

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

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

(UNAUDITED)

FOR THE TWO (2) QUARTERS ENDED

DECEMBER 31, 2016

**COLORADO LOTTERY
FINANCIAL STATEMENTS
(UNAUDITED)**

DISTRIBUTION

Honorable John Hickenlooper	Governor
Hon. Dennis Maes	Chair, Lottery Commissioner
Mr. Michael Weatherwax, CPA	Vice-Chair, Lottery Commissioner
Mr. Jim Bensberg	Lottery Commissioner
Mr. Jim Davis	Lottery Commissioner
Ms. Stella Peterson	Lottery Commissioner
Ms. Barbara Brohl	Executive Director, Department of Revenue
Ms. Laura Solano	Director, Colorado Lottery
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STATE OF COLORADO

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Department of Revenue

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John Hickenlooper
Governor

Barbara Brohl
Executive Director

Laura Solano
Lottery Director

March 8, 2017

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 two quarters ended December 31, 2016 depicts total revenues of \$277.3 million, which includes gross ticket sales of \$276.9 million. Net income before proceeds distributions is nearly \$67.4 million with an increase in net position of \$64,894. Accordingly, a total of \$67.3 million in distributions was made by March 1, 2017 in the following manner; \$33.7 million to the Great Outdoors Colorado Fund, nearly \$6.7 million to the Colorado Parks and Wildlife, \$26.9 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, 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 TWO QUARTERS ENDED DECEMBER 31, 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 two quarters ended December 31, 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 Two Quarters Ended December 31,			
	FY 2017		FY 2016	
	Total	Actual Percent	Total	Actual Percent
INCOME				
Gross Ticket Sales	\$276.87		\$277.65	
Nonoperating revenue	0.39		0.35	
TOTAL INCOME	277.26		278.00	
LESS:				
PRIZES	\$169.07	61.1% (1)	\$177.52	63.9% (1)
RETAILER COMMISSIONS AND BONUSES	\$21.09	7.6% (2)	\$20.63	7.4% (2)
ADMINISTRATIVE COSTS				
Ticket Costs and Vendor Fees	6.17		5.70	
Other Operating Expenses	13.53	(4)	13.76	
TOTAL ADMINISTRATIVE COSTS (Note 3)	19.70	7.1% (3)	19.46	7.0% (3)
	67.40		60.39	
NET CHANGE IN NET ASSETS	0.06		(0.12)	
PROCEEDS DISTRIBUTION	\$67.34	24.3% (3)	\$60.51	21.8% (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.

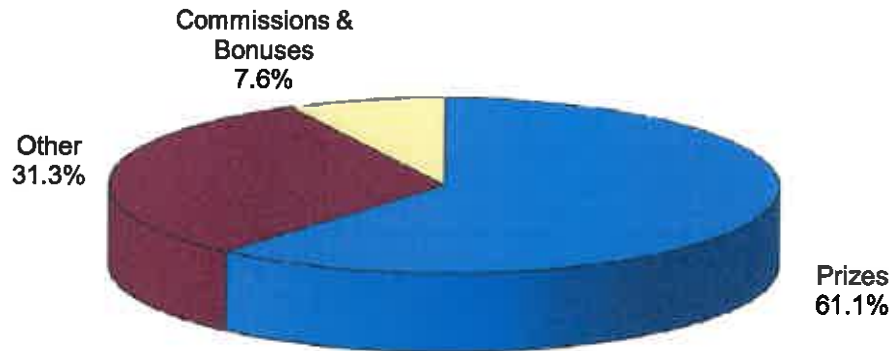
Note 2: Percent of gross ticket sales.

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.

