COLORADO LOTTERY

STATEMENT OF LOTTERY REVENUES, PRIZE DISBURSEMENTS AND OTHER EXPENSES

(UNAUDITED)

FOR THE FISCAL YEAR ENDED

JUNE 30, 2008

COLORADO LOTTERY
FINANCIAL STATEMENTS
(UNAUDITED)

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Bill Ritter, Jr.
Governor

Roxy Huber
Executive Director

Jack Boehm
Lottery Director

July 24, 2008

State Treasurer and Members of the Colorado Lottery Commission:

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

The financial performance for the fiscal year ended June 30, 2008 depicts total revenues of $508.6 million, gross ticket sales of $505.8 million, net income before proceeds distributions of $122.3 million, and a net decrease in net assets of $.03 million. Accordingly, a total of $122.3 million in distributions will have been made by September 1, 2008 in the following manner; $53.1 million to the Great Outdoors Colorado Fund, $12.2 million to the Division of Parks and Outdoor Recreation, $48.9 million to the Conservation Trust Fund, for distribution to cities and other local government agencies and $8.1 million to the Lottery Contingency Reserve Fund.

The attached financial statements for the fiscal year ended June 30, 2008 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

Years Ended June 30, 2008 and 2007

This discussion and analysis of the Colorado Lottery's financial performance provides an overview of financial activities for the fiscal years ended June 30, 2008 and 2007. Please read it in conjunction with the Lottery's financial statements, which begin on page 14. These financial statements reflect only activities of the Colorado Lottery, a proprietary fund of the State of Colorado.

Financial Highlights

- The Lottery's overall sales performance of $505.8 million was the highest sales year in Lottery history. The record sales reflected a $49.9 million increase from last year's sales of $455.9 million and a $37.0 million increase from fiscal year 2006 sales totaling $468.8 million, the second largest overall sales performance. The overall increase in sales was mainly the result of an increase in scratch sales of $38.9 million. The introduction of the $20 scratch ticket plus an overall focus on managing the scratch product contributed to the increase. An $8.0 million increase in Powerball sales from $101.6 million in fiscal year 2007 to $109.6 million in fiscal year 2008, also was a major contributing factor to the overall increase. Powerball sales are highly dependent on the size of the Powerball jackpots. In fiscal year 2008, the two highest jackpots reached heights of $300 million and $275 million. The highest Powerball jackpot attained in fiscal year 2007 was $240 million. Powerball sales for fiscal year 2006 totaled $119.8 million.

  Fiscal year 2008 also saw an increase in sales from fiscal year 2007 for each of its other two products. Cash5 sales hit a record high in fiscal year 2008 with sales increasing by $1.7 million from fiscal year 2007 and Lotto sales saw an increase of $1.2 million from the prior fiscal year sales and were the highest sales since fiscal year 2004.

  Scratch sales hit a record high for the fifth year in a row with scratch sales totaling $336 million. The second highest sales were in fiscal year 2007, with scratch sales totaling $297.1 million. Fiscal year 2006 scratch sales totaling $293.8 million ranks third in total scratch sales. Continuing 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 increased slightly from the prior two fiscal years with sales of $41.1 million. Fiscal years 2007 and 2006 reflected Lotto sales of $39.8 million and $38.3 million, respectively.

  Cash 5 sales for fiscal year 2008 showed another increase for the sixth year in a row and for the sixth year in a row produced record sales. Sales increased by 10.0 percent to a total of $19.1 million from $17.4 million in fiscal year 2007. This followed a 3.2 percent increase in sales in fiscal year 2007 from fiscal year 2006, whose sales totaled $16.9 million.

- Funds distributed or available for distribution from 2008 sales increased from fiscal year 2007 in conjunction with the overall increase in sales. Fiscal year 2008 produced a total of $122.3 million in funds distributions, an increase of $3.3 million from fiscal year 2007 distributions of $119.0 million. The $122.3 million in funds distributions for fiscal year 2008 represents the second highest year of distributions in the Lottery's history. Fiscal year 2006 had the highest year of funds distributions totaling $125.6 million. Fiscal year 2008 included a spill-over of funds in excess of the GOCO cap. During the prior six fiscal years this spill-over was distributed into the State Public School Fund Contingency Reserve. Starting in fiscal year 2008; the spill-over, by statute, will be distributed to the Lottery Contingency Reserve Fund. The spill-over totaled $8.0 million for fiscal year 2008. The spill-over amounts for fiscal years 2007 and 2006 were $8.2 million and $12.5 million, respectively. The spill-over for fiscal year 2008 was the fourth 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 six-year period totals $45.1 million.

- Gross profit as a percent of sales decreased by 1.9 percent, a reflection of the 1.6 percent increase in prize expense as a percentage of sales of 60.7 percent to 62.3 percent for the fiscal years ended June 30, 2007 and 2008, respectively. The increase was the result of offering a larger number of higher price point scratch games including the introduction of the first $20 price point scratch games, which by design carry a higher prize percentage payout. In addition, the overall prize expense percentage for the on-line games increased slightly from 48.6 percent to 49.5 percent for the fiscal years ended June 30, 2007 and 2008, respectively. Another contributing factor to the 1.9 percent decrease in gross profit as a percent of sales was a .2 percent increase as a percentage of sales in commissions and bonuses paid to our retailers to sale and promote our products. Commissions and bonuses as a percentage of sales were 7.6 percent and 7.4 percent for the fiscal years ended June 30, 2008 and 2007, respectively. The remaining .1 percent decrease in gross profit can be attributed to an increase in vendor fees due to an increase in the billing rate in November 2007 from 1.458 percent to 1.718 percent of sales. Vendor fees totaled $5,957,142 and $7,394,112 for fiscal years ended June 30, 2007 and June 30, 2008, respectively. Unclaimed prizes increased by more than $500,000 from fiscal year 2007 to fiscal year 2008. An increase in overall sales leads to more prizes won; thus more prizes went unclaimed. Gross profit as a percent of sales decreased by .4 percent between fiscal years 2006 and 2007, a reflection of the increase in prize expense of .6 percent. The .6 percent increase in prize expense was offset by a reduction in vendor fees as a result of a reduction in the billing rate from 1.713 percent to 1.458 percent of sales in June 2006. This reduction lowered vendor fees from $6,819,796 in fiscal year 2006 to $5,957,142 in fiscal year 2007.

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, $10 and $20) 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 the Lottery offices.

On-line games, however, require a longer playing time. Tickets are also purchased at the 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 the 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, 2008 and 2007. The statement of revenues, expenses and changes in net assets reports the activity of selling the Lottery products and the expenses related to such activity for the years ended June 30, 2008 and 2007. Finally, the statement of cash flows outlines the cash inflows and outflows related to the activity of selling the Lottery products for the years ended June 30, 2008 and 2007.

Statements of Net Assets

The statements of net assets presents a financial snapshot of the Lottery at June 30, 2008, and 2007. 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.

Colorado Lottery
Management's Discussion and Analysis
Years Ended June 30, 2008 and 2007

Condensed Statements of Net Assets
June 30, 2008, 2007 and 2006

	2008	2007	2006
Assets			
Current assets	$ 50,368,307	$ 52,318,926	$ 45,946,060
Restricted assets	5,687,849	5,822,526	5,706,844
Capital assets	498,156	696,916	754,051
Total assets	$ 56,554,312	$ 58,838,368	$ 52,406,955
Liabilities			
Current liabilities	$ 53,249,984	$ 55,507,616	$ 49,104,926
Long-term liabilities	913,886	906,065	947,001
Total liabilities	$ 54,163,870	$ 56,413,681	$ 50,051,927
Net Assets			
Investment in capital assets	$ 498,156	$ 696,916	$ 754,051
Restricted – Licensed Agent Recovery Reserve	443,139	426,058	398,064
Unrestricted – Operating Reserve	1,300,000	1,500,000	1,600,000
Unrestricted	149,147	(198,287)	(397,087)
Total net assets	$ 2,390,442	$ 2,424,687	$ 2,355,028

The Lottery's total assets at June 30, 2008 were $56.6 million. Assets consisted primarily of cash and investments with the State Treasury of $32.3 million, Prepaid Prize Expense with Multi-State Lottery (MUSL) of $3.9 million, receivables from Lottery retailers for the sale of Lottery products of $18.8 million and a net investment in fixed assets of $.5 million.

