STATEMENT OF LOTTERY REVENUES,

PRIZE DISBURSEMENTS AND OTHER EXPENSES

(UNAUDITED)

FOR THE FISCAL YEAR ENDED

JUNE 30, 2006

COLORADO LOTTERY
FINANCIAL STATEMENTS
(UNAUDITED)

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Lottery Headquarters
212 West 3rd Street, Suite 210
Pueblo, Colorado 81003-3032
(719) 546-2400
(719) 546-5208 Fax

August 17, 2006

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 fiscal year ended June 30, 2006 depicts total revenues of $471.6 million, gross ticket sales of $468.8 million, net income before proceeds distributions of $124.9 million, and a net decrease in net assets of $.6 million. Accordingly, a total of $125.5 million in distributions will have been made by September 1, 2006 in the following manner; $50.2 million to the Great Outdoors Colorado Fund, $12.6 million to the Division of Parks and Outdoor Recreation, and $50.2 million to the Conservation Trust Fund, for distribution to cities and other local government agencies and $12.5 million to the State Public School Fund.

The attached financial statements for the fiscal year ended June 30, 2006 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,

Barb Aggson

Barb Aggson
Controller
Colorado Lottery

COLORADO LOTTERY
FINANCIAL STATEMENTS
(UNAUDITED)

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Colorado Lottery

Management's Discussion and Analysis

Year Ended June 30, 2006

This discussion and analysis of the Lottery financial performance provides an overview of financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Lottery's financial statements, which begin on page 17. These financial statements reflect only activities of the Colorado Lottery, a proprietary fund of the State of Colorado.

Fiscal Year 2006 Financial Highlights

- The Lottery's overall sales performance of $468.8 million reflected a $51.8 million increase from last year's sales of $417 million and for the second year in a row became the highest sales year since the Lottery's start-up in 1983. Fiscal year 2004 sales totaled $401.3 million and ranks as the fourth-highest sales years ever.

  Scratch sales hit a record high for the third year in a row with scratch sales totaling $293.8 million. The second highest sales were in fiscal year 2005, with scratch sales totaling $282.7 million. Fiscal year 2004 scratch sales totaling $260.9 million ranks third in total scratch sales with fiscal year 2002 holding the fourth position with scratch sales totaling $257.2 million. An increase in marketing efforts, including offering a broader range of price points, innovative display cases, additional games and an overall upgrade to the look of our scratch tickets, contributed to this increase in scratch sales.

  Lotto sales remained steady for the first time since the introduction of Powerball in fiscal year 2002. Fiscal years 2006 and 2005 both reflected Lotto sales of $38.3 million. Fiscal year 2004 Lotto sales totaling $40.8 million reflected a $7.5 million decrease from the prior fiscal year 2003 sales of $48.3 million.

  Powerball sales for fiscal year 2006 soared to $119.8 million, a $38.9 million increase from the prior fiscal year. A matrix change implemented in August 2005 allowed the Powerball jackpot to reach record heights of $340 million and $365 million contributing to the extensive growth in Powerball sales. Powerball sales for fiscal year 2005 totaled $80.9 million as compared to fiscal year 2004's sales of $85 million.

  Cash 5 sales for fiscal year 2006 for the fourth year in a row showed an unexpected increase. Sales increased nearly 12% to a total of $16.9 million from $15.1 million in fiscal year 2005. This followed a nearly 4% increase in sales in fiscal year 2005 from fiscal year 2004 whose sales totaled $14.5 million.

- Proceeds distributions hit a record high with a total of $125.6 million, beating out fiscal year 2002 who previously held the record with distributions totaling $110 million. The $125.6 million represented a 21% increase from fiscal year 2005's distributions total of $103.7 million, which was down slightly from fiscal year 2004's distributions total of $104.1 million. Fiscal year 2006 included, for the fifth time, a spill-over into the State Public School Fund Contingency Reserve; in the amount of $12.5 million, and was the largest one-year spill-over since the first spill-over occurred in fiscal year 2002. A spill-over occurs when the distribution cap for GOCO is reached in any one year. The cap for GOCO is the 1992 base year amount of $35 million as adjusted for the annual change in the cost of living increase for the Denver-Boulder area. The total amount of the spill-over during the five-year period totals $28.8 million.

- Gross profit as a percent of sales increased slightly by .3%, a reflection of the decrease in the scratch ticket costs and vendor fees from 2.4% ($9,906,061) to 2.1% ($9,727,730) of sales. A reduction in scratch ticket costs resulted from the implementation of new contracts with the scratch ticket vendors, lowering the cost to purchase tickets. Fiscal year 2006 vendor fees was slightly lower due to a full year under a new contract A decrease in the percentage of retailer compensation from 7.6% to 7.4% was also a contributing factor. Unclaimed prizes remained somewhat steady between fiscal year 2005 and fiscal year 2006 across all products. Fiscal year 2006 did, however, include the expiration of a bonus prize for the Powerball Game of $853,492. Gross profit as a percent of sales decreased by .9% between fiscal years 2004 and 2005, a reflection of the increase in the prize costs from 59% ($236,602,960) to 59.8% ($249,502,651) of sales. Fiscal year 2004 prize expense was slightly lower due to the absorption of two expiring unclaimed Lotto jackpots.

Games Offered by the Colorado Lottery

Currently, the Lottery offers two different ways to play: scratch games and on-line games (Powerball, Lotto and Cash 5). Scratch games consist of pre-printed tickets that may be purchased for various prices ($1, $2, $3, $5 and $10) at any Lottery retailer. When scratched, they provide immediate knowledge if the ticket is a winner and can be cashed immediately at the retailer level if the amount of the winnings is $599 or less. Prizes over $600 must be redeemed at Lottery offices.

On-line games, however, require a longer playing time. Tickets are also purchased at Lottery retailers and are printed on ticket stock as the purchase is made. Each ticket contains one or more playing boards. Each board consists of a set of numbers, the combination of numbers required for play varying by game. The winning numbers for each game are posted after their respective draw nights with drawings held on every night of the week, excluding Sunday. Players must check their numbers against the numbers drawn for each respective game to determine if they have a winning ticket. The tickets may also be cashed at the retailer level if the amounts of the winnings are $599 or less. Prizes over $600 must be redeemed at Lottery offices.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets provides information about the Lottery's assets and liabilities and reflects the Lottery's financial position as of June 30, 2006 and 2005. The statement of revenues, expenses, and changes in net assets reports the activity of selling Lottery products and the expenses related to such activity for the years ended June 30, 2006 and 2005. Finally, the statement of cash flows outlines the cash inflows and outflows related to the activity of selling Lottery products for the years ended June 30, 2006 and 2005.

Colorado Lottery
Management's Discussion and Analysis
Year Ended June 30, 2006

Statements of Net Assets

The statements of net assets is a financial snapshot of the Lottery at June 30, 2006 and 2005. It presents the fiscal resources of the Lottery (assets), the claims against those resources (liabilities) and the residual available for future operations (net assets). Assets and liabilities are classified by liquidity as either current or noncurrent. Net assets are classified by the ways in which they may be used for future operations.