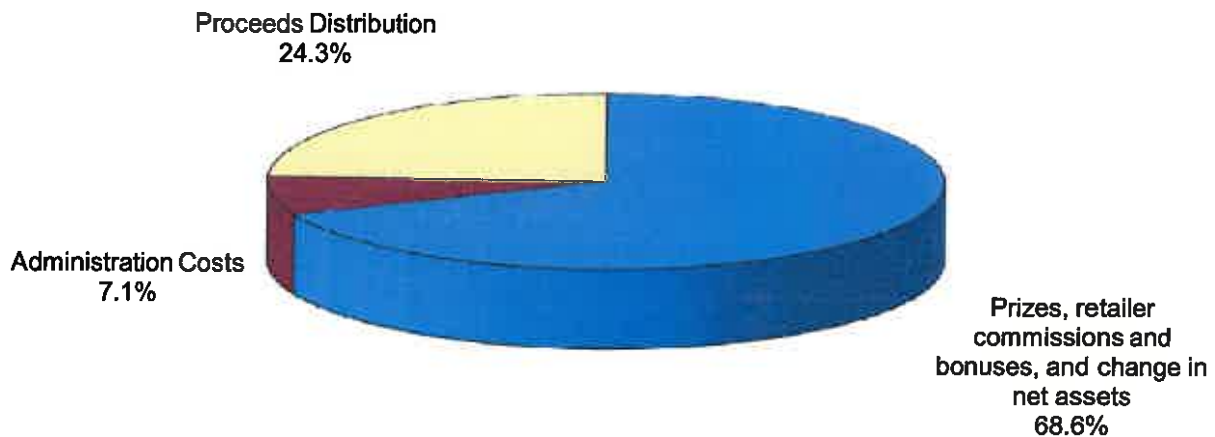
COLORADO LOTTERY
SUPPLEMENT OF FINANCIAL HIGHLIGHTS
FOR THE TWO QUARTERS ENDED DECEMBER 31, 2016

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
DECEMBER 31, 2016 AND 2015
(UNAUDITED)

ASSETS	<u>FY 2017</u>	<u>FY 2016</u>
Current Assets:		
Cash and Investments	\$ 40,991,702	\$ 37,412,764
Accounts Receivable, net of the allowance for doubtful accounts of \$157,460 in 2016 and \$198,076 in 2015	23,995,958	22,977,677
Consignment Inventory, at Cost	111,446	116,211
Warehouse Inventory, at Cost	1,657,912	1,154,994
Prepaid Expenses	223,464	209,907
Total Current Assets	<u>66,980,482</u>	<u>61,871,553</u>
Reserve and Restricted Assets:		
Cash and Investments-Operating Reserve	1,600,000	1,500,000
Cash and Investments-Licensed Agent Recovery		
Reserve Receipts	484,273	403,915
Prepaid Prize Expense with MUSL	4,469,925	4,541,395
Total Reserve and Restricted Assets	<u>6,554,198</u>	<u>6,445,310</u>
Capital Assets:		
Equipment	5,884,856	5,966,333
Leasehold Improvements	64,711	64,711
Less Accumulated Depreciation and Amortization	<u>(5,606,097)</u>	<u>(5,628,901)</u>
Total Capital Assets	<u>343,470</u>	<u>402,143</u>
TOTAL ASSETS	<u>\$ 73,878,150</u>	<u>\$ 68,719,006</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 588,479	\$ 964,690
Prize Liability	36,552,808	31,721,363
Payable to MUSL	406,424	444,802
Wages and Benefits	95,175	117,500
Accrued Annual and Sick Leave	-	-
Retailer Bonus Liability	1,574,712	805,251
Funds Available for Distribution	31,478,877	31,599,015
Total Current Liabilities	<u>70,696,475</u>	<u>65,652,621</u>
Long-Term Liabilities:		
Accrued Annual and Sick Leave	718,780	720,838
Expired Warrants Liability	35,152	39,489
Total Long-Term Liabilities	<u>753,932</u>	<u>760,327</u>
TOTAL LIABILITIES	<u>71,450,407</u>	<u>66,412,948</u>
NET POSITION		
Investment in Capital Assets	343,470	402,143
Restricted-Licensed Agent Recovery Reserve	484,273	403,915
Restricted-Operating Reserve	1,600,000	1,500,000
Unrestricted-Other	-	-
TOTAL NET POSITION	<u>2,427,743</u>	<u>2,306,058</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 73,878,150</u>	<u>\$ 68,719,006</u>