Comparable figures at June 30, 2007 were $58.8 million in total assets, including $35.2 million in cash and investments with the State Treasury, Prepaid Prize Expense with MUSL of $3.9 million, receivable from retailers of $18.3 million and a net investment in fixed assets of $.7 million.

Comparable figures at June 30, 2006 were $52.4 million in total assets, including $31.2 million in cash and investments with the State Treasury, Prepaid Prize Expense with MUSL of $3.7 million, receivable from retailers of $15.8 million and a net investment in fixed assets of $.8 million.

The Lottery's total liabilities at June 30, 2008 totaled approximately $54.2 million, consisting primarily of proceeds distributions due to recipients of $27.2 million and prize liability on all the Lottery products of about $21.6 million.

The Lottery's total liabilities at June 30, 2007 totaled approximately $56.4 million, which consisted primarily of proceeds distributions due of $28.7 million and prize liability on all the Lottery products of about $23.6 million.

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

Percentages may not calculate and amounts may not add up due to rounding

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 04-204 (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.

The change in net assets from June 30, 2007 to June 30, 2008 consisted of a decrease in investment in capital assets from $.7 million to $.5 million, an increase in the bonding reserve from $426,058 to $443,139, a decrease in the operating reserve from $1.5 million to $1.3 million and a net increase in unrealized gain and losses on investments of $347,434 resulting from a net increase in the adjustments on State Treasury investments.

Following is a schedule of net assets for fiscal years 2008 and 2007:

	2008	2007	Change
Investment in capital assets	$ 498,156	$ 696,916	$ (198,760)
Bonding reserve	443,139	426,058	17,081
Operating reserve	1,300,000	1,500,000	(200,000)
Unrealized gain (loss) on investments	149,147	(198,287)	347,434
Total net assets	$ 2,390,442	$ 2,424,687	$ (34,245)

The change in net assets from June 30, 2006 to June 30, 2007 consisted of a decrease in investment in capital assets from $.8 million to $.7 million, an increase in the bonding reserve from $398,064 to $426,058, a decrease in the operating reserve from $1.6 million to $1.5 million and a net increase in unrealized gain and losses on investments of $198,800 resulting from a net increase in the adjustments on State Treasury investments.

Following is a schedule of net assets for fiscal years 2007 and 2006:

	2007	2006	Change
Investment in capital assets	$ 696,916	$ 754,051	$ (57,135)
Bonding reserve	426,058	398,064	27,994
Operating reserve	1,500,000	1,600,000	(100,000)
Unrealized gain (loss) on investments	(198,287)	(397,087)	198,800
Total net assets	$ 2,424,687	$ 2,355,028	$ 69,659

Colorado Lottery
Management's Discussion and Analysis
Years Ended June 30, 2008 and 2007

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, 2008, 2007 and 2006

	2008	2007	2006
Operating Revenues	$ 505,814,066	$ 455,916,812	$ 468,761,808
Direct Operating Expenses	363,280,175	318,684,531	325,992,891
Gross Profit on Sale of Tickets	142,533,891	137,232,281	142,768,917
Other Operating Expenses			
Marketing and communications	8,892,973	8,886,036	8,893,150
Wages and benefits	8,841,445	8,603,295	8,195,004
Other operating expenses	5,327,843	3,512,986	3,624,150
Total other operating expenses	23,062,261	21,002,317	20,712,304
Operating Income	119,471,630	116,229,964	122,056,613
Nonoperating Revenues (Expenses)			
Other revenue	428,513	665,162	1,761,259
Investment income	2,365,744	2,169,983	1,118,781
Proceeds distributions	(122,300,132)	(118,995,450)	(125,551,100)
Total nonoperating expenses	(119,505,875)	(116,160,305)	(122,671,060)
Increase (Decrease) in Net Assets	(34,245)	69,659	(614,447)
Net Assets, Beginning of Year	2,424,687	2,355,028	2,969,475
Net Assets, End of Year	$ 2,390,442	$ 2,424,687	$ 2,355,028

Colorado Lottery
Management's Discussion and Analysis
Years Ended June 30, 2008 and 2007

Sales Activities

Revenues from the sale of the Lottery products for the fiscal year ended June 30, 2008 were the highest in the Lottery's 26-year history. As shown in the financial statements, overall sales increased by 10.9 percent from the prior year, from $455.9 million in fiscal year ended June 30, 2007 to $505.8 million in the current year. Current year sales represented an increase of 7.9 percent or $37 million from fiscal year 2006 sales of $468.8 million. The increase in scratch sales from $297.1 million in fiscal year 2007 to $336 million in fiscal year 2008 represented a percentage increase of 13.1 percent. Scratch sales had also increased in fiscal year 2007 from fiscal year 2006 by $3.3 million. Fiscal year 2006 scratch sales totaled $293.8 million. Powerball sales increased from $101.6 million in fiscal year 2007 to $109.6 million in the current fiscal year, which represented a percentage increase from last year's sales of 7.9 percent. Powerball sales in fiscal year 2006 were $119.8 million. Lotto sales grew slightly in the current fiscal year to $41.1 million, an increase of $1.2 million or 3.1 percent over the prior fiscal year. This was the second year since the start up of Powerball that Lotto sales experienced an increase in sales. In fiscal year 2007 and fiscal year 2006, Lotto sales totaled $39.8 million and $38.3 million, respectively. Cash 5 sales again experienced an increase from $17.4 million in fiscal year 2007 to $19.1 million in the current fiscal year, which represents nearly a 10 percent increase.

The following tables compare Lottery product sales between fiscal years.

Product Sales	**2008**	**2007**	**Difference**	**Change**
Scratch	$ 336,038,899	$ 297,112,493	$ 38,926,406	13.1%
Powerball	109,562,516	101,561,395	8,001,121	7.9
Lotto	41,064,087	39,835,761	1,228,326	3.1
Cash 5	19,148,564	17,407,163	1,741,401	10.0
Total	$505,814,066	$455,916,812	$49,897,254	10.9%

Product Sales	**2007**	**2006**	**Difference**	**Change**
Scratch	$ 297,112,493	$ 293,812,628	$ 3,299,865	1.1%
Powerball	101,561,395	119,757,642	(18,196,247)	(15.2)
Lotto	39,835,761	38,332,996	1,502,765	3.9
Cash 5	17,407,163	16,858,542	548,621	3.3
Total	$455,916,812	$468,761,808	$(12,844,996)	(2.7)%

Percentages may not calculate and amounts may not add up due to rounding

Total Revenues

Nonoperating revenues for the years ended June 30, 2008 and June 30, 2007 both totaled $2.8 million, although the factors contributing to the totals differed. First, interest received from the treasury increased by approximately $50,000 from fiscal year 2007 to fiscal year 2008. This increase occurred in spite of a decrease in interest rates from an average of 4.70 percent in fiscal year 2007 to 4.27 percent in fiscal year 2008. The increase is attributable to higher cash balances resulting from the increase in ticket sales. The GASB 31 adjustment recording the Lottery's share of the unrealized gains and losses on investments held by the Treasury increased interest revenue by a total of $148,634. In addition, the lottery received for the first time royalty income from MUSL in the amount of $68,757, for the use of the Powerball name. Offsetting these increases, interest received from the Multi-state Lottery Association decreased slightly by a little over $2,500. Other decreases occurred in fines and penalties ($133,900) reflecting a reduction in the assessment of liquidated damages to the on-line vendor, MUSL reimbursements ($55,000), a reflection of a new billing method, whereby, the lottery pays their share of the MUSL expenses at the close of the fiscal year versus paying an estimated amount at the beginning of the fiscal year with a reimbursement for over billing, and MUSL reimbursement of an Unclaimed Bonus Prize in fiscal year 2007 for approximately $79,000.