Condensed Statements of Net Assets
June 30, 2006, 2005 and 2004

	2006	2005	2004
Assets			
Current assets	$ 45,946,060	$ 49,400,246	$ 39,951,270
Restricted assets	5,706,844	6,089,238	5,024,418
Capital assets	754,051	861,066	1,029,114
Total assets	$ 52,406,955	$ 56,350,550	$ 46,004,802
Liabilities			
Current liabilities	$ 49,104,926	$ 52,415,997	$ 43,576,344
Long-term liabilities	947,001	965,078	782,863
Total liabilities	$ 50,051,927	$ 53,381,075	$ 44,359,207
Net Assets			
Investment in capital assets	$ 754,051	$ 861,066	$ 1,029,114
Restricted – Licensed Agent Recovery Reserve	398,064	479,238	469,424
Unrestricted – Operating Reserve	1,600,000	1,700,000	—
Unrestricted	(397,087)	(70,829)	147,057
Total net assets	$ 2,355,028	$ 2,969,475	$ 1,645,595

The Lottery's total assets at June 30, 2006 were $52.4 million. Assets consisted primarily of cash and investments with the State Treasury of $31.2 million, Prepaid Prize Expense with Multi-State Lottery (MUSL) of $3.7 million, receivables from Lottery retailers for the sale of Lottery products of $15.8 million and a net investment in fixed assets of $.8 million.

Comparable figures at June 30, 2005 were $56.4 million in total assets, including $28.7 million in cash and investments with the State Treasury, Prepaid Prize Expense with MUSL of $3.9 million, receivable from retailers of $21.5 million and a net investment in fixed assets of $.9 million.

Comparable figures at June 30, 2004 were $46.0 million in total assets, including $25.4 million in cash and investments with the State Treasury, Prepaid Prize Expense with MUSL of $3.5 million, receivable from retailers of $14.7 million and a net investment in fixed assets of $1 million.

The $6.8 million increase in receivables from retailers between fiscal year 2004 and fiscal year 2005 was partly the result of an undetected problem in the new on-line system, whereby billings of receivables to retailers were delayed. The error was detected in mid-July and was resolved in fiscal year 2006.

The Lottery's total liabilities at June 30, 2006 totaled approximately $50.1 million, consisting primarily of proceeds distributions due to recipients of $28.8 million and prize liability on all Lottery products of about $17.1 million.

The Lottery's total liabilities at June 30, 2005 totaled $53.4 million, which consisted primarily of proceeds distributions due of $27.8 million and prize liability on all Lottery products of about $17.1 million.

The Lottery's total liabilities at June 30, 2004 totaled $44.4 million, which consisted primarily of proceeds distributions due of $25.8 million and prize liability on all Lottery products of about $14 million.

Components of the Lottery's net assets are: 1) an amount to represent the Lottery's net investment in capital assets as required by the reporting model under GASB 34, (See "Total Capital Assets" on the statements of net assets); 2) a Licensed Agent Recovery Reserve (bonding reserve) funded by retailers to cover any uncollectible receivable accounts; 3) an amount representing the funds held by the Lottery in an operating reserve as mandated by Senate Bill 204 (See "Cash and Investments – Operating Reserve") on the statements of net assets; and 4) an adjustment made by the Lottery to reflect its share of unrealized gains or losses on investments held by the State Treasurer.

Colorado Lottery

Management's Discussion and Analysis

Year Ended June 30, 2006

The change in net assets from June 30, 2005 to June 30, 2006 consisted of a decrease in investment in capital assets from $.9 million to $.8 million, a decrease in the bonding reserve from $479,238 to $398,064, the decrease in the operating reserve from $1.7 million to $1.6 million, and a net decrease in unrealized gain and losses on investments of ($326,258) resulting from a net decrease in the adjustments on State Treasury investments.

Following is a schedule of net assets for fiscal years 2006 and 2005:

	2006	2005	Change
Investment in capital assets	$ 754,051	$ 861,066	$ (107,015)
Bonding reserve	398,064	479,238	(81,174)
Operating reserve	1,600,000	1,700,000	(100,000)
Unrealized gain (loss) on investments	(397,087)	(70,829)	(326,258)
Total net assets	$ 2,355,028	$ 2,969,475	$ (614,447)

The change in net assets from June 30, 2004 to June 30, 2005 consisted of a decrease in investment in capital assets from $1 million to $.9 million, a minor increase in the bonding reserve from $469,424 to $479,239, the establishment of the operating reserve of $1.7 million, and a net decrease in unrealized gains and losses on investments of ($217,886) resulting from a net decrease in the adjustments on State Treasury investments.

Following is a schedule of net assets for fiscal years 2005 and 2004:

	2005	2004	Change
Investment in capital assets	$ 861,066	$ 1,029,114	$ (168,048)
Bonding reserve	479,238	469,424	9,814
Operating reserve	1,700,000	0	1,700,000
Unrealized gain on investments	(70,829)	147,057	(217,886)
Total net assets	$ 2,969,475	$ 1,645,595	$ 1,323,880

Colorado Lottery

Management's Discussion and Analysis

Year Ended June 30, 2006

Statements of Revenues, Expenses and Changes in Net Assets

The statements of revenues, expenses and changes in net assets presents the financial activity of the Lottery over the fiscal year. The focus is on operating revenues and expenses that have a significant effect on the distributions paid to the proceeds recipients.

Condensed Statements of Revenues, Expenses and Changes In Net Assets For the Fiscal Years Ended June 30, 2006, 2005 and 2004

	2006	2005	2004
Operating Revenues	$ 468,761,808	$ 416,966,782	$ 401,250,971
Direct Operating Expenses	325,992,891	291,083,679	276,512,227
Gross Profit on Sale of Tickets	142,768,917	125,883,103	124,738,744
Other Operating Expenses			
Marketing and communications	8,893,150	8,559,774	8,643,422
Wages and benefits	8,189,515	7,941,537	7,881,363
Other operating expenses	3,629,639	6,022,481	5,550,032
Total operating expenses	20,712,304	22,523,792	22,074,817
Operating Income	122,056,613	103,359,311	102,663,927
Nonoperating Revenues (Expenses)			
Other revenue	1,761,259	953,328	156,990
Investment income	1,118,781	747,176	184
Proceeds distributions	(125,551,100)	(103,735,935)	(104,071,458)
Total nonoperating revenue (expenses)	(122,671,060)	(102,035,431)	(103,914,284)
Increase (Decrease) in Net Assets	(614,447)	1,323,880	(1,250,357)
Net Assets, Beginning of Year	2,969,475	1,645,595	2,895,952
Net Assets, End of Year	$ 2,355,028	$ 2,969,475	$ 1,645,595

Colorado Lottery

Management's Discussion and Analysis

Year Ended June 30, 2006

Sales Activities

Revenues from the sale of Lottery products for the fiscal year ended June 30, 2006 were the highest in the Lottery's 24-year history. As shown in the financial statements, overall sales increased by 12.4% from the prior year, from $417.0 million in fiscal year ended June 30, 2005 to $468.8 million in the current year. Furthermore, fiscal year 2006 sales increased by 14.9% over the third highest sales year of $408.0 million in fiscal year 2002. The increase in scratch sales from $282.7 million to $293.8 million represented a percentage increase of 3.9%. Powerball had record sales of $119.8 million in the current fiscal year, which represented a percentage increase from last year's sales of 48.1% and an increase of 40.8% from the prior record year's sales of $85 million established in fiscal year 2004. Lotto sales remained steady in fiscal year 2006 at $38.3 million. This was the first year since the start up of Powerball that Lotto sales didn't experience a large percentage decrease in sales. In fiscal year 2005, Lotto sales reflected a 6.1% decrease from fiscal year 2004.