COLORADO LOTTERY
 STATEMENTS OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET POSITION
 FOR THE TWO QUARTERS ENDED DECEMBER 31, 2016 AND 2015
 (UNAUDITED)

	<u>FY 2017</u>	<u>FY 2016</u>
OPERATING REVENUES		
Gross Ticket Sales	\$ 276,871,885	\$ 277,654,154
DIRECT OPERATING EXPENSES		
Prize Expense	169,072,155	177,521,790
Retailer Commissions and Bonuses	21,090,744	20,631,175
Cost of Tickets and Vendor Fees	6,165,269	5,700,735
Total Direct Operating Expenses	<u>196,328,168</u>	<u>203,853,700</u>
GROSS PROFIT ON SALE OF TICKETS	<u>80,543,717</u>	<u>73,800,454</u>
OTHER OPERATING EXPENSES		
Marketing and Communications	6,266,319	6,534,733
Administration Fees Paid to MUSL	58,398	40,093
Wages and Benefits	4,696,519	4,782,168
Professional Services	72,615	64,498
State Agencies Services	349,317	358,054
Indirect Costs Assessments	382,219	230,130
Travel	56,494	55,632
Equipment	136,157	14,822
Depreciation	99,288	313,903
Accrued Annual and Sick Leave	(29,150)	(36,363)
Space Rental	402,368	395,029
Rents for Equipment	14,878	13,759
Motorpool Leasing	134,538	146,531
Materials and Supplies	50,795	75,530
Telephone	127,115	117,286
Equipment Maintenance	179,378	110,700
Printing	10,238	10,540
Delivery Expense	452,610	466,332
Other	74,317	64,637
Total Other Operating Expenses	<u>13,534,413</u>	<u>13,758,014</u>
OTHER OPERATING REVENUE (EXPENSE)	103,749	67,687
TOTAL OPERATING INCOME	<u>67,113,053</u>	<u>60,110,127</u>
NONOPERATING REVENUES (EXPENSES)		
Investment Income	286,735	281,463
Funds Distributed for Current Year	(35,856,017)	(28,915,110)
Funds Available for Distribution for Current Year	(31,478,877)	(31,599,015)
Total Nonoperating Revenues (Expenses)	<u>(67,048,159)</u>	<u>(60,232,662)</u>
NET INCOME (LOSS)	<u>\$ 64,894</u>	<u>\$ (122,535)</u>
NET POSITION, BEGINNING OF YEAR	2,362,849	2,428,593
Net Change in Net Position	<u>64,894</u>	<u>(122,535)</u>
NET POSITION, END OF PERIOD	<u>\$ 2,427,743</u>	<u>\$ 2,306,058</u>

COLORADO LOTTERY
STATEMENTS OF CASH FLOWS
FOR THE TWO QUARTERS ENDED DECEMBER 31, 2016 & 2015
(UNAUDITED)

	FY2017	FY2016
Operating Activities		
Cash received from retailers	\$ 273,827,587	\$ 275,175,032
Cash paid in prizes	(170,978,208)	(171,892,496)
Cash paid in retailer commissions	(18,428,523)	(18,642,674)
Cash payments to suppliers	(15,320,426)	(15,033,914)
Cash payments to employees for services	(5,351,776)	(5,465,813)
Cash paid in retailer bonus	(2,910,841)	(2,524,942)
Net cash provided by operating activities	60,837,813	61,615,193
Noncapital Financing Activities		
Distribution of net proceeds	(67,771,385)	(60,734,727)
Net cash used by noncapital financing activities	(67,771,385)	(60,734,727)
Capital and Related Financing Activities		
Acquisition of capital assets	(12,213)	(166,356)
Proceeds from the sale of capital assets	-	-
Net cash used by capital and related financing activities	(12,213)	(166,356)
Investing Activities		
Interest received	286,735	281,463
Change in fair market value of investments	-	-
Net cash provided by investing activities	286,735	281,463
Increase (Decrease) in Cash and Investments	(6,659,050)	995,573
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 \$2,084,273 and \$1,903,915 respectively, in restricted accounts)	\$ 43,075,975	\$ 39,316,679
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 67,113,053	\$ 60,110,127
Depreciation	99,288	313,903
Loss (gain) on disposition of equipment	7,713	-
Change in:		
Accounts Receivable	(3,117,979)	(2,759,754)
Ticket Inventory	(297,443)	(146,081)
Prepaid Expenses	(151,509)	(134,174)
Prepaid Prize Expense with MUSL	71,470	40,245
Liabilities(excluding funds available for distribution)	(2,886,780)	4,190,927
Net cash provided by operating activities	\$ 60,837,813	\$ 61,615,193
Statement of Net Position Classification		
Cash and investments	\$ 40,991,702	\$ 37,412,764
Cash and investments- Licensed Agent Recovery Reserve	484,273	403,915
Cash and investments- Operating Reserve	1,600,000	1,500,000
Cash and Investments, End of Period	\$ 43,075,975	\$ 39,316,679

