

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

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

(UNAUDITED)

FOR THE FIRST QUARTER ENDED

SEPTEMBER 30, 2016

**COLORADO LOTTERY
FINANCIAL STATEMENTS
(UNAUDITED)**

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STATE OF COLORADO

COLORADO LOTTERY DIVISION

Department of Revenue

Headquarters

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John Hickenlooper
Governor

Barbara Brohl
Executive Director

Laura Solano
Lottery Director

December 14, 2016

Members of the Lottery Commission and
Ms. Laura Solano, Lottery Director

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 first quarter ended September 30, 2016 depicts total revenues of \$142.0 million, which includes gross ticket sales of \$141.8 million. Net income before proceeds distributions is over \$35.8 million with a decrease in net position of \$17,783. Accordingly, a total of \$35.9 million in distributions will have been made by December 1, 2016 in the following manner; \$17.9 million to the Great Outdoors Colorado Fund, nearly \$3.6 million to the Colorado Parks and Wildlife, and \$14.3 million to the Conservation Trust Fund, for distribution to cities and other local government agencies.

The attached financial statements for the first quarter ended September 30, 2016 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, errors or omissions, but should reduce that risk to a relatively low tolerable level.

Respectfully submitted,

A handwritten signature in cursive script 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 FIRST QUARTERS ENDED SEPTEMBER 30, 2016 AND 2015

The table included below and the graphs included on page 2 present certain summarized operating results of the Colorado Lottery for the first quarters ended September 30, 2016 and 2015 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 First Quarters Ended September 30,			
	FY 2017		FY 2016	
	Total	Actual Percent	Total	Actual Percent
INCOME				
Gross Ticket Sales	\$141.78		\$130.83	
Nonoperating revenue	0.19		0.17	
TOTAL INCOME	141.97		131.00	
LESS:				
PRIZES	\$85.37	60.2% (1)	\$82.69	63.2% (1)
RETAILER COMMISSIONS AND BONUSES	\$10.75	7.6% (2)	\$9.71	7.4% (2)
ADMINISTRATIVE COSTS				
Ticket Costs and Vendor Fees	2.97		2.64	
Other Operating Expenses	7.04	(4)	7.18	
TOTAL ADMINISTRATIVE COSTS (Note 3)	10.01	7.1% (3)	9.82	7.5% (3)
	35.84		28.78	
NET CHANGE IN NET ASSETS	(0.02)		(0.14)	
PROCEEDS DISTRIBUTION	\$35.86	25.3% (3)	\$28.92	22.1% (3)

Note 1: Percent of gross ticket sales - per C.R.S. 24-35-210 (9) total disbursements for lottery prizes shall be no less than fifty percent of the total revenue accruing from the sale of lottery tickets or shares.

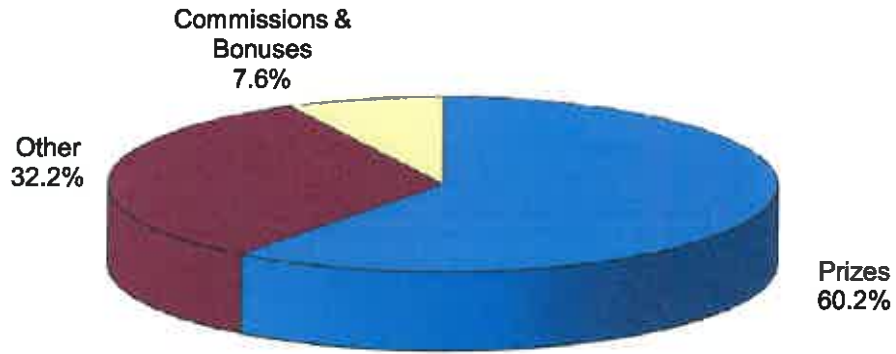
Note 2: Percent of gross ticket sales.

Note 3: Percent of total income.

Note 4: Total operating expenses per the statement of revenues, expenses and changes in fund net position 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.