The following tables compare Lottery product sales between fiscal years. All sales are presented in millions of dollars:

Product Sales	2006	2005	Difference	Percentage
Scratch	$ 293.8	$ 282.7	$ 11.1	3.9%
Powerball	119.8	80.9	38.9	48.1
Lotto	38.3	38.3	0.0	0.0
Cash 5	16.9	15.1	1.8	11.9
Total	$ 468.8	$ 417.0	$ 51.8	12.4%

Product Sales	2005	2004	Difference	Percentage
Scratch	$ 282.7	$ 260.9	$ 21.8	8.4%
Powerball	80.9	85.0	(4.1)	(4.8)
Lotto	38.3	40.8	(2.5)	(6.1)
Cash 5	15.1	14.5	.6	4.1
Total	$ 417.0	$ 401.2	$ (15.8)	(3.9)%

Colorado Lottery

Management's Discussion and Analysis

Year Ended June 30, 2006

Total Revenues

Nonoperating revenues for the year ended June 30, 2006 totaled $2.9 million as compared with $1.7 million for the year ended June 30, 2005 and as compared with $.2 million for the year ended June 30, 2004. Two major factors contributed to the increase from fiscal year 2005 to fiscal year 2006. First, interest received from the treasury increased by approximately $317,000 from fiscal year 2005 to fiscal year 2006. This increase was a result of carrying larger cash balances resulting from the large increase in sales, as well as, an increase in interest rates from an average of 3.18 percent in fiscal year 2005 to 3.92 percent in fiscal year 2006. Second, other income in fiscal year 2006 included reimbursements from the on-line vendor of approximately $1,570,000 as compared to approximately $855,000 in fiscal year 2005. The fiscal year 2006 reimbursements relates to fines and penalties assessed for non or delayed performance. The fiscal year 2005 reimbursements relates to amounts owed by the new vendor relating to the delay in the conversion. Two major factors contributed to the increase from fiscal year 2004 to fiscal year 2005. First, investment income for fiscal year 2004 included a net loss of $860,931 to record the Lottery's share of unrealized gains and losses on cash held at the State Treasurer as compared to a net loss of only $217,886 in the current fiscal year. In addition, Senate Bill 03-300, required that, for fiscal year 2004, 15% of the Lottery's Treasury interest be sent to the General Fund. Second, other income in fiscal year 2005 included reimbursements from the on-line vendor of approximately $855,000. Again, these reimbursements relate to amounts owed by the new vendor relating to the delay in the conversion.

Total revenues were $471.6 million and $418.7 million for the years ended June 30, 2006 and 2005, respectively. As mentioned elsewhere, the two major contributors to the increase of approximately $52.9 million were an increase in Lottery sales of $51.8 million and an increase in nonoperating revenues of $1.1 million.

Total revenues for the year ended June 30, 2004 were $401.4 million. The major contributing factor for the increase in total revenues from fiscal year 2004 to 2005 of $17.2 million, was an increase in ticket sales of $15.7 million. Non-operating revenues increased by $1.5 million for the same period.

Major Expenses

Approximately $326.0 million of the Lottery's total expenses of $346.7 for the fiscal year ended June 30, 2006, were incurred in direct support of Lottery games. This included prize expense, retailer compensation, money spent to purchase scratch tickets and compensation to the vendor who maintains and supports the on-line gaming system.

In comparison, $291.1 million of the Lottery's total expenses of $313.6 million for the fiscal year ended June 30, 2005, were game-related expenses.

In comparison, $276.5 million of the Lottery's total expenses of $298.6 million for the fiscal year ended June 30, 2004, were game-related expenses.

Following are tables comparing the game-related expenses between fiscal years. All expenses are presented in millions of dollars.

Game-Related Expenses	2006	2005	Difference	Percentage
Prize expense/Powerball prize variance	$ 281.6	$ 249.5	$ 32.1	12.9%
Retailer compensation				
Commissions	31.1	27.8	3.3	11.9
Bonuses	3.6	3.9	(.3)	(7.7)
Ticket costs	2.9	3.2	(.3)	(9.4)
Vendor fees	6.8	6.7	.1	1.5
Total	$ 326.0	$ 291.1	$ 34.9	12.0%

Game-Related Expenses	2005	2004	Difference	Percentage
Prize expense/Powerball prize variance	$ 249.5	$ 236.6	$ 12.9	5.4%
Retailer compensation				
Commissions	27.8	26.6	1.2	4.5
Bonuses	3.9	3.6	.3	8.3
Ticket costs	3.2	3.0	.2	6.7
Vendor fees	6.7	6.7	.0	.0
Total	$ 291.1	$ 276.5	$ 14.6	5.3%

The increase in the game-related expenses, including prize expense, commission expense and bonus expense (fiscal year 2004 to fiscal year 2005) is reflective of the increase in product sales. (See the product sales schedule above.) In addition, the prize expense percentage was further increased in fiscal year 2005 over the prize expense percentage in fiscal year 2004, as the prize expense percentage in fiscal year 2004 had been reduced by the expiration of two unclaimed Lotto jackpots. The decrease in bonus expense from fiscal year 2005 to fiscal year 2006, is the result of the implementation of a new retailer marketing bonus plan in fiscal year 2006, making it more difficult for retailers to achieve full bonus. The decrease in ticket costs from fiscal year 2005 to fiscal year 2006 was a result of the implementation of new contracts with the scratch ticket vendors, which reduced the cost to purchase tickets.

Of the $20.7 million in fiscal year 2006 expenses that were non game-related, nearly $8.9 million was for promotions and institutional and product advertising and $8.2 million in compensation to Lottery employees.

In comparison, of the fiscal year 2005 non game-related expenses of $22.5 million, more than $8.6 million was for promotions and institutional and product advertising, and $7.9 million was for compensation to Lottery employees.

In comparison, of the fiscal year 2004 non game-related expenses of $22.1 million, just under $8.6 million was for promotions and institutional and product advertising, and $7.9 million was for compensation to Lottery employees.

Distributions to Proceeds Recipients

The Lottery's efforts generated proceeds distributions of $125.6 million in the current fiscal year, the highest year ever. Of these total proceeds, $50.2 million was allocated to the Great Outdoors Colorado Trust Fund, $50.2 million to the Conservation Trust Fund and $12.6 million to the Division of Parks and Outdoor Recreation per the distribution formula stated in Colorado Revised Statutes (C.R.S.) 24-35-210. The maximum distribution to Great Outdoors Colorado of $50.2 million, pursuant to C.R.S. 33-60-104(1)(c) and 33-60-104(2), was reached, thus creating a spill-over into the State Public School Fund Contingency Reserve of $12.5 million, pursuant to C.R.S. 22-54-117(1.6)(a).

The Lottery's proceeds distributions for the prior year totaled $103.7 million. Approximately $50.2 million was distributed to Great Outdoors Colorado, $41.5 million to the Conservation Trust Fund, $10.4 million to the Division of Parks and Outdoor Recreation and a spill-over into the State's Public School Fund Contingency Reserve of nearly $1.7 million.