COLORADO LOTTERY
SCHEDULE OF REVENUE AND COSTS FOR SCRATCH AND JACKPOT GAMES
FOR THE TWO QUARTERS ENDED DECEMBER 31, 2016
(With Comparative Totals for the Two Quarters Ended December 31, 2015)

	Scratch	Scratch \$50	Lotto	Powerball	Jackpot Games				FY 17	FY 16
					Cash 5	Mega Millions	Pick 3	Lucky For Life	Total	Scratch and Jackpot Games
TICKET SALES	\$173,860,620	\$12,286,600	\$17,554,235	\$37,371,568	\$8,764,930	\$13,930,629	\$5,109,273	\$7,994,030	\$276,871,885	\$277,654,154
PRIZE EXPENSE	(116,855,199)	(9,210,773)	(8,226,415)	(16,165,365)	(4,600,775)	(5,784,464)	(2,595,535)	(5,633,629)	(169,072,155)	(177,521,790)
NET REVENUE AFTER PRIZES	<u>57,005,421</u>	<u>3,075,827</u>	<u>9,327,820</u>	<u>21,206,203</u>	<u>4,164,155</u>	<u>8,146,165</u>	<u>2,513,738</u>	<u>2,360,401</u>	<u>107,799,730</u>	<u>100,132,364</u>
COMMISSIONS, BONUSES, TICKET COSTS & VENDOR FEES (Note 1)										
Retailer Commission	(12,142,746)	(857,034)	(1,049,890)	(2,237,505)	(524,828)	(833,656)	(305,682)	(477,182)	(18,428,523)	(18,642,674)
Retailer Bonus	(1,896,495)	(134,914)	(122,862)	(207,185)	(88,610)	(90,520)	(48,050)	(73,585)	(2,662,221)	(1,988,501)
Cost of Tickets Sold	(1,552,473)	(14,840)	N/A	N/A	N/A	N/A	N/A	N/A	(1,567,313)	(1,234,326)
Telecomm Reimbursements	242,212	17,116	24,455	52,064	12,211	19,407	7,118	11,137	385,720	385,045
Vendor Fees	(3,235,031)	(228,600)	(304,076)	(617,044)	(145,953)	(233,564)	(84,181)	(135,227)	(4,983,676)	(4,851,454)
TOTAL	<u>(18,584,533)</u>	<u>(1,218,272)</u>	<u>(1,452,373)</u>	<u>(3,009,670)</u>	<u>(747,180)</u>	<u>(1,138,333)</u>	<u>(430,795)</u>	<u>(674,857)</u>	<u>(27,256,013)</u>	<u>(26,331,910)</u>
GROSS PROFIT ON SALE OF TICKETS	<u>\$38,420,888</u>	<u>\$1,857,555</u>	<u>\$7,875,447</u>	<u>\$18,196,533</u>	<u>\$3,416,975</u>	<u>\$7,007,832</u>	<u>\$2,082,943</u>	<u>\$1,685,544</u>	<u>\$80,543,717</u>	<u>\$73,800,454</u>
AVERAGE DAILY TICKET SALES	<u>\$944,895</u>	<u>\$66,775</u>	<u>\$95,403</u>	<u>\$203,106</u>	<u>\$47,635</u>	<u>\$75,710</u>	<u>\$27,768</u>	<u>\$43,446 *</u>	<u>\$1,504,739</u>	<u>\$1,508,990</u>