Several factors contributed to the approximate $100,000 decrease from fiscal year 2006 to fiscal year 2007. First, interest received from the treasury increased by approximately $402,000 from fiscal year 2006 to fiscal year 2007. This increase was a result of an increase in interest rates from an average of 3.92 percent in fiscal year 2006 to 4.70 percent in fiscal year 2007. Interest received from the Multi-state Lottery Association increased by approximately $102,000 and the GASB 31 adjustment recording the Lottery's share of the unrealized gains and losses on investments held by the Treasury increased interest revenue by a total of $525,000. Offsetting these increases, other income in fiscal year 2007 included reimbursements from the on-line vendor of approximately $385,000 as compared to approximately $1,570,000 in fiscal year 2006. The reimbursements for both fiscal years relates to fines and penalties assessed for non or delayed performance.

Total revenues were $508.6 million and $458.7 million for the years ended June 30, 2008 and 2007, respectively. As mentioned elsewhere, the major contributing factor to the increase in total revenues of approximately $49.9 million was a increase in Lottery sales of $49.9 million. Non operating revenues remained steady for the same period.

Total revenues for the year ended June 30, 2006 were $471.6 million. The major contributing factor for the decrease in total revenues from fiscal year 2006 to 2007 of $12.9 million was a decrease in ticket sales of $12.9 million. Non-operating revenues decreased by $.1 million for the same period.

Major Expenses

Approximately $363.3 million of the Lottery's total expenses of $386.3 for the fiscal year ended June 30, 2008 were incurred in direct support of the 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, $318.7 million of the Lottery's total expenses of $339.7 million for the fiscal year ended June 30 2007, were game-related expenses.

In comparison, $326.0 million of the Lottery's total expenses of $346.7 million for the fiscal year ended June 30, 2006 were game-related expenses.

Following are tables comparing the game-related expenses between fiscal years.

Game-Related Expenses	2008	2007	Difference	Change
Prize expense/Powerball prize variance	$314,934,975	$276,916,405	$38,018,570	13.7%
Retailer compensation				
Commissions	33,668,027	30,292,703	3,375,324	11.1
Bonuses	4,724,151	3,375,679	1,348,472	39.9
Ticket costs	2,558,910	2,142,602	416,308	19.4
Vendor fees	7,394,112	5,957,142	1,436,970	24.1
Total	$363,280,175	$318,684,531	$44,595,644	14.0%

Game-Related Expenses	2007	2006	Difference	Change
Prize expense/Powerball prize variance	$276,916,405	$281,594,245	$(4,677,840)	(1.7)%
Retailer compensation				
Commissions	30,292,703	31,038,482	(745,779)	(2.4)
Bonuses	3,375,679	3,632,434	(256,755)	(7.1)
Ticket costs	2,142,602	2,907,934	(765,332)	(26.3)
Vendor fees	5,957,142	6,819,796	(862,654)	(12.6)
Total	$318,684,531	$325,992,891	$(7,308,360)	(2.2)%

The increase in the game-related expenses, including prize expense, commission expense and bonus expense (fiscal year 2007 to fiscal year 2008) is reflective of the increase in product sales. (See the product sales schedule above.) In addition, the prize expense percentage was increased in fiscal year 2008 over the prize expense percentage in fiscal year 2007 as a result of the higher price point games including the introduction of a $20 game as stated above. The increase in bonus expense from fiscal year 2007 to fiscal year 2008 is the result of the implementation of a new retailer marketing bonus plan, making it easier for retailers to achieve full bonus. The new plan was only in effect for the last three quarters of fiscal year 2008. The increase in ticket costs and vendor fees from fiscal year 2007 to fiscal year 2008 was a direct result of the increase in sales.

Of the $23.1 million in fiscal year 2008 expenses that were non game-related, nearly $8.9 million was for promotions and institutional and product advertising and about $8.8 million was for compensation to the Lottery employees.

In comparison, of the fiscal year 2007 non game-related expenses of $21.0 million, nearly $8.9 million was for promotions and institutional and product advertising and $8.6 million was for compensation to the Lottery employees.

In comparison, of the fiscal year 2006 non game-related expenses of $20.7 million, more than $8.9 million was for promotions and institutional and product advertising and $8.2 million was for compensation to Lottery employees.

Distributions to the Proceeds Recipients

The Lottery's efforts generated funds available for distributions of $122.3 million in the current fiscal year, the second highest year ever. Of these total proceeds, $53.1 million was allocated to the Great Outdoors Colorado Trust Fund, $48.9 million to the Conservation Trust Fund and $12.2 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 $53.1 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 Lottery Proceeds Contingency Reserve Fund of $8.1 million, pursuant to C.R.S. 22-54-117(1.6)(a).

The Lottery's proceeds distributions for the fiscal year 2007 totaled $119.0 million. Approximately $51.3 million was distributed to Great Outdoors Colorado, $47.6 million to the Conservation Trust Fund, $11.9 million to the Division of Parks and Outdoor Recreation and a spill-over into the State's Public School Fund Contingency Reserve of $8.2 million.

The Lottery's proceeds distributions for fiscal year 2006, the highest year ever, totaled $125.6 million. Approximately $50.2 million was distributed to Great Outdoors Colorado, $50.2 million to the Conservation Trust Fund, $12.6 million to the Division of Parks and Outdoor Recreation and a spill-over into the State's Public School Fund Contingency Reserve of nearly $12.5 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 2008, the Legislature approved supplemental appropriation adjustments for the Lottery. Supplemental appropriations and department level re-allocations were approved in vendor fees, prizes, Powerball prize variance, retailer compensation, purchased services from the computer center and MNT payments, offset by reductions in payments in ticket costs, workmen's compensation, risk management, vehicle lease payments, and communications services. The final method of funding is special legislation. There was no special legislation affecting the Lottery's budget in fiscal year 2008.

The approved Lottery budget at the beginning of fiscal year 2008 was $382.2 million. Supplemental appropriations and adjustments made in the third quarter increased the budget by

$40.1 million, department level allocations approved at the beginning of the fiscal year increased the budget by $2.5 million to an amended total of $424.8 million. Total expenditures and roll-forwards for fiscal year 2008 on a budget basis came to $393.8 million, resulting in excess appropriations (or savings) of more than $31.0 million.

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 2008 and to demonstrate the Lottery's accountability for the money generated from the sale of the 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.

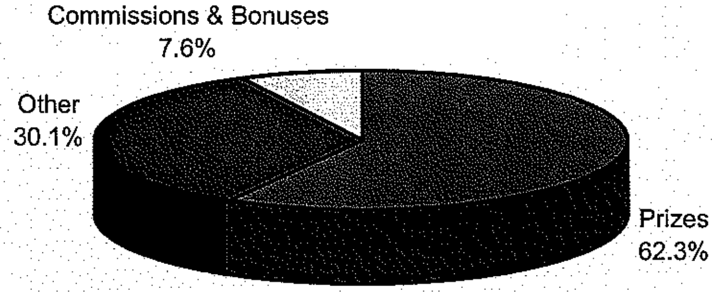
COLORADO LOTTERY
FINANCIAL HIGHLIGHTS
$ IN MILLIONS
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2007

The table included below and the graphs included on page 13 present certain summarized operating results of the Colorado Lottery for the fiscal years ended June 30, 2008 and 2007, and should be read in conjunction with the financial statements presented herein. The graphs included on page 13 are presented for the purpose of demonstrating the Colorado Lottery's compliance with certain statutes that pertain to its operations.