The Lottery's proceeds distributions for fiscal year 2004 was the fourth-highest year on record, totaling $104.1 million. Approximately $49.6 million was distributed to Great Outdoors Colorado, $41.6 million to the Conservation Trust Fund, $10.4 million to the Division of Parks and Outdoor Recreation and a spill-over into the State's Public School Fund Contingency Reserve of nearly $2.4 million.

Budgetary Highlights

The Lottery's budget is determined by a variety of methods. The majority of the budget is set by the annual appropriations bill (the Long Bill), which determines budgets for every agency within the State. The Long Bill and department level allocations are approved shortly before the start of each fiscal year. Agencies may also request a supplemental appropriation during the fiscal year to cover unexpected expenses (or a negative supplemental for less than expected expenses), as well as year-end transfers of spending authority, if needed. In the third quarter of fiscal year 2006, the Legislature approved supplemental appropriation adjustments for the Lottery. Supplemental appropriations and department level re-allocations were approved in operating, vendor fees, prizes, Powerball prize variance, retailer compensation, ticket costs, amortization equalization, health and life, administrative law judge, purchased services-computer center, MNT payments, vehicle lease payments, Grand Junction leased space, and communications service lines, offset by reductions in workmen's compensation and risk management lines. The final method of funding is special legislation. There was no special legislation affecting the Lottery's budget in fiscal year 2006.

Colorado Lottery

Management's Discussion and Analysis

Year Ended June 30, 2006

The approved Lottery budget at the beginning of fiscal year 2006 was $350.6 million. Department level allocations approved at the beginning of the fiscal year increased the budget by $1.8 million. Supplemental appropriations and adjustments made in the third quarter increased the budget by $22.2 million to an amended total of $374.6 million. Total expenditures and roll-forwards for fiscal year 2006 on a budget basis came to $352.1 million, resulting in excess appropriations (or savings) of more than $22.5 million.

Economic Factors and Next Year's Budget

The Lottery considered several factors when setting the revenue estimates and the fiscal year 2007 budget. On-line sales (Powerball, Lotto and Cash 5) are expected to decrease slightly overall as sales for on-line games naturally decrease over the life cycle of each game.

Fiscal year 2007 revenue estimates total $458.0 million, a $10.8 million decrease from fiscal year 2006 actual sales due primarily to a projected decrease in Powerball and Lotto sales as the games mature. Powerball sales are projected to be $113.1 million for fiscal year 2007 compared to actual Powerball sales of $119.8 million for fiscal year 2006. Lotto and Cash 5 projections for fiscal year 2007 are $35.1million and $16 million, respectively.

Scratch sales for fiscal year 2006 were up approximately $11.1 million from projections, finishing at $293.8 million as the best Scratch sales ever. Therefore, the Lottery is projecting that fiscal year 2007 sales will be comparable to or slightly higher than fiscal year 2006.

The Lottery does not expect major changes in costs in fiscal year 2007 except for variable costs associated with the change in sales and normal inflation in fixed costs.

Contacting the Lottery's Financial Management

This management discussion and analysis report is designed to provide Colorado citizens, Colorado government officials, our players, retailers and other interested parties with a general overview of the Lottery's financial activity for fiscal year 2006 and to demonstrate the Lottery's accountability for the money generated from the sale of Lottery products. If you have questions about this report or need additional information, contact Barbara Aggson, the Colorado Lottery's Controller, 212 W. 3rd Street, Suite 210, Pueblo, CO 81003.

COLORADO LOTTERY
FINANCIAL HIGHLIGHTS
$ IN MILLIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006 AND 2005

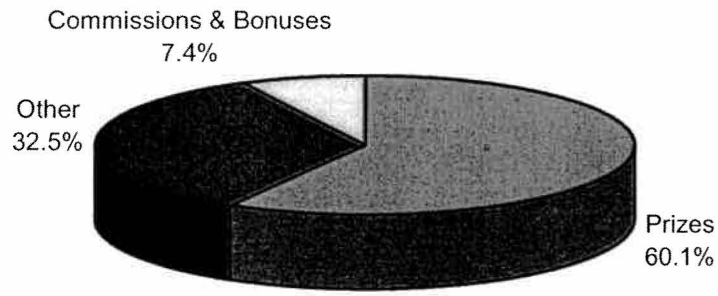
The table included below and the graphs included on page 2 present certain summarized operating results of the Colorado Lottery for the fiscal year ended June 30, 2006 and 2005, and should be read in conjunction with the financial statements presented herein. The graphs included on page 2 are presented for the purpose of demonstrating the Colorado Lottery's compliance with certain statutes that pertain to its operations.

	For the fiscal year ended June 30,			
	2006		2005	
	Total	Actual Percent	Total	Actual Percent
INCOME				
Gross Ticket Sales	$468.76		$416.97	
Nonoperating revenue	2.88		1.70	
TOTAL INCOME	471.64		418.67	
LESS:				
PRIZES	$281.59	60.1% (1)	$249.50	59.8% (1)
RETAILER COMMISSIONS AND BONUSES	$34.67	7.4% (1)	$31.68	7.6% (1)
ADMINISTRATIVE COSTS				
Ticket Costs and Vendor Fees	9.73		9.91	
Other Operating Expenses	20.71		22.52	
TOTAL ADMINISTRATIVE COSTS (Note 3)	30.44	6.5% (2)	32.43	7.7% (2)
NET INCOME BEFORE DISTRIBUTIONS	124.94		105.06	
NET CHANGE IN NET ASSETS	-0.61		1.32	
PROCEEDS DISTRIBUTION	$125.55	26.6% (2)	$103.74	24.8% (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.

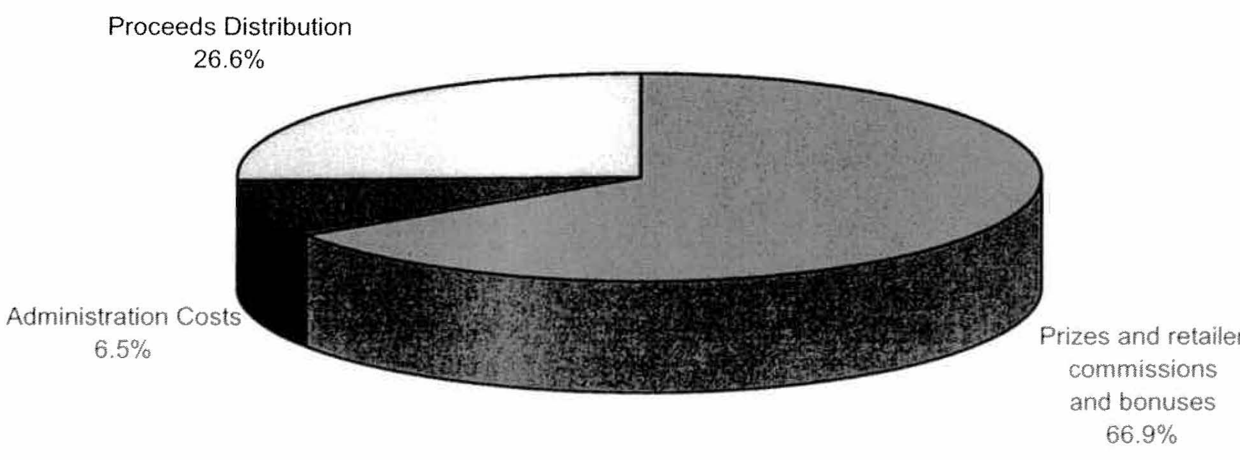
COLORADO LOTTERY
SUPPLEMENT OF FINANCIAL HIGHLIGHTS
FOR THE FISCAL YEAR
ENDED JUNE 30, 2006