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 TWO QUARTERS ENDED DECEMBER 31, 2016

	Scratch	Scratch \$50	Lotto	Powerball	Cash 5	Mega Millions	Pick 3	Lucky For Life	FY 17	FY 16
									Total	Total
Prize Expense (/)/Ticket Sales	\$116,855,199 173,860,620	\$9,210,773 12,286,600	\$8,226,415 17,554,235	\$16,165,365 37,371,568	\$4,600,775 8,764,930	\$5,784,464 13,930,629	\$2,595,535 5,109,273	\$5,633,629 7,994,030	\$169,072,155 \$276,871,885	\$177,521,790 277,654,154
Prize %	<u>67.21%</u>	<u>74.97%</u>	<u>46.86%</u>	<u>43.26%</u>	<u>52.49%</u>	<u>41.52%</u>	<u>50.80%</u>	<u>70.47%</u>	<u>61.07%</u>	<u>63.94%</u>

COLORADO LOTTERY
BUDGET STATUS
FOR THE TWO QUARTERS ENDED DECEMBER 31, 2016

	FY17 Budget (Note 1)	Amount Expended (Note 3)	Amount Available	Percent Expended (Note 2)
Personal Services	\$9,490,911	3,935,784	\$5,555,127	41.5%
Amortization Equal	330,351	148,683	181,668	45.0%
Suppl Amortization Equalization	326,910	145,450	181,460	44.5%
Worker's Compensation	90,340	45,170	45,170	50.0%
Health and Life	949,966	484,024	465,942	51.0%
Short Term Disability	13,076	6,210	6,866	47.5%
Operating	1,203,156	566,101	637,055	47.1%
Variable Vehicle	163,062	59,789	103,273	36.7%
Leased Space	884,416	397,997	486,419	45.0%
Leased Space-Grand Junction	6,714	2,965	3,749	44.2%
Risk Management	30,631	15,315	15,316	50.0%
Vehicle Lease Payments	154,295	70,762	83,533	45.9%
Travel	113,498	56,494	57,004	49.8%
Marketing, Communications & Sales	14,700,000	6,266,319	8,433,681	42.6%
Payments to Other Agencies	239,410	44,636	194,774	18.6%
Legal Services	34,999	28,190	6,809	80.5%
Indirect Costs Assessments	760,199	382,219	377,980	50.3%
Ticket Costs-Scratch	6,578,000	2,034,694	4,543,306	30.9%
Research	250,000	0	250,000	0.0%
Vendor Fees	12,571,504	4,983,676	7,587,828	39.6%
Prize Payments	424,104,016	169,072,155	255,031,861	39.9%
Retailer Compensation	52,241,350	21,090,744	31,150,606	40.4%
Multi-State Lottery Funds	177,433	58,398	119,035	32.9%
CORE Modernization	36,223	18,111	18,112	50.0%
OIT Payments	552,999	276,491	276,508	50.0%
TOTAL	<u>\$526,003,459</u>	<u>\$210,190,377</u>	<u>\$315,536,574</u>	<u>39.96%</u>

FY17 Staffing - FTE - (Note 4) 117.10 (Appropriated) 110.00 (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	169,072,155
Commissions and Bonuses	21,090,744
Cost of Tickets & Vendor Fees	6,165,269
Operating Expenses	13,534,413

Total Expenses per Statement of Revenues, Expenses and Changes in Net Position 209,862,581

Plus: Telecommunications offset classified as revenue 385,720

Less: Non-appropriated expenses and other adjustments

Depreciation	(99,288)
Accrued Annual and Sick Leave	29,150

Loss on Disposal of Equipment classified as revenue

Sub-Total 210,178,163

Plus: Capitalized Fixed Assets 12,214
\$210,190,377

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 December 31, 2016 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 2017