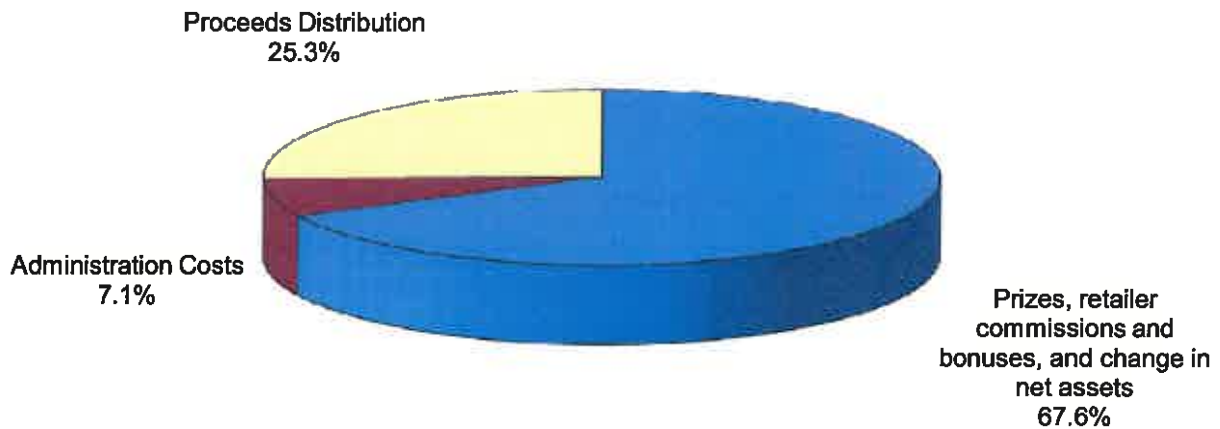
COLORADO LOTTERY
SUPPLEMENT OF FINANCIAL HIGHLIGHTS
FOR THE FIRST QUARTER ENDED SEPTEMBER 30, 2016

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 POSITION
SEPTEMBER 30, 2016 AND 2015
(UNAUDITED)

ASSETS	<u>FY 2017</u>	<u>FY 2016</u>
Current Assets:		
Cash and Investments	\$ 48,037,287	\$ 60,498,054
Accounts Receivable, net of the allowance for doubtful accounts of \$165,116 in 2016 and \$198,697 in 2015	22,565,749	25,631,453
Consignment Inventory, at Cost	118,263	102,689
Warehouse Inventory, at Cost	1,085,788	1,609,345
Prepaid Expenses	299,340	264,014
Total Current Assets	<u>72,106,427</u>	<u>88,105,555</u>
Reserve and Restricted Assets:		
Cash and Investments-Operating Reserve	1,500,000	1,500,000
Cash and Investments-Licensed Agent Recovery		
Reserve Receipts	455,600	386,961
Prepaid Prize Expense with MUSL	4,463,823	4,541,395
Total Reserve and Restricted Assets	<u>6,419,423</u>	<u>6,428,356</u>
Capital Assets:		
Equipment	6,011,671	6,071,861
Leasehold Improvements	64,711	64,711
Less Accumulated Depreciation and Amortization	(5,686,916)	(5,735,401)
Total Capital Assets	<u>389,466</u>	<u>401,171</u>
TOTAL ASSETS	<u>\$ 78,915,316</u>	<u>\$ 94,935,082</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 589,510	\$ 881,837
Prize Liability	38,049,562	29,046,104
Payable to MUSL	377,316	664,830
Wages and Benefits	49,300	58,750
Accrued Annual and Sick Leave	-	-
Retailer Bonus Liability	917,683	485,595
Funds Available for Distribution	35,856,017	60,734,727
Total Current Liabilities	<u>75,839,388</u>	<u>91,871,843</u>
Long-Term Liabilities:		
Accrued Annual and Sick Leave	695,710	735,618
Expired Warrants Liability	35,152	39,489
Total Long-Term Liabilities	<u>730,862</u>	<u>775,107</u>
TOTAL LIABILITIES	<u>76,570,250</u>	<u>92,646,950</u>
NET POSITION		
Investment in Capital Assets	389,466	401,171
Restricted-Licensed Agent Recovery Reserve	455,600	386,961
Restricted-Operating Reserve	1,500,000	1,500,000
Unrestricted-Other	-	-
TOTAL NET POSITION	<u>2,345,066</u>	<u>2,288,132</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 78,915,316</u>	<u>\$ 94,935,082</u>