	For the fiscal years ended June 30,			
	2008		2007	
	Total	Actual Percent	Total	Actual Percent
INCOME				
Gross Ticket Sales	$505.81		$455.92	
Nonoperating revenue	2.79		2.84	
TOTAL INCOME	508.60		458.76	
LESS:				
PRIZES	$314.93	62.3% (1)	$276.92	60.7% (1)
RETAILER COMMISSIONS AND BONUSES	$38.39	7.6% (1)	$33.67	7.4% (1)
ADMINISTRATIVE COSTS				
Ticket Costs and Vendor Fees	9.95		8.10	
Other Operating Expenses	23.06		21.00	
TOTAL ADMINISTRATIVE COSTS (Note 3)	33.01	6.5% (2)	29.10	6.3% (2)
	122.27		119.07	
NET CHANGE IN NET ASSETS	-0.03		0.07	
PROCEEDS DISTRIBUTION	$122.30	24.0% (2)	$119.00	25.9% (2)

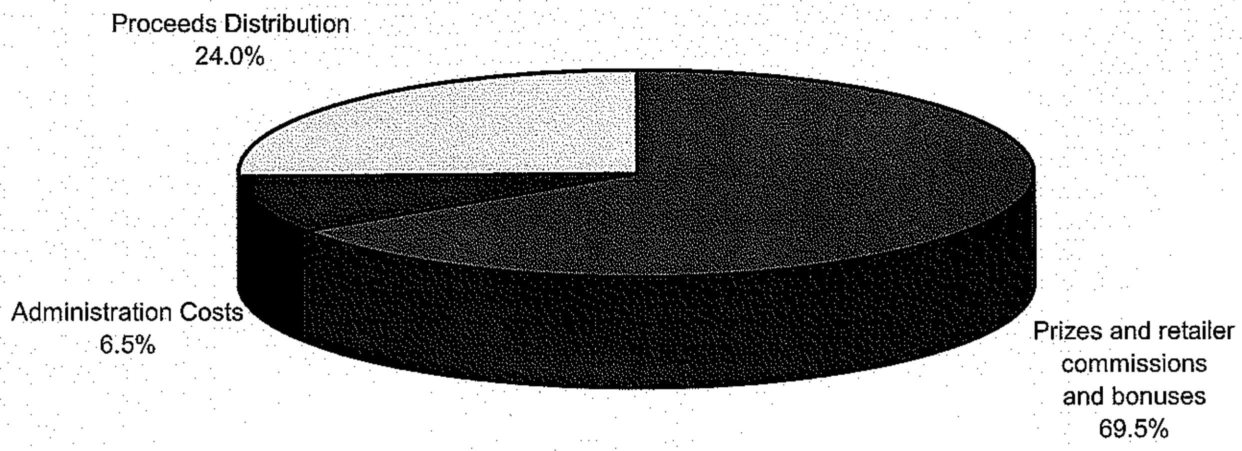
Note 1: Percent of gross ticket sales.
Note 2: Percent of total income.
Note 3: Total operating expenses per the statement of revenues, expenses and changes in fund net assets includes unappropriated expenses such as depreciation and accrued annual and sick leave. The actual administrative costs percentage would be slightly lower if they were removed from the calculation.

PERCENT OF GROSS TICKET SALES



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

PERCENT OF TOTAL INCOME



To depict status of administrative expenditures to date.

COLORADO LOTTERY
STATEMENTS OF NET ASSETS
JUNE 30, 2008 AND 2007
(UNAUDITED)

ASSETS	2008	2007
Current Assets:		
Cash and Investments	$ 30,577,235	$ 33,239,984
Accounts Receivable, net of the allowance for doubtful accounts of $222,816 in 2008 and $246,492 in 2007	18,812,076	18,280,283
Consignment Inventory, at Cost	94,352	110,587
Warehouse Inventory, at Cost	802,513	613,607
Prepaid Expenses	82,131	74,465
Total Current Assets	50,368,307	52,318,926
Reserve and Restricted Assets:		
Cash and Investments-Operating Reserve	1,300,000	1,500,000
Cash and Investments-Licensed Agent Recovery Reserve Receipts	443,139	426,058
Prepaid Prize Expense with MUSL	3,944,710	3,896,468
Total Reserve and Restricted Assets	5,687,849	5,822,526
Capital Assets:		
Equipment	3,159,600	3,772,195
Leasehold Improvements	11,978	14,053
Less Accumulated Depreciation and Amortization	(2,673,422)	(3,089,332)
Total Capital Assets	498,156	696,916
TOTAL ASSETS	$ 56,554,312	$ 58,838,368
LIABILITIES		
Current Liabilities:		
Accounts Payable	2,588,688	1,692,606
Prize Liability	21,630,167	23,624,628
Payable to MUSL	0	0
Wages and Benefits	848,606	745,042
Accrued Annual and Sick Leave	14,806	26,777
Retailer Bonus Liability	704,862	484,295
Funds Available for Distribution	27,155,421	28,706,118
Deferred Revenue	307,434	228,150
Total Current Liabilities	53,249,984	55,507,616
Long-Term Liabilities:		
Accrued Annual and Sick Leave	819,401	805,547
Expired Warrants Liability	94,485	100,518
Total Long-Term Liabilities	913,886	906,065
TOTAL LIABILITIES	54,163,870	56,413,681
NET ASSETS		
Investment in Capital Assets	498,156	696,916
Restricted-Licensed Agent Recovery Reserve	443,139	426,058
Unrestricted-Operating Reserve	1,300,000	1,500,000
Unrestricted-Other	149,147	(198,287)
TOTAL NET ASSETS	2,390,442	2,424,687
TOTAL LIABILITIES AND NET ASSETS	$ 56,554,312	$ 58,838,368

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 YEARS ENDED JUNE 30, 2008 AND 2007
(UNAUDITED)

	2008	2007
OPERATING REVENUES		
Gross Ticket Sales	$ 505,814,066	$ 455,916,812
DIRECT OPERATING EXPENSES		
Prize Expense	313,796,804	280,000,739
Powerball Prize Variance	1,138,171	(3,084,334)
Retailer Commissions and Bonuses	38,392,178	33,668,382
Cost of Tickets and Vendor Fees	9,953,022	8,099,744
GROSS PROFIT ON SALE OF TICKETS	142,533,891	137,232,281
OTHER OPERATING EXPENSES		
Marketing and Communications	8,892,973	8,886,036
Administration Fees Paid to MUSL	102,955	95,884
Wages and Benefits	8,841,445	8,603,295
Professional Services	415,610	240,397
State Agencies Services	139,926	143,461
Department of Revenue Services	458,881	358,373
Travel	112,329	77,175
Equipment (including loss on disposition of equipment of $65,894 and $24,947, respectively)	1,355,526	232,215
Depreciation	149,397	156,948
Accrued Annual and Sick Leave	8,320	(23,243)
Space Rental	692,825	638,065
Rents for Equipment	28,116	26,536
Motorpool Leasing	350,097	328,051
Materials and Supplies	92,541	130,657
Telephone	110,708	103,663
On-Line Telecommunications	502,406	283,539
Data Processing Supplies and Services	85,011	43,409
Equipment Maintenance	250,676	221,477
Postage	68,745	49,465
Printing	10,171	25,939
Other	393,603	380,975
Total Other Operating Expenses	23,062,261	21,002,317
OPERATING INCOME	119,471,630	116,229,964
NONOPERATING REVENUES (EXPENSES)		
Other Revenue	428,513	665,162
Investment Income	2,365,744	2,169,983
Funds Distributed for Current Year	(95,144,711)	(90,289,332)
Funds Available for Distribution for Current Year	(27,155,421)	(28,706,118)
Total Nonoperating Revenues (Expenses)	(119,505,875)	(116,160,305)
NET INCOME(LOSS)	$ (34,245)	$ 69,659
NET ASSETS, BEGINNING OF YEAR	2,424,687	2,355,028
Net Change in Net Assets	(34,245)	69,659
NET ASSETS, END OF YEAR	$ 2,390,442	$ 2,424,687