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
STATEMENT OF NET ASSETS
JUNE 30, 2006 AND 2005
(UNAUDITED)

ASSETS	2006	2005
Current Assets:		
Cash and Investments	$ 29,235,248	$ 26,580,839
Accounts Receivable, net of the allowance for doubtful accounts of $227,823 in 2006 and $79,044 in 2005	15,840,057	21,543,586
Game Prizes Inventory, at Cost	0	22,560
Consignment Inventory, at Cost	119,939	170,900
Warehouse Inventory, at Cost	705,596	1,039,705
Prepaid Expenses	45,220	42,656
Total Current Assets	45,946,060	49,400,246
Reserve and Restricted Assets:		
Cash and Investments-Operating Reserve	1,600,000	1,700,000
Cash and Investments-Licensed Agent Recovery Reserve Receipts	398,064	479,238
Prepaid Prize Expense with MUSL	3,708,780	3,910,000
Total Reserve and Restricted Assets	5,706,844	6,089,238
Capital Assets:		
Equipment	3,902,715	3,883,759
Leasehold Improvements	14,053	14,053
Less Accumulated Depreciation and Amortization	(3,162,717)	(3,036,746)
Total Capital Assets	754,051	861,066
TOTAL ASSETS	$ 52,406,955	$ 56,350,550
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,610,794	5,460,542
Prize Liability	17,148,271	17,067,680
Payable to MUSL	125,926	142,962
Wages and Benefits	780,257	694,337
Accrued Annual and Sick Leave	0	12,030
Retailer Bonus Liability	409,318	1,104,390
Funds Available for Distribution	28,796,304	27,779,840
Deferred Revenue	234,056	154,216
Total Current Liabilities	49,104,926	52,415,997
Long-Term Liabilities:		
Accrued Annual and Sick Leave	839,099	835,856
Expired Warrants Liability	107,902	129,222
Total Long-Term Liabilities	947,001	965,078
TOTAL LIABILITIES	50,051,927	53,381,075
NET ASSETS		
Investment in Capital Assets	754,051	861,066
Restricted-Licensed Agent Recovery Reserve	398,064	479,238
Unrestricted-Operating Reserve	1,600,000	1,700,000
Unrestricted-Other	(397,087)	(70,829)
TOTAL NET ASSETS	2,355,028	2,969,475
TOTAL LIABILITIES AND NET ASSETS	$ 52,406,955	$ 56,350,550

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

COLORADO LOTTERY
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006 AND 2005
(UNAUDITED)

	2006	2005
OPERATING REVENUES		
Gross Ticket Sales	$ 468,761,808	$ 416,966,782
DIRECT OPERATING EXPENSES		
Prize Expense	279,953,707	248,809,641
Powerball Prize Variance	1,640,538	693,010
Retailer Commissions and Bonuses	34,670,916	31,674,967
Cost of Tickets and Vendor Fees	9,727,730	9,906,061
GROSS PROFIT ON SALE OF TICKETS	142,768,917	125,883,103
OTHER OPERATING EXPENSES		
Marketing and Communications	8,893,150	8,559,774
Administration Fees Paid to MUSL	114,104	117,286
Wages and Benefits	8,189,515	7,820,332
Professional Services	198,979	956,988
State Agencies Services	197,312	215,969
Department of Revenue Services	312,057	309,814
Travel	68,750	80,795
Equipment	162,446	1,231,910
Depreciation	182,055	193,227
Accrued Annual and Sick Leave	5,489	121,205
Space Rental	752,350	766,063
Rents for Equipment	26,342	252,285
Motorpool Leasing	337,438	250,302
Materials and Supplies	150,042	121,720
Telephone	122,986	161,262
On-Line Telecommunications	346,912	567,189
Data Processing Supplies and Services	23,834	31,427
Equipment Maintenance	218,886	284,248
Postage	49,182	40,593
Printing	17,988	20,243
Other	342,487	421,160
Total Other Operating Expenses	20,712,304	22,523,792
OPERATING INCOME	122,056,613	103,359,311
NONOPERATING REVENUES (EXPENSES)		
Other Revenue	1,761,259	953,328
Investment Income	1,118,781	747,176
Funds Distributed for Current Year	(96,754,796)	(75,956,095)
Funds Available for Distribution for Current Year	(28,796,304)	(27,779,840)
Total Nonoperating Revenues (Expenses)	(122,671,060)	(102,035,431)
NET INCOME(LOSS)	$ (614,447)	$ 1,323,880
NET ASSETS, BEGINNING OF YEAR	2,969,475	1,645,595
Net Change in Net Assets	(614,447)	1,323,880
NET ASSETS, END OF YEAR	$ 2,355,028	$ 2,969,475

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

COLORADO LOTTERY
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 & 2005
(UNAUDITED)

	2006	2005
Cash flows from operating activities:		
Cash received from retailers	$ 476,625,977	$ 411,122,036
Cash paid in prizes	(282,138,724)	(246,822,873)
Cash paid in retailer commissions	(31,038,482)	(27,804,768)
Cash payments to suppliers	(25,158,060)	(21,274,511)
Cash payments to employees for services	(8,112,380)	(7,735,836)
Cash paid in retailer bonus	(4,336,059)	(3,351,226)
Cash received (used) - other	127,705	389,626
Net cash provided by operating activities	125,969,977	104,522,448
Cash flows from non-capital financing activities:		
Distribution of net proceeds	(124,534,636)	(101,761,616)
Net cash used by noncapital financing activities	(124,534,636)	(101,761,616)
Cash flows from capital and related financing activities:		
Sale of capital assets	0	7,500
Acquisition of capital assets	(80,887)	(174,624)
	(80,887)	(167,124)
Cash flows from investing activities:		
Investment income received	1,445,039	965,062
Unrealized gains (losses) on investments	(326,258)	(217,886)
	1,118,781	747,176
Net increase (decrease) in cash and investments	2,473,235	3,340,884
Cash and investments, Beginning of Year (including $2,179,238 and $469,424, respectively, in restricted accounts)	28,760,077	25,419,193
Cash and investments, End of Year, (including $1,998,064 and $2,179,238, respectively, in restricted accounts)	$ 31,233,312	$ 28,760,077

Reconciliation of operating income to net cash provided by operating activities:

	2006	2005
Operating income	*$ 122,056,613*	*$ 103,359,311*
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	*182,055*	*193,227*
Loss on disposition of equipment	*5,847*	*141,946*
Other revenue	*1,761,259*	*953,327*
(Increase)Decrease in Prepaid Prize Expense with MUSL	*201,220*	*(384,120)*
Change in:		
Accounts Receivable	*5,875,131*	*(6,872,402)*
Ticket Inventory	*385,070*	*(9,636)*
Other Assets	*19,996*	*93,246*
Liabilities(excluding funds available for distribution)	*(4,517,214)*	*7,047,549*
Net cash provided by operating activities	*$ 125,969,977*	*$ 104,522,448*

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

Colorado Lottery
Notes to Financial Statements
June 30, 2006 and 2005

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 fiscal year ended June 30, 2006 and 2005. 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
June 30, 2006 and 2005

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 counts 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, Cash 5 and subscription 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.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist of amounts due from retailers for activated ticket packets. Accounts receivable are stated at the amount billed to retailers. Accounts receivable are ordinarily due seven days after the issuance of the invoice and are electronically transferred from the retailers 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 $227,823 and $79,044 as June 30, 2006 and 2005, respectively.

