NET ASSETS, BEGINNING OF YEAR	5,585,448	5,401,022
Net Change in Net Assets	<u>(602,139)</u>	<u>486,847</u>
NET ASSETS, END OF PERIOD	<u>\$ 4,983,309</u>	<u>\$ 5,887,869</u>

COLORADO LOTTERY
STATEMENTS OF CASH FLOWS
FOR THE TWO QUARTERS ENDED DECEMBER 31, 2011 & 2010
(UNAUDITED)

	FY 2012	FY 2011
Cash flows from operating activities:		
Cash received from retailers	\$ 255,078,517	\$ 252,164,580
Cash paid in prizes	(170,523,018)	(152,624,561)
Cash payments to suppliers	(17,290,282)	(14,757,200)
Cash paid in retailer commissions	(14,153,826)	(16,828,354)
Cash payments to employees for services	(5,206,642)	(4,792,551)
Cash paid in retailer bonus	(2,556,570)	(2,596,748)
Cash received (used) - other	--	(7,666)
Net cash provided by operating activities	45,348,179	60,557,500
Cash flows from non-capital financing activities:		
Distribution of net proceeds	(52,463,972)	(56,814,639)
Net cash used by noncapital financing activities	(52,463,972)	(56,814,639)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	91,848	(612,797)
Cash flows from investing activities:		
Interest received	250,843	454,056
	250,843	454,056
Net increase (decrease) in cash and investments	(6,773,102)	3,584,120
Cash and investments, Beginning of Year (including \$1,802,793 and \$1,570,801, respectively, in restricted accounts)	38,542,145	41,569,553
Cash and investments, End of Period, (including \$1,709,281 and \$1,766,956, respectively, in restricted accounts)	\$ 31,769,043	\$ 45,153,673
<i>Reconciliation of operating income to net cash provided by operating activities:</i>		
Operating income	\$ 55,202,204	\$ 58,765,891
Adjustments to reconcile operating income to net cash		
Depreciation	540,245	298,845
Loss on disposition of equipment	(111,079)	37,964
Other revenue	183,766	58,711
Decrease(Increase) in Prepaid Prize Expense with MUSL	(269,583)	(41,274)
Change in:		
Accounts Receivable	(3,566,312)	(2,361,328)
Ticket Inventory	(80,319)	67,221
Other Assets	(92,698)	(82,682)
Liabilities(excluding funds available for distribution)	(6,458,045)	3,814,152
Net cash provided by operating activities	\$ 45,348,179	\$ 60,557,500
Statement of Net Assets Classification		
Cash and investments	\$ 30,047,375	\$ 43,372,012
Cash and investments- Licensed Agent Recovery Reserve	421,668	381,661
Cash and investments- Operating Reserve	1,300,000	1,400,000
Cash and investments, End of Period	\$ 31,769,043	\$ 45,153,673

COLORADO LOTTERY
 POWERBALL ANNUITY WINNERS TRUST FUND
 STATEMENTS OF FIDUCIARY NET ASSETS
 DECEMBER 31, 2011 AND 2010

(UNAUDITED)

	<u>FY 2012</u>	<u>FY 2011</u>
ASSETS		
Current Assets:		
Current Portion Long Term Investments-PB Annuity	434,000	417,000
Long Term Assets:		
Long Term Investments-PB Annuity	<u>9,734,877</u>	<u>9,626,670</u>
TOTAL ASSETS	\$ <u>10,168,877</u>	\$ <u>10,043,670</u>
 NET ASSETS		
Held in Trust for Powerball Winner	<u>10,168,877</u>	<u>10,043,670</u>
TOTAL NET ASSETS	\$ <u>10,168,877</u>	\$ <u>10,043,670</u>

COLORADO LOTTERY
 POWERBALL ANNUITY WINNERS TRUST FUND
 STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS
 FOR THE TWO QUARTERS ENDED DECEMBER 31, 2011 AND 2010

(UNAUDITED)

	<u>FY 2012</u>	<u>FY 2011</u>
Additions		
Investment Income	\$ <u>281,091</u>	\$ <u>367,058</u>
Total Additions	<u>281,091</u>	<u>367,058</u>
 Deductions		
Prize Payments	<u>417,000</u>	<u>401,000</u>
Change in net assets	(135,909)	(33,942)
 Net Assets held in Trust for Powerball Winner		
Beginning of Year	<u>10,304,786</u>	<u>10,077,612</u>
End of Period	\$ <u><u>10,168,877</u></u>	\$ <u><u>10,043,670</u></u>

COLORADO LOTTERY
SCHEDULE OF REVENUE AND COSTS FOR SCRATCH AND ON-LINE GAMES
FOR THE TWO QUARTERS ENDED DECEMBER 31, 2011
(With Comparative Totals for the Two Quarters Ended December 31, 2010)