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

COLORADO LOTTERY
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 & 2007
(UNAUDITED)

	2008	2007
Operating activities		
Cash received from retailers	$ 505,162,834	$ 453,554,927
Cash paid in prizes	(317,267,109)	(270,701,601)
Cash paid in retailer commissions	(33,668,027)	(30,292,703)
Cash payments to suppliers	(22,322,364)	(19,478,242)
Cash payments to employees for services	(8,735,998)	(8,645,285)
Cash paid in retailer bonus	(4,513,389)	(3,291,900)
Cash received (used) - other	0	(172,053)
Net cash provided by operating activities	118,655,947	120,973,143
Noncapital Financing Activities		
Distribution of net proceeds	(123,850,829)	(119,085,636)
Capital and related financing activities		
Acquisition of capital assets	(16,530)	(124,760)
Net cash used by financing activities	(16,530)	(124,760)
Investing activities		
Interest received	2,018,310	1,971,183
Increase in Cash and Investments	(3,193,102)	3,733,930
Change in Fair Market Value of Investments	347,434	198,800
Cash and investments, Beginning of Year (including $1,926,058 and $1,998,064, respectively, in restricted accounts)	35,166,042	31,233,312
Cash and investments, End of Year, (including $1,743,139 and $1,926,058, respectively, in restricted accounts)	$ 32,320,374	$ 35,166,042

Reconciliation of operating income to net cash provided by operating activities

	2008	2007
Operating income	*$ 119,471,630*	*$ 116,229,964*
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	*149,397*	*156,948*
Loss on disposition of equipment	*65,894*	*24,947*
Other revenue	*428,513*	*665,162*
(Increase)Decrease in Prepaid Prize Expense with MUSL	*(48,243)*	*(187,688)*
Change in:		
Accounts Receivable	*(531,793)*	*(2,440,226)*
Ticket Inventory	*(172,671)*	*101,341*
Other Assets	*(7,666)*	*(29,245)*
Liabilities(excluding funds available for distribution)	*(699,114)*	*6,451,940*
Net cash provided by operating activities	*$ 118,655,947*	*$ 120,973,143*

	2008	2007
Statement of Net Assets Classification		
Cash and investments	$ 30,577,235	$ 33,239,984
Cash and investments- Licensed Agent Recovery Reserve	443,139	426,058
Cash and investments- Operating Reserve	1,300,000	1,500,000
	$ 32,320,374	$ 35,166,042

See Notes to Financial Statements

COLORADO LOTTERY
POWERBALL ANNUITY WINNERS TRUST FUND
STATEMENTS OF NET ASSETS
JUNE 30, 2008 AND 2007
(UNAUDITED)

		2008		2007
ASSETS				
Current Assets:				
Current Portion Long Term Investments-PB Annuity		371,000		0
Long Term Assets:				
Long Term Investments-PB Annuity		9,379,262		0
TOTAL ASSETS	$	9,750,262	$	0
NET ASSETS				
NET ASSETS, BEGINNING OF YEAR		0		0
Net Change in Net Assets		9,750,262		0
NET ASSETS, END OF PERIOD	$	9,750,262	$	0

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

COLORADO LOTTERY
POWERBALL ANNUITY WINNERS TRUST FUND
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2007
(UNAUDITED)

		2008		2007
REVENUES				
Interest Income	$	360,625	$	
Trust Fund Additions		9,746,637		
TOTAL REVENUES		10,107,262		0
EXPENSES				
Trust Fund Deductions		357,000		0
NET CHANGE IN NET ASSETS	$	9,750,262	$	0

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

Colorado Lottery
Notes to Financial Statements
June 30, 2008 and 2007

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 activities of the Lottery, an enterprise fund of the State of Colorado and activities of the Lottery's Powerball Annuity Winners Trust Fund, a private trust fund of the State of Colorado, for the fiscal years ended June 30, 2008 and 2007. 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 and the Lottery's Powerball Annuity Winners Trust Fund 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.

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.

Private Trust Fund

The Lottery accounts for Powerball Annuity Prizes in a private trust fund. The prizes are considered awarded when claimed by the winner. The Lottery is placed in a fiduciary situation, whereby it manages the prize funds for the winner. Governmental accounting mandates that a separate Statement of Net Assets and Statement of Changes in Net Assets be prepared for such fund. You will find those statements included herein.

Basis of Accounting

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

Revenues (Additions) are recognized in the Powerball Annuity Winners Trust Fund based on the amortization of the original investment over the life of the annuity. Expenses (Deductions) are recognized when payments are remitted to the winner(s).

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

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

The Lottery uses the specific identification method to determine expected uncollectibles. Under the provisions of Section 24-35-219, C.R.S., licensed agent recovery reserve receipts are collected from the retailers to cover uncollectible accounts. The accounts receivable and the licensed agent recovery reserve are shown net of estimated uncollectible receivables of $222,816 and $246,492 as of June 30, 2008 and 2007, respectively.

Consignment Inventory

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

Warehouse Inventory

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

Supplies Inventory

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

Prepaid Prize Expense

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

Fixed Assets

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

Accrued Wages and Benefits

During each fiscal year, the state changes the pay date for the month of June for all state employees, deferring the date from the last working day of June to the first working day of July. For the Lottery, this created a liability for accrued wages at June 30, 2008 and 2007 of $704,570 and $745,042, respectively.

Prize Liability and Prize Expense

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

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

Payments of scratch prize amounts of $150 or less may be made at the Lottery or at the retail outlet; payment of scratch prize amounts of $151 to $599 may be made at the retailer level at the option of the retailer or at the Lottery. Scratch prizes of $600 or more are paid by the Lottery. Retailers are given credit for prize payments they make on a daily basis. Prizes may be claimed up to 180 days after game-end. After the final claim date, any unclaimed scratch prizes will result in a decrease to prize expense and any prizes claimed in excess of the liability accrued will result in an increase to prize expense. Net unclaimed scratch prizes resulted in a decrease to prize expense of $5,012,478 for the fiscal year ended June 30, 2008 and $4,204,859 for the fiscal year ended June 30, 2007.

Payments of cumulative online prize amounts of $150 or less on a single ticket may be made at the Lottery or at the retail outlet; payment of cumulative prize amounts of $151 to $599 on a single ticket may be made at the retailer level at the option of the retailer or at the Lottery. Payment of cumulative prize amounts of $600 or more on a single ticket must be made at the Lottery. Retailers are given credit for prize payments they make on a daily basis. Online prizes may be claimed up to 180 days after the date of the drawing. After the final claim date, unclaimed online prizes will result in a decrease to prize expense so long as the aggregate prize expense of all games exceeds or equals the statutory 50% of sales. In the event that the expiration of an unclaimed prize would result in the aggregate prize expense of all games to fall below the statutory 50% level, the unclaimed prize amount would remain in prize expense and be paid out to players as a guaranteed additional prize. Unclaimed online prizes resulted in a decrease to prize expense of $4,023,101 for the fiscal year ended June 30, 2008 and $4,269,402 for the fiscal year ended June 30, 2007.

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 and as amended in 2008:

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

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

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

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

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, 2008 and June 30, 2007, the Lottery has reserved $443,139 and $426,058, respectively.

Lottery Fund Net Assets

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

Equipment Expense

Included in "The Statement of Revenues, Expenses, and Changes in Fund Net Assets" is an account titled equipment. This account reports the book value of assets, which are disposed of during the year, fixed asset purchases made during the year, which are not capitalized. (See Fixed Asset Footnote, page 29), software purchases and other miscellaneous equipment transactions.