Game Prizes Inventory

Game Prizes Inventory represents merchandise prizes connected to certain scratch games that, as of the statements of net assets date, have not been claimed.

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.

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 the fiscal year ending June 30, 2006 and 2005, the state changed 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, 2006 and 2005 of $780,257 and $694,337, 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 done at the Lottery or at the retail outlet; payment of scratch prize amounts of $151 to $599 may be done 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 $4,227,000 for the fiscal year ended June 30, 2006 and $3,706,845 for the fiscal year ended June 30, 2005. During the fiscal year ended June 30, 2006, there were a total of 45 games ended, as compared with 36 games ended through the fiscal year ended June 30, 2005.

Payments of cumulative online prize amounts of $150 or less on a single ticket may be done at the Lottery or at the retail outlet; payment of cumulative prize amounts of $151 to $599 on a single ticket may be done 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 done 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 $5,556,042 for the fiscal year ended June 30, 2006 and $5,694,443 for the fiscal year ended June 30, 2005.

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 One and Thirteen Hundredths Percent (1.13%) for scratch, Seven Tenths Percent (.7%) for Lotto, Sixty-five Hundredths Percent (.65%) for Powerball, and Ninety-six Hundredths Percent (.96%) for Cash 5."*

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.

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 June 30, 2006 and June 30, 2005, the Lottery has reserved $398,064 and $479,238, 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". This remained in effect until March 2005 when 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 is to be reviewed each September and adjusted accordingly. The September 2005 review was completed and the operating reserve was reduced to $1.6 million in accordance with the review. Effective July 1, 2004, under Senate Bill 04-204, this reserve is required to be held in cash and investments. This reserve is reported as restricted cash on the statements of net assets.

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. The balance in this account for fiscal year 2005 was substantially larger than the balance in this account for fiscal year 2006 for the following reasons: 1) the Lottery paid Scientific Games International (SGI) $647,975 for a one time usage fee on equipment used to support the new on-line system. 2) the Lottery paid SGI $40,000 for the ICS system software and maintenance. 3) the Lottery disposed of assets with a book value of $149,445 facilitated by the move of the Pueblo office, and 4) the Lottery purchased $219,000 worth of software in preparation for the migration from the Wang system.

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:

	JUNE 30, 2006	JUNE 30, 2005	Decrease
Annual leave	$ 718,215	$ 696,620	$ 21,595
Sick leave	118,548	146,684	(28,136)
Total annual and sick leave	836,763	843,304	(6,541)
Compensatory time	2,336	4,582	(2,246)
Total compensated leave	$ 839,099	$ 847,886	$ (8,787)

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 two methods of purchasing online tickets for future draws. One method is that tickets are purchased through the terminal, referred to as Advance Play, which allows the player to purchase online tickets good for up to 13 weeks. The second method is restricted to Lotto tickets only and is purchased through the mail via a preprinted form, referred to as subscription, which allows the player to purchase Lotto tickets good for up to 104 draws. Subscription plays were suspended indefinitely with the last subscription plays being recognized as of September 26, 2004. The revenues generated from both methods are recognized as the draws occur. Revenues for future draws are classified as a liability.

A detail of deferred revenue at June 30, 2006 and 2005, is as follows:

	2006	2005
Advance Play - Lotto	$ 88,710	$ 66,749
Advance Play – Powerball	101,915	55,795
Advance Play – Powerplay	27,510	14,979
Advance Play – Cash 5	15,921	16,693
Total deferred revenue	$ 234,056	$ 154,216

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 and Lottery Bucks coupons are distributed to players through special promotions and can be redeemed at any retailer for a lottery product. During the fiscal years ended June 30, 2006 and 2005, 0 and 640 coupons were redeemed, respectively. Scratch tickets for specific games are given away as a more direct approach to introduce players to lottery games. During the fiscal years ended June 30, 2006 and 2005, $79,650 and $43,624 worth of free scratch tickets were given away, respectively. Scratch tickets and coupons are valued at cost. For the fiscal years ended June 30, 2006 and 2005, $47,442 and $29,334, respectively, in promotional ticket expense was recorded as 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 June 30, 2006 and 2005 is as follows:

	2006	2005
Petty cash	$ 800	$ 800
Change funds	70,000	70,300
Imprest fund	722,000	706,000
Depository accounts	24,382	30,000
Cash on deposit with State Treasurer	28,418,066	25,774,039
Total unrestricted cash and investments	29,235,248	26,580,839
Restricted cash and investments – Licensed Agent Recovery Reserve Receipts on deposit with State Treasurer	398,064	479,238
Operating Reserve on deposit with State Treasurer	1,600,000	1,700,000
Total restricted cash and investments	1,998,064	2,179,238
Total cash and investments	$ 31,233,312	$ 28,760,077

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 2006 and 2005 was 3.92% and 3.18%, respectively.

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 June 30, 2006 and 2005, respectively, $647,069 and $641,744 of the Lottery's bank balances of $747,069 and $741,744, respectively, were exposed to custodial credit risk as follows:

	2006	2005
Uninsured and uncollateralized	$ 647,069	$ 641,744
Uninsured and collateral held by pledging financial institution	100,000	100,000
	$ 747,069	$ 741,744

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.

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 $747,069 is categorized as follows as of June 30, 2006:

Category 1	$	100,000
Category 2	$	647,069

For Cash on Deposit with State Treasurer, the State Treasurer's investments as of June 30, 2006 are Category 1 investments and its cash deposits are principally Category 2 deposits.

Note 3: Schedule of Changes in Fixed Assets

Capital assets being depreciated:

	June 30, 2005	Increases	Decreases	June 30, 2006
Equipment	$ 3,883,759	$ 83,574	$ (64,618)	$ 3,902,715
Leasehold improvements	14,053	—	—	14,053
Total capital assets being depreciated	3,897,812	83,574	(64,618)	3,916,768
Less accumulated depreciation for equipment	(3,024,099)	(182,055)	56,084	(3,150,070)
Leasehold improvements	(12,647)	—	—	(12,647)
Total accumulated depreciation	(3,036,746)	(182,055)	56,084	(3,162,717)
Total capital assets, being depreciated, net	$ 861,066	$ (98,481)	$ (8,534)	$ 754,051

	June 30, 2004	Increases	Decreases	June 30, 2005
Equipment	$ 4,455,227	$ 174,624	$ (746,092)	$ 3,883,759
Leasehold improvements	327,287	—	(313,234)	14,053
Total capital assets being depreciated	4,782,514	174,624	(1,059,326)	3,897,812
Less accumulated depreciation for equipment	(3,516,924)	(178,664)	671,489	(3,024,099)
Leasehold improvements	(236,476)	(14,563)	238,392	(12,647)
Total accumulated depreciation	(3,753,400)	(193,227)	909,881	(3,036,746)
Total capital assets, being depreciated, net	$ 1,029,114	$ (18,603)	$ (149,445)	$ 861,066

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 occupied office space in the Wells Fargo Bank Building in Pueblo. The lease agreement with 200 South Broadway Limited Partnership began on July 1, 1995 and expired on June 30, 2005. 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 expires June 30, 2007. There is no provision for renewal.