COLORADO LOTTERY
 STATEMENTS OF REVENUES, EXPENSES AND
 CHANGES IN NET POSITION
 FOR THE FIRST QUARTERS ENDED SEPTEMBER 30, 2016 AND 2015
 (UNAUDITED)

	<u>FY 2017</u>	<u>FY 2016</u>
OPERATING REVENUES		
Gross Ticket Sales	\$ 141,781,743	\$ 130,826,372
DIRECT OPERATING EXPENSES		
Prize Expense	85,372,915	82,689,784
Retailer Commissions and Bonuses	10,750,677	9,701,995
Cost of Tickets and Vendor Fees	2,970,641	2,644,194
Total Direct Operating Expenses	<u>99,094,233</u>	<u>95,035,973</u>
GROSS PROFIT ON SALE OF TICKETS	<u>42,687,510</u>	<u>35,790,399</u>
OTHER OPERATING EXPENSES		
Marketing and Communications	3,443,863	3,380,127
Administration Fees Paid to MUSL	29,199	20,046
Wages and Benefits	2,365,407	2,408,024
Professional Services	33,974	33,108
State Agencies Services	154,383	151,528
Indirect Costs Assessments	207,257	115,065
Travel	38,205	33,563
Equipment	31,480	176,767
Depreciation	48,791	148,520
Accrued Annual and Sick Leave	(52,912)	(21,723)
Space Rental	199,433	197,342
Rents for Equipment	7,782	6,431
Motorpool Leasing	69,137	72,497
Materials and Supplies	31,230	55,790
Telephone	63,686	55,319
Equipment Maintenance	90,839	64,656
Printing	6,192	5,294
Delivery Expense	227,662	239,098
Other	45,109	40,171
Total Other Operating Expenses	<u>7,040,717</u>	<u>7,181,623</u>
OTHER OPERATING REVENUE (EXPENSE)	51,032	29,166
TOTAL OPERATING INCOME	<u>35,697,825</u>	<u>28,637,942</u>
NONOPERATING REVENUES (EXPENSES)		
Investment Income	140,409	136,707
Funds Distributed for Current Year	0	0
Funds Available for Distribution for Current Year	(35,856,017)	(28,915,110)
Total Nonoperating Revenues (Expenses)	<u>(35,715,608)</u>	<u>(28,778,403)</u>
NET INCOME (LOSS)	<u>\$ (17,783)</u>	<u>\$ (140,461)</u>
NET POSITION, BEGINNING OF YEAR	2,362,849	2,428,593
Net Change in Net Position	<u>(17,783)</u>	<u>(140,461)</u>
NET POSITION, END OF PERIOD	<u>\$ 2,345,066</u>	<u>\$ 2,288,132</u>

COLORADO LOTTERY
STATEMENTS OF CASH FLOWS
FOR THE FIRST QUARTERS ENDED SEPTEMBER 30, 2016 & 2015
(UNAUDITED)