Compensated Leave

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

	June 30, 2008	June 30, 2007	Decrease
Annual leave	$ 691,339	$ 691,042	$ 297
Sick leave	140,969	139,686	1,283
Total annual and sick leave	832,308	830,728	1,580
Compensatory time	1,899	1,596	303
Total compensated leave	$ 834,207	$ 832,324	$ 1,883

Expired Warrants Liability

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

Deferred Revenue

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

A detail of deferred revenue at June 30, 2008 and 2007, is as follows:

	2008	2007
Advance Play - Lotto	$ 97,188	$ 79,071
Advance Play – Powerball	138,610	102,407
Advance Play – Powerplay	38,964	27,364
Advance Play – Cash 5	32,672	19,308
Total deferred revenue	$ 307,434	$ 228,150

Promotional Activity

The Lottery engages in two types of promotional activities in an attempt to enhance sales and to increase the player base. Specific promotional coupons are distributed to players through special promotions and can be redeemed at any lottery office for a specified lottery product. Promotional coupons with a total face value of $10,750 and $9,300 were redeemed in fiscal years ended June 30, 2008 and June 30, 2007, 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, 2008 and 2007, scratch tickets with a total face value of $94,003 and $97,786, respectively, were given away. Scratch ticket and coupon promotions are valued at cost. For the fiscal years ended June 30, 2008 and 2007, $68,432 and $75,120, respectively, were recorded as costs related to free tickets and coupons. These costs were included in Marketing and Communications expense in the statements of revenues, expenses and changes in fund net assets for coupons redeemed and scratch tickets given away.

Note 2: Cash and Investments

Cash

Cash includes petty cash, change funds, an imprest fund, two depository accounts and cash on deposit with the State Treasurer. A detail of cash at June 30, 2008 and 2007 is as follows:

	2008	2007
Petty cash	$ 800	$ 800
Change funds	70,000	70,000
Imprest fund	722,000	732,000
Depository accounts	30,000	30,000
Cash on deposit with State Treasurer	29,754,435	32,407,184
Total unrestricted cash and investments	30,577,235	33,239,984
Restricted cash and investments – Licensed Agent Recovery Reserve Receipts on deposit with State Treasurer	443,139	426,058
Operating Reserve on deposit with State Treasurer	1,300,000	1,500,000
Total restricted cash and investments	1,743,139	1,926,058
Total cash and investments	$ 32,320,374	$ 35,166,042

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 2008 and 2007 was 4.27% and 4.70%, 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, 2008 and 2007, respectively, $615,739 and $658,442 of the Lottery's bank balances of $717,507 and $777,786, respectively, were exposed to custodial credit risk as follows:

	2008	2007
Uninsured and collateralized (see below)	$ 615,739	$ 658,442
Uninsured and collateral held by pledging financial institution	101,768	119,344
	$ 717,507	$ 777,786

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

Investments

A Private Purpose Trust was established in fiscal year 2008 to record the Lottery's investments, held by the Multi-State Lottery Association (MUSL), for the benefit of Colorado's Powerball annuity prize winners (Colorado Winners Trust). The following investment policy followed by MUSL governs the purchase of these investments. A brokerage firm wishing to submit a bid for the sale of securities to MUSL must first be qualified by 1) providing information to MUSL which substantiates compliance with minimum standards and guidelines as set forth by MUSL and 2) by entering into an agreement with MUSL. In addition, MUSL will purchase from qualifying brokers only securities which are backed by the full faith and credit of the United States Government or its agencies. The approved securities are Certificates on Government Receipts, Certificates Accrual Treasury Securities, Coupon Treasury Receipts, Easy Growth Treasury Receipts, Government & Agency Term Obligation Receipts, Government Loan Trust, Class 1-Z, Government Trust Certificates, JOB Certificates, Principal Treasury Receipts, Resolution Funding Corporation Strips, Stripped Government Receipts, Treasury Investment Growth Receipts, Treasury Bond Receipts, United States Agency for International Development bonds, United States Treasury Coupon Under Book Entry, United States Treasury Bills, United States Treasury Securities Stripped, Physical Coupon Treasury Strips, Zero Coupon Treasury Obligations, Government Loan Trusts, and AID Bonds.

Custodial Credit Risk - Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Lottery will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Lottery's securities are held by the counterparty in the Lottery's name and therefore, custodial risk is minimal.

Interest Rate Risk - Investments

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. MUSL manages its exposure to interest rate risk by purchasing only securities which are either explicitly or implicitly guaranteed by the United States Government and by holding these investments to maturity.

	2008		2007	
Investment Type	**Fair Value**	**Weighted Average Maturity (in years)**	**Fair Value**	**Weighted Average Maturity (in years)**
U. S. Treasury Investments	$ 4,000,284	15.95	$ 0	N/A
Israel Bonds	3,262,263	9.81	0	N/A
Resolution Funding Corp Strips	2,487,715	15.54	0	N/A
	$ 9,750,262		$ 0	

Credit Risk - Investments

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The Resolution Funding Corporation Strips carry a AAA rating under the Moody's rating system.

Concentration of Credit Risk - Investments

Investment in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the total investment as of June 30, 2008 are the Resolution Funding Corporation Strips which represent 25.5% of the total investment.

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 $717,507 is categorized as follows as of June 30, 2008:

Category 1	$	101,768
Category 2	$	615,739

For Cash on Deposit with State Treasurer, the State Treasurer's investments as of June 30, 2008 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, 2007	Increases	Decreases	June 30, 2008
Equipment	$ 3,772,194	$ 16,530	$ (629,124)	$ 3,159,600
Leasehold improvements	14,053	—	(2,075)	11,978
Total capital assets being depreciated	3,786,247	16,530	(631,199)	3,171,578
Less accumulated depreciation for equipment	(3,076,684)	(149,397)	563,439	(2,662,642)
Leasehold improvements	(12,647)	—	1,867	(10,780)
Total accumulated depreciation	(3,089,331)	(149,397)	565,306	(2,673,422)
Total capital assets, being depreciated, net	$ 696,916	$ (132,867)	$ (65,893)	$ 498,156

	June 30, 2006	Increases	Decreases	June 30, 2007
Equipment	$ 3,902,715	$ 124,760	$ (255,281)	$ 3,772,194
Leasehold improvements	14,053	—	—	14,053
Total capital assets being depreciated	3,916,768	124,760	(255,281)	3,786,247
Less accumulated depreciation for equipment	(3,150,070)	(156,948)	230,334	(3,076,684)
Leasehold improvements	(12,647)	—	—	(12,647)
Total accumulated depreciation	(3,162,717)	(156,948)	230,334	(3,089,331)
Total capital assets, being depreciated, net	$ 754,051	$ (32,188)	$ (24,947)	$ 696,916

Note 4: Operating Leases

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

Pueblo

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

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

Denver

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

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

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, expired on June 30, 2006. The Lottery had the option to exercise two 12-month extensions under the new lease, extending the lease through June 30, 2008. On May 27, 2007, the Lottery exercised its second option to extend the lease through June 30, 2008. On June 10, 2008, the Lottery entered into a third amendment to the lease to extend the lease for a twelve month period ending June 30, 2009. The amended lease includes two one year renewal options. There are no other options for renewal.

Operating lease expense incurred for the fiscal years ended June 30, 2008 and 2007 and future minimum lease payments for fiscal years ending June 30, 2009 through 2013 and later years are as follows:

LOCATION			FUTURE	MINIMUM	LEASE	PAYMENTS		
	2007	2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	LATER YEARS
Pueblo Office	$233,095	$234,207	$218,013	$ 218,013	$224,630	$231,247	$238,203	$498,122
Pueblo Warehouse	102,153	114,596	114,596	0	0	0	0	0
CoSprgs Warehouse	13,016	13,440	13.887	0	0	0	0	0
Denver	141,339	179,456	191,392	0	0	0	0	0
Denver Warehouse	98,553	101,473	104,486	17,499	0	0	0	0
Fort Collins	39,288	39,288	0	0	0	0	0	0
Grand Junction	6,945	7,981	0	0	0	0	0	0
	$ 634,389	$ 690,441	$642,374	$ 235,512	$224,630	$231,247	$238,203	$498,122

Note 5: Other Revenue

A schedule of other revenue for the fiscal years ended June 30, 2008 and 2007 follows:

	2008	2007
License fees	$ 65,616	$ 62,022
Fines and penalties	250,850	384,750
Assignment fees	2,700	2,749
Net Licensed Agent Recovery Reserve Receipts	17,081	27,994
Reimbursements from MUSL/Budget	0	55,096
Reimbursements from MUSL/Unclaimed Bonus Prizes	0	78,663
Royalty Income	68,757	0
Other	23,509	53,888
Total	$ 428,513	$ 665,162

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. Starting in fiscal year 2008 these proceeds shall be transferred to the Lottery Proceeds Contingency Reserve Fund as set forth in section 22-54-117(1.6)(a), C.R.S.