Interlott – The Lottery entered into a rental agreement with International Lottery, Inc., subsequently purchased by G-Tech, to rent Scratch Ticket Vending Machines (STVMs). The agreement covered the period from July 1, 2000 through June 30, 2002. The Lottery had the option to exercise two twelve-month extensions. On June 3, 2002, the Lottery entered into a contract with Interlott to exercise both 12-month extensions plus an additional four-month extension which expired on October 31, 2004. There are no other provisions for extension or renewal. The STVM rental is now included in the contract with Scientific Games International.

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.

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, expires on June 30, 2006. The Lottery has the option to exercise two 12-month extensions under the new lease, extending the lease through June 30, 2008. On June 5, 2006, the Lottery exercised its option to extend the lease through June 30, 2007.

Operating lease expense incurred for the fiscal years ended June 30, 2006 and 2005 and future minimum lease payments for fiscal years ending June 30, 2007 through 2011 are as follows:

LOCATION		FUTURE	MINIMUM	LEASE	PAYMENTS			
	2005	2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	LATER YEARS
Pueblo Office	$ 293,553	$265,764	$218,013	$218,013	$ 218,013	$218,013	$224,630	$967,571
Pueblo Warehouse	96,218	99,072	78,623	0	0	0	0	0
Interlott/Gtech	217,404	0	0	0	0	0	0	0
CoSprgs Warehouse	12,040	12,438	0	0	0	0	0	0
Denver	209,833	219,180	139,557	179,430	191,392	0	0	0
Denver Warehouse	102,937	100,046	98,553	101,473	104,486	17,499	0	0
Fort Collins	34,298	40,378	0	0	0	0	0	0
Grand Junction	6,637	6,717	0	0	0	0	0	0
	$ 972,920	$ 743,595	$ 534,746	$498,916	$ 513,891	$235,512	$224,630	$967,571

Note 5: Other Revenue

A schedule of other revenue for the fiscal years ended June 30, 2006 and 2005 follows:

	2006	2005
License fees	$ 71,819	$ 50,824
Fines and penalties	1,580,015	855,630
Assignment fees	2,414	4,219
Net Licensed Agent Recovery Reserve Receipts	(81,174)	9,814
Reimbursement from MUSL/Budget	28,460	21,943
Reimbursement from SGI/Auto Cash Overcharge	106,242	0
Other	53,483	10,898
Total	$ 1,761,259	$ 953,328

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 June 30:

	2006	2005
Income before distributions	$ 124,936,653	$ 105,059,815
Change in licensed agent recovery reserve	81,174	(9,814)
Change in fair market value of investments	326,258	217,886
Change in Operating Reserve	100,000	(1,700,000)
Other changes in net assets	107,015	168,048
Income available for distribution	125,551,100	103,735,935
Less distributions prior to year-end	(96,754,796)	(75,956,095)
Income available for distribution	$ 28,796,304	$ 27,779,840

	Accrued at June 30, 2005	Proceeds Distributions Expenses	Distributions Paid	Accrued at June 30, 2006
Great Outdoors Colorado	$ 12,198,467	$ 50,230,238	$ (60,575,868)	$ 1,852,837
State Public School Fund	1,691,454	12,545,316	(1,691,454)	12,545,316
Conservation Trust Fund	11,111,935	50,220,437	(49,813,851)	11,518,521
Division of Parks and Outdoor Recreation	2,777,984	12,555,109	(12,453,463)	2,879,630
	$ 27,779,840	$ 125,551,100	$(124,534,636)	$ 28,796,304

	Accrued at June 30, 2004	Proceeds Distributions Expenses	Distributions Paid	Accrued at June 30, 2005
Great Outdoors Colorado	$ 10,506,324	$ 50,176,516	$ (48,484,373)	$ 12,198,467
State Public School Fund	2,396,438	1,691,454	(2,396,438)	1,691,454
Conservation Trust Fund	10,322,209	41,494,373	(40,704,647)	11,111,935
Division of Parks and Outdoor Recreation	2,580,550	10,373,592	(10,176,158)	2,777,984
	$ 25,805,521	$ 103,735,935	$(101,761,616)	$ 27,779,840

Note 7: Pension Plan

Plan Description

Virtually all Lottery 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 1-800 729-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.

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. Employer contributions to both defined contribution plans are the same as the contributions to the PERA defined benefit plan.

Defined benefit plan members vest after five years of service, and if they were hired before July 1, 2005, most are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service or at age 65 with 5 years of service. Persons hired on or after July 1, 2005, (except state troopers, plan members, inactive plan members, and retirees) are eligible for retirement benefits at 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. Members are also eligible for retirement benefits, without a reduction for early retirement, if they are at least 55 and have a minimum of 5 years of service credit and their age plus years of service equals 80 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. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is 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.

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 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 will receive 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, 2005, to December 31, 2005, the state contributed 10.15% (12.85% for state troopers and 13.66% for the judicial branch) of the employee's salary. From January 1, 2006, through June 30, 2006, the state contributed these same percentage amounts plus an additional .5% for the Amortization Equalization Disbursement discussed below. During all of Fiscal Year 2006, 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 State and School Division of PERA 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, along with other significant provisions affecting the plan, 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. The SAED will be terminated when each division's trust fund reaches 100 percent funding. 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.

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

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 Retirement Health Care and Life Insurance Benefits

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. During the fiscal year ended June 30, 2006, the premium subsidy was $115.00 for those with 20 years of service credit ($230.00 for members under age 65 and not eligible for Medicare), and it was reduced by 5% for each year of service fewer than 20.

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 being 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 and prescription benefit plans and with several health maintenance organizations providing services within Colorado. As of December 31, 2005 and December 31, 2004, there were 41,080 and 39,668 enrollees in the plan.

Life Insurance Program

During Fiscal Year 2006, PERA provided its members access to a group decreasing term life insurance plan offered by Unum Provident in which 41,180 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 13,375 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 following guaranteed minimum prize payments for which annuity contracts have been purchased are due in varying amounts through July 28, 2029.

Specified prize payments	$ 516,030,335
Lifetime prize payments	42,817,000
Total guaranteed minimum prize payments	$ 558,847,335

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 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 y 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 expired

October 31, 2004. The total amount to be paid on the online data contract was not to exceed $51,800,000 over the period of the contract. The Lottery entered into a new online data processing contract with a new vendor on May 13, 2003. The initial contract period began on June 1, 2003 and will expire on October 31, 2012, per the contract amendment dated January 26, 2005. These contracts overlapped in order for the new vendor to set up the new system. 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 scratch ticket contracts expired on June 30, 2004 with one annual renewal available on each contract. The renewal options were exercised extending the contracts through June 30, 2005. On May 16, 2005 the Lottery received approval to extend both of the scratch ticket contracts for a six month period ending December 31, 2005 to complete the RFP process and execute new contracts. The total cost of the extended contract period is $1,950,000. Ticket rates are based upon ticket volume, physical size and design. The total costs of the contracts for the initial contract period plus the extension period were not to exceed $15,745,184 and $6,950,000 for the respective contracts.