	FY2017	FY2016
Operating Activities		
Cash received from retailers	\$ 140,417,555	\$ 127,386,731
Cash paid in prizes	(85,433,197)	(79,650,288)
Cash paid in retailer commissions	(9,398,814)	(8,751,367)
Cash payments to suppliers	(8,229,631)	(10,101,501)
Cash payments to employees for services	(3,065,847)	(3,150,279)
Cash paid in retailer bonus	(2,257,245)	(1,806,094)
Net cash provided by operating activities	32,032,821	23,927,202
Noncapital Financing Activities		
Distribution of net proceeds	(31,915,368)	-
Net cash used by noncapital financing activities	(31,915,368)	-
Capital and Related Financing Activities		
Acquisition of capital assets	-	-
Proceeds from the sale of capital assets	-	-
Net cash used by capital and related financing activities	-	-
Investing Activities		
Interest received	140,409	136,707
Change in fair market value of investments	-	-
Net cash provided by investing activities	140,409	136,707
Increase (Decrease) in Cash and Investments	257,862	24,063,909
Cash and Investments, Beginning of Year (including \$1,924,591 and \$1,878,903, respectively, in restricted accounts)	49,735,025	38,321,106
Cash and Investments, End of Period, (including \$1,955,600 and \$1,886,961 respectively, in restricted accounts)	\$ 49,992,887	\$ 62,385,015
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 35,697,825	\$ 28,637,942
Depreciation	48,791	148,520
Loss (gain) on disposition of equipment	-	-
Change in:		
Accounts Receivable	(1,687,770)	(5,413,530)
Ticket Inventory	267,864	(586,910)
Prepaid Expenses	(227,385)	(188,281)
Prepaid Prize Expense with MUSL	77,572	40,245
Liabilities(excluding funds available for distribution)	(2,144,076)	1,289,216
Net cash provided by operating activities	\$ 32,032,821	\$ 23,927,202
Statement of Net Position Classification		
Cash and investments	\$ 48,037,287	\$ 60,498,054
Cash and investments- Licensed Agent Recovery Reserve	455,600	386,961
Cash and investments- Operating Reserve	1,500,000	1,500,000
Cash and Investments, End of Period	\$ 49,992,887	\$ 62,385,015

COLORADO LOTTERY
SCHEDULE OF REVENUE AND COSTS FOR SCRATCH AND JACKPOT GAMES
FOR THE FIRST QUARTER ENDED SEPTEMBER 30, 2016
(With Comparative Totals for the First Quarter Ended September 30, 2015)

	Jackpot Games								FY 17	FY 16
	Scratch	Scratch \$50	Lotto	Powerball	Cash 5	Mega Millions	Pick 3	Lucky For Life	Total	Scratch and Jackpot Games
TICKET SALES	\$86,385,854	\$5,619,850	\$9,778,817	\$19,903,293	\$4,459,444	\$9,097,207	\$2,272,394	\$4,264,884	\$141,781,743	\$130,826,372
PRIZE EXPENSE	(57,713,958)	(4,212,977)	(4,147,496)	(7,937,638)	(2,428,954)	(4,540,018)	(1,146,949)	(3,244,925)	(85,372,915)	(82,689,784)
NET REVENUE AFTER PRIZES	28,671,896	1,406,873	5,631,321	11,965,655	2,030,490	4,557,189	1,125,445	1,019,959	56,408,828	48,136,588
COMMISSIONS, BONUSES, TICKET COSTS & VENDOR FEES (Note 1)										
Retailer Commission	(6,030,777)	(392,042)	(584,113)	(1,190,845)	(266,920)	(544,213)	(135,934)	(253,970)	(9,398,814)	(8,751,367)
Retailer Bonus	(946,225)	(62,492)	(64,352)	(109,687)	(46,390)	(60,606)	(21,627)	(40,484)	(1,351,863)	(950,628)
Cost of Tickets Sold	(626,260)	(6,788)	N/A	N/A	N/A	N/A	N/A	N/A	(633,048)	(558,540)
Telecomm Reimbursements	117,259	7,628	13,273	27,016	6,053	12,348	3,084	5,789	192,450	192,350
Vendor Fees	(1,592,194)	(103,578)	(173,477)	(326,841)	(73,922)	(151,311)	(37,196)	(71,524)	(2,530,043)	(2,278,004)
TOTAL	(9,078,197)	(557,272)	(808,669)	(1,600,357)	(381,179)	(743,782)	(191,873)	(360,189)	(13,721,318)	(12,346,189)
GROSS PROFIT ON SALE OF TICKETS	\$19,593,699	\$849,601	\$4,822,652	\$10,365,298	\$1,649,311	\$3,813,407	\$933,772	\$659,770	\$42,687,510	\$35,790,399
AVERAGE DAILY TICKET SALES	\$938,977	\$61,085	\$106,291	\$216,340	\$48,472	\$98,883	\$24,700	\$46,357 *	\$1,541,106	\$1,422,026

Note 1: Administrative costs of Lottery operations, including wages, advertising and other expenses are not shown.
* Lucky For Life game started July 17, 2016