Income available for distribution at June 30:

	2008	2007
Operating Income	$ 119,471,630	$ 116,229,964
Plus: Other Revenue	428,513	665,162
Investment Income	2,365,744	2,169,983
Income before distributions	$ 122,265,887	$ 119,065,109
Change in licensed agent recovery reserve	(17,081)	(27,994)
Change in fair market value of investments	(347,434)	(198,800)
Change in Operating Reserve	200,000	100,000
Other changes in net assets	198,760	57,135
Income available for distribution	122,300,132	118,995,450
Less distributions prior to year-end	(95,144,711)	(90,289,332)
Income available for distribution	$ 27,155,421	$ 28,706,118

	Accrued at June 30, 2007	Proceeds Distributions Expenses	Distributions Paid	Accrued at June 30, 2008
Great Outdoors Colorado	$ 6,133,152	$ 53,104,374	$ (53,705,510)	$ 5,532,016
State Public School Fund	8,219,905	0	(8,219,905)	0
Lottery Proceeds Contingency Reserve Fund	0	8,045,692	0	8,045,692
Conservation Trust Fund	11,482,448	48,920,053	(49,540,332)	10,862,169
Division of Parks and Outdoor Recreation	2,658,076	12,230,013	(12,172,545)	2,715,544
	$ 28,706,118	$ 122,300,132	$(123,850,829)	$ 27,155,421

	Accrued at June 30, 2006	Proceeds Distributions Expenses	Distributions Paid	Accrued at June 30, 2007
Great Outdoors Colorado	$ 1,852,837	$ 51,277,820	$ (46,997,505)	$ 6,133,152
State Public School Fund	12,545,316	8,219,905	(12,545,316)	8,219,905
Conservation Trust Fund	11,518,521	47,598,180	(47,634,253)	11,482,448
Division of Parks and Outdoor Recreation	2,879,630	11,899,545	(11,908,562)	2,658,076
	$ 28,796,304	$ 118,995,450	$(119,085,636)	$ 28,706,118

Note 7: Pension Plan

Plan Description

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

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

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

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

- Hired before July 1, 2005 – age 50 with 30 years of service, age 60 with 20 years of service or at age 65 with 5 years of service.

- Hired between July 1, 2005 and December 31, 2006 - any age with 35 years of service, at age 55 with 30 years of service, at age 60 with 20 years of service, or at age 65 with 5 years of service.

- Hired on or after January 1, 2007 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service.

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

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

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

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

Members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5 percent times the number of years of service times the highest average salary (HAS). For retirement before January 1, 2009, HAS is calculated as one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit and limited to a 15 percent increase between periods. For retirements after January 1, 1009 or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

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

- Hired before July 1, 2005 – 3.5 percent, compounded annually.

- Hired between July 1, 2005 and December 31, 2006 – the lesser of 3 percent of the actual increase in the national Consumer Price Index.

- Hired on or after January 1, 1007 – the lesser of 3 percent or the actual increase in the national Consumer Price Index, limited to a 10 percent reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)

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, beneficiaries, or the member's estate, may be entitled to a survivor's benefit.

Funding Policy

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

Most employees contribute 8% (10% for state troopers) of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2007, to December 31, 2007, the state contributed 11.15% (13.85% for state troopers and 14.66% for the judicial branch).of the employee's salary. From January 1, 2008 through June 30, 2008 the state contributed 12.05 percent (14.75 percent for state troopers and 15.56 percent for the Judicial Branch). During all of Fiscal Year 2008, 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, 2006, the division of PERA in which the state participates was underfunded with an infinite amortization period, which means that the unfunded actuarially accrued liability would never be fully funded at the current contribution rate.

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

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

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

The Lottery's contributions to the Defined Benefit Plan and the Health Care Trust Fund for the fiscal years ended June 30, 2008, 2007, and 2006, were $759,314, $720,894, and $668,327, 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 Employment Benefits and Life Insurance

HEALTH CARE PROGRAM

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Trust Fund; the program was converted to a trust fund in 1999. The plan is a cost-sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for health care coverage. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA included the Health Care Trust Fund in its Comprehensive Annual Financial Report, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting http://www.copera.org.

After the PERA subsidy, the benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. Monthly premium costs for participants depend on the health care plan selected, the PERA subsidy amount, Medicare eligibility, and the number of persons covered. Effective July 1, 2000, the maximum monthly subsidy is $230.00 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; and $115.00 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5% for each year less than 20 years.

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed above. Beginning July 1, 2004, state agencies are required to contribute 1.02 percent of gross covered wages to the Health Care Trust Fund. The agency contributed $66,734, $67,494, and $65,540 as required by statute in Fiscal Years 2008, 2007 and 2006 respectively. In each year the amount contributed was 100 percent of the required contribution.

The Health Care Trust Fund offers two general types of plans: fully-insured plans offered through health care organizations and self-insured plans administered for PERA by third party vendors. As of December 31, 2006, there were 42,433 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 32, 2006, the Health Care Trust Fund had an unfunded actuarial accrued liability of $1.0 billion, a funded ratio of 17.2 percent, and a 37-year amortization period.

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 October 10, 2036.

Specified prize payments	$ 449,399,430
Lifetime prize payments	39,630,000
Total guaranteed minimum prize payments	$ 489,029,430

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. After June 30, 2005, the state once again became self-insured for certain employee and state-official medical claims. The State's contribution to the premium is subject to approval of the legislature each year and state employees pay the difference between the state's contribution and the premium set. The premiums set by the state are intended to cover claims and include a fee to offset the costs of administering the plan. Plan costs include developing plan offerings, maintaining the online benefits system, and communicating benefit provisions to employee. 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, in addition to the fully insured Kaiser HMO plan and the San Luis Valley HMO plan, as well as, three self-funded dental options administered by Delta Dental Plan of Colorado. On July 1, 2006 the sate discontinued one of the self-funded medical plan options due to low enrollment.

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 short-term disability program provides an employee with 60 percent of their pay beginning after 30 days of disability or exhausting their 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 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.

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

Gaming Operations Commitments – The Lottery has entered into long-term contracts with certain significant vendors related to providing scratch tickets and online data processing services in support of the Lottery's gaming operations. The online data processing contract expires on October 31, 2012 per the contract amendment dated January 26, 2005. Renewal options include one additional two-year period and two additional periods of ninety days for conversion and turnover purposes. The total cost of the initial contract period is not to exceed $70,291,500.

The Lottery entered into two contracts with the scratch vendors on January 9 and 13, 2006. The contracts expired on November 30, 2007. The State, in its sole discretion, may require continued performance for three additional twelve (12) month periods on both contracts. In addition, in the event that a contract with a successor contractor cannot be signed prior to the expiration or termination date of this contract, the State reserves the right to extend this contract for maximum of one hundred eighty (180) days or until a new contract is executed. There are no other provisions for extension or renewal. The total costs of the contracts for the initial contract period were not to exceed $5,666,667 each for the respective contracts. In May 2007, one scratch vendor (purchaser) purchased the other scratch vendor (purchasee). A novation agreement was signed assigning all of the rights of the purchasee to the purchaser. The state exercised its option to extend the contract with the purchaser for an additional twelve month period starting on December 1, 2007 and ending on November 30, 2008. The maximum amount available to cover both the original contract period and the extension for fiscal year 2008, which ends on June 30, 2008, is $3,862,335.33.