	Games in Progress							FY 12	FY 11
	Scratch	Lotto	Powerball	Cash 5	Matchplay	Mega Millions	Raffle II	Total	Scratch and On-Line
TICKET SALES	\$179,560,893	\$15,596,621	\$37,479,733	\$9,676,519	\$4,695,244	\$11,657,605	\$0	\$258,666,615	\$252,964,099
PRIZE EXPENSE	(122,835,986)	(9,574,912)	(17,180,625)	(5,144,093)	(3,042,380)	(4,807,622)	204,500	(162,381,118)	(156,003,306)
MULTI-STATE PRIZE VARIANCES	N/A	N/A	(579,443)	N/A	N/A	(796,245)	N/A	(1,375,688)	(182,628)
NET REVENUE AFTER PRIZES	56,724,907	6,021,709	19,719,665	4,532,426	1,652,864	6,053,738	204,500	94,909,809	96,778,165
COMMISSIONS, BONUSES, TICKET COSTS & VENDOR FEES (Note 1)									
Retailer Commission	(12,551,332)	(934,327)	(2,245,802)	(579,659)	(280,984)	(698,178)		(17,290,282)	(16,828,354)
Retailer Bonus	(2,031,496)	(101,730)	(242,416)	(90,825)	(43,694)	(72,163)	425	(2,581,899)	(2,447,372)
Cost of Tickets Sold	(1,509,633)	N/A	N/A	N/A	N/A	N/A	N/A	(1,509,633)	(1,607,373)
Telecomm Reimbursements	267,297	23,217	55,793	14,405	6,989	17,354		385,055	379,620
On-Line Vendor Fees	(3,029,050)	(263,451)	(629,467)	(163,505)	(79,363)	(194,633)		(4,359,469)	(4,283,070)
TOTAL	(18,854,214)	(1,276,291)	(3,061,892)	(819,584)	(397,052)	(947,620)	425	(25,356,228)	(24,786,549)
GROSS PROFIT ON SALE OF TICKETS	\$37,870,693	\$4,745,418	\$16,657,773	\$3,712,842	\$1,255,812	\$5,106,118	\$204,925	\$69,553,581	\$71,991,616
AVERAGE DAILY TICKET SALES	\$975,874	\$84,764	\$203,694	\$52,590	\$25,518	\$63,357	\$0	\$1,405,797	\$1,374,805

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 TWO QUARTERS ENDED DECEMBER 31, 2011

	Games in Progress							FY 11	FY 10
	Scratch	Lotto	Powerball	Cash 5	Matchplay	Mega Millions	Raffle	Total	Total
Prize Expense *	\$122,835,986	\$9,574,912	\$17,760,068	\$5,144,093	\$3,042,380	\$5,603,867	(\$204,500)	\$163,756,806	\$156,185,934
(/)/Ticket Sales	179,560,893	15,596,621	37,479,733	9,676,519	4,695,244	11,657,605	0	\$258,666,615	252,964,099
Prize %	68.41%	61.39%	47.39%	53.16%	64.80%	48.07%	N/A	63.31%	61.74%

*Net of Multi-State Prize Variances

COLORADO LOTTERY
BUDGET STATUS
FOR THE TWO QUARTERS ENDED DECEMBER 31, 2011

	FY12 Budget (Note 1)	Amount Expended (Note 3)	Amount Available	Percent Expended (Note 2)
Personal Services	\$8,793,014	\$4,030,307	\$4,762,707	45.8%
DOR Postage	0	0	0	N/A
Amortization Equal	191,348	84,676	106,672	44.3%
Suppl Amortization Equalization	153,762	65,135	88,627	42.4%
Workmen's Compensation	62,670	31,335	31,335	50.0%
Shift Differential	6,188	3,903	2,285	63.1%
Health and Life	671,016	353,409	317,607	52.7%
Short Term Disability	12,096	5,947	6,149	49.2%
Operating	1,203,156	588,220	614,936	48.9%
Variable Vehicle	192,785	665	192,120	0.3%
Leased Space	703,845	355,957	347,888	50.6%
Leased Space-Grand Junction	6,907	2,910	3,997	42.1%
Risk Management	25,231	12,615	12,616	50.0%
Vehicle Lease Payments	138,708	64,590	74,118	46.6%
Travel	113,498	77,701	35,797	68.5%
Purch. Of Services-Computer Center	2,603	0	2,603	0.0%
Marketing, Communications & Sales	14,700,000	6,792,416	7,907,584	46.2%
Communications Services	2,193	1,153	1,040	52.6%
Payments to MNT	210,811	105,405	105,406	50.0%
Payments to Other Agencies	239,410	54,228	185,182	22.7%
Legal Services	16,081	7,240	8,841	45.0%
Indirect Costs	495,867	247,683	248,184	49.9%
Ticket Costs-Scratch	6,578,000	2,034,549	4,543,451	30.9%
Research	250,000	1,350	248,650	0.5%
Vendor Fees	12,571,504	4,432,909	8,138,595	35.3%
Prize Payments	424,104,016	166,210,996	257,893,020	39.2%
Retailer Compensation	52,241,350	19,872,182	32,369,168	38.0%
Multi-State Lottery Funds	177,433	69,110	108,323	38.9%
Lottery System Migration	1,014,752	285,412	729,340	28.1%
TOTAL	<u>\$524,878,244</u>	<u>\$205,792,003</u>	<u>\$319,086,241</u>	<u>39.21%</u>
FY11 Staffing - FTE - (Note 4)	117.00 (Appropriated)		117.80 (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	162,381,118
Powerball Prize Variance	579,443
Megamillions Prize Variance	796,245
Commissions and Bonuses	19,872,181
Cost of Tickets & Vendor Fees	5,484,047
Operating Expenses	14,351,377

Total Expenses per Statement of Revenues, Expenses and Changes in Retained Earnings 203,464,411

Plus: Powerball Variance classified as revenue	2,135,345
Megamillions Variance classified as revenue	318,844
Telecommunications offset classified as revenue	385,055

Less: Non-appropriated expenses and other adjustments	
Depreciation	(540,245)
Accrued Annual and Sick Leave	8,762
Loss on Disposal of Equipment classified as revenue	600

Sub-Total 205,772,772

Plus: Capitalized Fixed Assets	19,231
	<u>205,792,003</u>

Note 1 - FY12 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, 2011 is 50.0%.

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

Note 4 - The Governor's budget office has informed departments that the appropriated FTE can be exceeded by 10% for FY 2012