COLORADO LOTTERY
SCHEDULE OF PERCENT OF PRIZE EXPENSE TO GROSS TICKET SALES
FOR THE FIRST QUARTER ENDED SEPTEMBER 30, 2016

									FY 17	FY 16
	Scratch	Scratch \$50	Lotto	Powerball	Cash 5	Mega Millions	Pick 3	Lucky For Life	Total	Total
Prize Expense	\$57,713,958	\$4,212,977	\$4,147,496	\$7,937,638	\$2,428,954	\$4,540,018	\$1,146,949	\$3,244,925	\$85,372,915	\$82,689,784
(/)/Ticket Sales	86,385,854	5,619,850	9,778,817	19,903,293	4,459,444	9,097,207	2,272,394	4,264,884	\$141,781,743	130,826,372
Prize %	66.81%	74.97%	42.41%	39.88%	54.47%	49.91%	50.47%	76.08%	60.21%	63.21%

COLORADO LOTTERY
BUDGET STATUS
FOR THE FIRST QUARTER ENDED SEPTEMBER 30, 2016

	FY17 Budget (Note 1)	Amount Expended (Note 3)	Amount Available	Percent Expended (Note 2)
Personal Services	\$9,490,911	1,979,315	\$7,511,596	20.9%
Amortization Equal	330,351	74,635	255,716	22.6%
Suppl Amortization Equalization	326,910	73,013	253,897	22.3%
Worker's Compensation	90,340	22,585	67,755	25.0%
Health and Life	949,966	244,808	705,158	25.8%
Short Term Disability	13,076	3,111	9,965	23.8%
Operating	1,203,156	253,530	949,626	21.1%
Variable Vehicle	163,062	30,930	132,132	19.0%
Leased Space	884,416	197,129	687,287	22.3%
Leased Space-Grand Junction	6,714	1,483	5,231	22.1%
Risk Management	30,631	7,658	22,973	25.0%
Vehicle Lease Payments	154,295	35,413	118,882	23.0%
Travel	113,498	38,205	75,293	33.7%
Marketing, Communications & Sales	14,700,000	3,443,863	11,256,137	23.4%
Payments to Other Agencies	239,410	3,990	235,420	1.7%
Legal Services	34,999	12,148	22,851	34.7%
Indirect Costs Assessments	760,199	207,257	552,942	27.3%
Ticket Costs-Scratch	6,578,000	872,313	5,705,687	13.3%
Research	250,000	0	250,000	0.0%
Vendor Fees	12,571,504	2,530,043	10,041,461	20.1%
Prize Payments	424,104,016	85,372,915	338,731,101	20.1%
Retailer Compensation	52,241,350	10,750,677	41,490,673	20.6%
Multi-State Lottery Funds	177,433	29,199	148,234	16.5%
CORE Modernization	36,223	9,056	27,167	25.0%
OIT Payments	552,999	138,245	414,754	25.0%
TOTAL	<u><u>\$526,003,459</u></u>	<u><u>\$106,331,521</u></u>	<u><u>\$419,257,184</u></u>	<u><u>20.21%</u></u>

FY17 Staffing - FTE - (Note 4) 117.10 (Appropriated) 107.50 (Projected)

Reconciliation of Expenses per "Statement of Revenues, Expenses and Changes in Net Position" to Budgeted Expenditures:

Expenses Per Statement of Revenues, Expenses and Changes in Net Position

Prize Expense	85,372,915
Commissions and Bonuses	10,750,677
Cost of Tickets & Vendor Fees	2,970,641
Operating Expenses	7,040,717

Total Expenses per Statement of Revenues, Expenses and Changes in Net Position 106,134,950

Plus: Telecommunications offset classified as revenue	192,450
Less: Non-appropriated expenses and other adjustments	
Depreciation	(48,791)
Accrued Annual and Sick Leave	52,912
Loss on Disposal of Equipment classified as revenue	

Sub-Total 106,331,521

Plus: Capitalized Fixed Assets 0

\$106,331,521

Note 1 - FY17 budget includes Lottery Long Bill and transfers from the Department of Revenue and anticipated supplemental funding.

Note 2 - Percent of fiscal year elapsed through September 30, 2016 is 25.0%.

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 2017