The Lottery was approved as a member of the MUSL on February 26, 2001 and thus entered into an agreement with MUSL on June 6, 2001 to become a member and participate in Powerball games. As a member, the Lottery agrees to abide by the terms of the Multi-State Agreement dated September 16, 1987 and to any amendments to that agreement duly made by the board. The Lottery will remain a member indefinitely. Pursuant to this agreement, the Lottery will make payments to MUSL for administrative fees, weekly prize expenses, promotional purchases, miscellaneous reimbursements and assessments and contributions to the prize reserves. The total amount to be contributed by the Lottery to the prize reserves as of June 30, 2008 is $3,586,100 and is based on a percentage of sales. The total amount of the prize reserves funded as of June 30, 2008 was $3,944,710 shown as prepaid prize expense – MUSL on the statements of net assets. MUSL reserves the right to hold funds which do not exceed 110% of the required balance. If the actual balance in the reserves should exceed 110% of the required balance, MUSL will refund any funds in excess of the 110% threshold.

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

Litigation – In fiscal year 2001, a plaintiff filed a class action suit claiming that the Lottery breached its contract with players by continuing to sell instant tickets in games in which the top prize had already been claimed. In fiscal year 2006, the District Court found in favor of the Lottery. The case was appealed and heard orally by the Colorado Supreme Court on Decem ber 6, 2007/ The decision was rendered on March 24, 2008 and upheld the decision of the Court of Appeals. The decision is now final and non-appealable and the case has been closed.

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 for indirect costs. Interagency charges were $996,105 and $875,407 for the fiscal years ended June 30, 2008 and 2007, respectively.

Supplementary Information

COLORADO LOTTERY
SCHEDULE OF REVENUE AND COSTS FOR SCRATCH AND ON-LINE GAMES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(With Comparative Totals for the Fiscal Year Ended June 30, 2007)

	Games in Progress				FY 08	FY 07
	Scratch	Lotto	Powerball	Cash 5	Total	Scratch and On-Line
TICKET SALES	$336,038,899	$41,064,087	$109,562,516	$19,148,564	$505,814,066	$455,916,812
PRIZE EXPENSE	(230,874,880)	(22,086,122)	(50,462,779)	(10,373,023)	(313,796,804)	(280,000,739)
POWERBALL PRIZE VARIANCE	N/A	N/A	(1,138,171)	N/A	(1,138,171)	3,084,334
NET REVENUE AFTER PRIZES	105,164,019	18,977,965	57,961,566	8,775,541	190,879,091	179,000,407
COMMISSIONS, BONUSES, TICKET COSTS & VENDOR FEES (Note 1)						
Retailer Commission	(23,476,115)	(2,465,397)	(6,576,799)	(1,149,716)	(33,668,027)	(30,292,703)
Retailer Bonus	(3,562,333)	(268,028)	(716,171)	(177,619)	(4,724,151)	(3,375,679)
Cost of Tickets Sold	(2,558,910)	N/A	N/A	N/A	(2,558,910)	(2,142,602)
Telecomm Reimbursements	476,221	58,205	155,257	27,136	716,819	691,716
On-Line Vendor Fees	(5,396,364)	(652,950)	(1,754,061)	(307,556)	(8,110,931)	(6,648,858)
TOTAL	(34,517,501)	(3,328,170)	(8,891,774)	(1,607,755)	(48,345,200)	(41,768,126)
GROSS PROFIT ON SALE OF TICKETS	$70,646,518	$15,649,795	$49,069,792	$7,167,786	$142,533,891	$137,232,281
AVERAGE DAILY TICKET SALES	$918,139	$112,197	$299,351	$52,318	$1,382,006	$1,249,087

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, 2008

	Games in Progress				Powerball Prize Variance	FY 08 Total
	Scratch	Lotto	Powerball	Cash 5		
Prize Expense	$230,874,880	$22,086,122	$50,462,779	$10,373,023	$1,138,171	$314,934,975
(/)Ticket Sales	336,038,899	41,064,087	109,562,516	19,148,564	N/A	505,814,066
Prize %	68.70%	53.78%	46.06%	54.17%		62.26%

COLORADO LOTTERY
BUDGETARY COMPARISON
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	FY08 Original Budget	Supplementals Pots Allocations & Internal Transfers	FY08 Final Budget	FY08 Actual Expenditures	Under Expended	Percent Under Expended
Personal Services	$8,476,115	$347,306	$8,823,421	$8,522,935	$300,486	3.41%
Amortization Equalization	0	86,110	86,110	80,712	5,398	6.27%
Supplemental Amort. Equal.	0	17,940	17,940	16,986	954	5.32%
Workmen's Compensation	0	52,018	52,018	52,018	0	0.00%
Unemployment Benefits	0	976	976	821	155	15.88%
Health and Life	0	521,660	521,660	521,660	0	0.00%
Short Term Disability	0	8,811	8,811	8,079	732	8.31%
Operating	1,203,156	0	1,203,156	1,201,047	2,109	0.18%
DOR Postage Allocation	0	25,619	25,619	25,619	0	0.00%
Variable Vehicle	0	155,734	155,734	155,734	0	0.00%
Leased Space	0	725,755	725,755	684,844	40,911	5.64%
Grand Junction - Leased Space	0	7,981	7,981	7,981	0	0.00%
Risk Management	0	24,152	24,152	24,152	0	0.00%
Vehicle Lease Payments	0	130,002	130,002	125,781	4,221	3.25%
Travel	113,498	0	113,498	112,329	1,169	1.03%
Purch. Serv. Comp. Center	0	3,252	3,252	3,252	0	0.00%
Marketing, Communications & Sales	8,643,420	0	8,643,420	8,642,971	449	0.01%
Communications Services	0	1,851	1,851	1,851	0	0.00%
Payments to MNT	0	362,552	362,552	362,552	0	0.00%
Payments to Other Agencies	239,410	0	239,410	121,335	118,075	49.32%
Legal Services	0	34,636	34,636	18,591	16,045	46.32%
Indirect Costs	458,880	0	458,880	458,880	0	0.00%
Ticket Costs-Scratch	3,549,040	(19,690)	3,529,350	2,558,910	970,440	27.50%
Research	250,000	0	250,000	250,000	0	0.00%
Vendor Fees	9,811,513	1,063,998	10,875,511	9,363,475	1,512,036	13.90%
Prize Payments	306,413,810	30,307,570	336,721,380	313,796,804	22,924,576	6.81%
Retailer Compensation	38,609,220	3,164,530	41,773,750	38,392,178	3,381,572	8.09%
Multi-State Lottery Fund	177,433	0	177,433	161,811	15,622	8.80%
CMAC Project	10,697	0	10,697	3,000	7,697	71.95%
Powerball Prize Variance	4,220,000	5,532,000	9,752,000	8,047,280	1,704,720	17.48%
Rollforward	37,695	0	37,695	37,695	0	0.00%
TOTAL	$382,213,887	$42,554,763	$424,768,650	$393,761,283	$31,007,367	7.30%

FY08 Staffing (FTE) 126.0 (Appropriated) 118.6 (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	313,796,804
Powerball Prize Variance	1,138,171
Commissions and Bonuses	38,392,178
Cost of Tickets & Vendor Fees	9,953,022
Operating Expenses	23,062,261
Total Expenses per Statement of Revenues, Expenses and Changes in Net Assets	386,342,436
Plus: Powerball Variance classified as revenue	6,909,109
Telecommunications offset classified as revenue	716,819
Less: Non-appropriated expenses	
Depreciation	(149,397)
Accrued Annual and Sick Leave	(8,320)
Book Value of Assets Written Off	(65,894)
Sub-Total	393,744,753
Plus: Capitalized Fixed Assets	16,530
	393,761,283