The Lottery entered into two new contracts with the scratch vendors on January 9 and 16, 2006. The contracts expire 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 are not to exceed $5,666,667 each for the respective contracts

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 June 30, 2006 is $3,450,000 and is based on a percentage of sales. The total amount of the prize reserves funded as of June 30, 2006 was $3,708,780 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 provided for expiration on June 30, 2002 with an option to renew up to three additional years through June 30, 2005. The total cost of the initial contract period was not to exceed $16,320,000. On May 15, 2002, the Lottery exercised its option to renew the contract for a period of two years, extending it until June 30, 2004. The maximum was not to exceed $8,500,000 in fiscal year 2003 and not to exceed $17,000,000 for the extended contract period. On June 10, 2004, the Lottery entered into a new long-term contract with the same agency. The contract period began on July 1, 2004 and expires on June 30, 2006 with an option to renew up to three additional one year periods through June 30, 2009. On February 7, 2006, the Lottery exercised its option to extend the contract until June 30, 2007. The total cost of the initial contract period and the extension is not to exceed $9,000,000 for each year.

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.

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 of Revenue for indirect costs. Interagency charges were $892,025 and $836,683 for the fiscal years ended June 30, 2006 and 2005, respectively.

Supplementary Information

COLORADO LOTTERY
SCHEDULE OF REVENUE AND COSTS FOR SCRATCH AND ON-LINE GAMES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Games in Progress				FY 06	FY 05
	Scratch	Lotto	Powerball	Cash 5	Total	Scratch and On-Line
TICKET SALES	$293,812,628	$38,332,996	$119,757,642	$16,858,542	$468,761,808	$416,966,782
PRIZE EXPENSE	(193,719,020)	(22,875,469)	(54,575,265)	(8,783,953)	(279,953,707)	(248,809,641)
POWERBALL PRIZE VARIANCE	N/A	N/A	(1,640,538)	N/A	(1,640,538)	(693,010)
NET REVENUE AFTER PRIZES	100,093,608	15,457,527	63,541,839	8,074,589	187,167,563	167,464,131
COMMISSIONS, BONUSES, TICKET COSTS & VENDOR FEES (Note 1)						
Retailer Commission	(20,536,670)	(2,301,297)	(7,189,049)	(1,011,466)	(31,038,482)	(27,804,768)
Retailer Bonus	(2,435,031)	(250,543)	(789,656)	(157,204)	(3,632,434)	(3,870,199)
Cost of Tickets Sold	(2,907,934)	N/A	N/A	N/A	(2,907,934)	(3,174,878)
Telecomm Reimbursements	462,761	60,375	188,621	26,553	738,310	-
On-Line Vendor Fees	(4,734,318)	(618,056)	(1,933,657)	(272,075)	(7,558,106)	(6,731,183)
TOTAL	(30,151,192)	(3,109,521)	(9,723,741)	(1,414,192)	(44,398,646)	(41,581,028)
GROSS PROFIT ON SALE OF TICKETS	$69,942,416	$12,348,006	$53,818,098	$6,660,397	$142,768,917	$125,883,103
AVERAGE DAILY TICKET SALES	$804,966	$105,022	$328,103	$46,188	$1,284,279	$1,142,375

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 FISCAL YEAR ENDED JUNE 30, 2006

	Games in Progress					
	Scratch	Lotto	Powerball	Cash 5	Powerball Prize Variance	FY 06 Total
Prize Expense	$193,719,020	$22,875,469	$54,575,265	$8,783,953	$1,640,538	$281,594,245
(/)Ticket Sales	293,812,628	38,332,996	119,757,642	16,858,542	N/A	468,761,808
Prize %	65.93%	59.68%	45.57%	52.10%		60.07%

COLORADO LOTTERY
BUDGETARY COMPARISON
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	FY06 Original Budget	Supplementals Pots Allocations & Internal Transfers	FY06 Final Budget	FY06 Actual Expenditures	Under Expended	Percent Under Expended
Personal Services	$8,035,664	$10,931	$8,046,595	$7,888,086	$158,509	1.97%
Amortization Equalization	0	16,620	16,620	16,347	273	1.64%
Operating	1,203,156	148,746	1,351,902	1,330,829	21,073	1.56%
Vehicle Lease Payments	0	128,203	128,203	118,929	9,274	7.23%
Purch. Serv. Comp. Cen.	0	5,422	5,422	5,422	0	0.00%
Communications Services	0	2,181	2,181	2,181	0	0.00%
MNT Payments	0	344,970	344,970	344,970	0	0.00%
Payments to Other Agencies	340,488	0	340,488	154,453	186,035	54.64%
Legal Services	0	42,859	42,859	42,859	0	0.00%
Administrative Law Judge	0	903	903	903	0	0.00%
Workmen's Compensation	0	72,863	72,863	72,863	0	0.00%
Unemployment Benefits	0	1,968	1,968	1,968	0	0.00%
Health and Life	0	342,793	342,793	342,793	0	0.00%
Short Term Disability	0	10,398	10,398	9,519	879	8.45%
Leased Space	0	797,239	797,239	745,633	51,606	6.47%
Grand Junction - Leased Space	0	6,717	6,717	6,717	0	0.00%
Risk Management	0	13,441	13,441	13,441	0	0.00%
Travel Expenses	113,498	0	113,498	68,749	44,749	39.43%
Marketing and Communications	8,643,420	0	8,643,420	8,643,150	270	0.00%
Indirect Costs	312,057	0	312,057	312,057	0	0.00%
Ticket Costs	3,454,050	94,990	3,549,040	2,907,934	641,106	18.06%
Research	250,000	0	250,000	250,000	0	0.00%
Vendor Fees	7,663,231	1,234,416	8,897,647	6,819,113	2,078,534	23.36%
Prizes	280,095,384	15,373,756	295,469,140	279,953,707	15,515,433	5.25%
Powerball Prize Variance	4,610,000	3,011,973	7,621,973	7,160,019	461,954	6.06%
Retailer Compensation	35,566,840	2,287,920	37,854,760	34,670,916	3,183,844	8.41%
CMAC Project-Cap. Construction	175,569	0	175,569	86,623	88,946	50.66%
Multi-State Lottery Fees	177,433	0	177,433	141,990	35,443	19.98%
TOTAL	$350,640,790	$23,949,309	$374,590,099	$352,112,171	$22,477,928	6.00%

FY06 Staffing (FTE) 126.0 (Appropriated) 120.7 (Actual)

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

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

Prize Expense	279,953,707
Powerball Prize Variance	1,640,538
Commissions and Bonuses	34,670,916
Cost of Tickets & Vendor Fees	9,727,730
Operating Expenses	20,712,302
Total Expenses per Statement of Revenues, Expenses and Changes in Net Assets	346,705,193
Plus: Powerball Variance classified as revenue	5,519,481
Less: Non-appropriated expenses	
Depreciation	(182,055)
Accrued Annual and Sick Leave	(5,489)
Book Value of Assets Written Off	(5,846)
Sub-Total	352,031,284
Plus: Capitalized Fixed Assets	80,887
	352,112,171