

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

(UNAUDITED)

FOR THE FISCAL YEAR ENDED

JUNE 30, 2009

**COLORADO LOTTERY
FINANCIAL STATEMENTS
(UNAUDITED)**

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Headquarters
212 W. 3rd Street, Suite 210
Pueblo, CO 81003
(719) 546-2400
(719) 546-5208 Fax



Bill Ritter, Jr.
Governor

Roxy Huber
Executive Director

Jack Boehm
Lottery Director

August 31, 2009

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, 2009 depicts total revenues of \$495.1 million, gross ticket sales of \$493.4 million, net income before proceeds distributions of \$121.9 million, and a net increase in net assets of \$2.3 million. Accordingly, a total of \$119.6 million in distributions will have been made by September 1, 2009 in the following manner; \$54.3 million to the Great Outdoors Colorado Fund, \$12.0 million to the Division of Parks and Outdoor Recreation, \$47.8 million to the Conservation Trust Fund, for distribution to cities and other local government agencies and \$5.5 million to the Public School Capital Construction Assistance Fund.

The attached financial statements for the fiscal year ended June 30, 2009 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,

A handwritten signature in cursive script that reads "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, 2009 and 2008

This discussion and analysis of the Colorado Lottery's financial performance provides an overview of financial activities for the fiscal years ended June 30, 2009 and 2008. 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 \$493.4 million was the second highest sales year in Lottery history. The highest sales year was achieved in fiscal year 2008 with sales of \$505.8 million. Overall sales for fiscal year 2009 reflected a \$12.4 million decrease from fiscal year 2008 sales and fiscal year 2008 reflected a \$49.9 million increase from fiscal year 2007 sales of \$455.9 million. The overall decrease in sales in 2009 was the result of a decrease in both scratch and Powerball sales. Scratch sales decreased by \$7.8 from \$336.0 million in fiscal year 2008 to \$328.2 million in fiscal year 2009. The Lottery attributes the decrease in scratch sales to the state of the economy. Fiscal year 2008 scratch sales increased by \$38.9 million over scratch sales for fiscal year 2007 which totaled \$297.1 million, the third highest scratch sales year ever. The decrease in the Powerball sales of \$8.8 million can be attributed to the fact that 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 as compared to fiscal year 2009 whose two highest jackpots reached levels of only \$222 million and \$200 million. Powerball sales for fiscal years 2009 and 2008 totaled \$100.7 million and \$109.6 million, respectively. The highest Powerball jackpot attained in fiscal year 2007 was \$240 million. Powerball sales for fiscal year 2007 totaled \$101.6 million.

Fiscal year 2009 saw an increase in sales from fiscal year 2008 for each of its other two products. Cash5 sales hit a record high in fiscal year 2009 with sales increasing by \$1.7 million from fiscal year 2008 and Lotto sales saw an increase of \$2.5 million from the prior fiscal year sales.

Cash 5 sales for fiscal year 2009 showed another increase for the seventh year in a row and for the seventh year in a row produced record sales. Sales increased by 8.8 percent to a total of \$20.8 million from \$19.1 million in fiscal year 2008. This followed a 10.0 percent increase in sales in fiscal year 2008 from fiscal year 2007, whose sales totaled \$17.4 million.

Lotto sales increased slightly from the prior two fiscal years with sales of \$43.5 million. Fiscal years 2008 and 2007 reflected Lotto sales of \$41.1 million and \$39.8 million, respectively.

- Funds distributed or available for distribution from 2009 sales decreased from fiscal year 2008 in conjunction with the overall decrease in sales. Fiscal year 2009 produced a total of \$119.6 million in funds distributions, a decrease of \$2.7 million from fiscal year 2008 with distributions of \$122.3 million. The \$119.6 million in funds distributions for fiscal year 2009 represents the third highest year of distributions in the Lottery's history. Fiscal year 2007 had the fourth highest year of distributions totaling \$119.0 million. Fiscal year 2009 included a spill-over of funds in excess of the Great Outdoors Colorado (GOCO) cap. During the fiscal years 2002-2007 this spill-over was distributed into the State Public School Fund Contingency Reserve. In fiscal year 2008, this spill-over was distributed to the Lottery Contingency Reserve Fund. Starting in fiscal year 2009; the spill-over, by statute, is distributed to the Public School Capital Construction Assistance Fund. The spill-over totaled \$8.1 million and \$5.5 million for fiscal years 2008 and 2009, respectively. The spill-over amount for fiscal year

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Management's Discussion and Analysis

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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 \$50.6 million.

- Gross profit as a percent of sales for fiscal year 2009 increased by 1.1 percent over fiscal year 2008, a reflection of the 1.2 percent decrease in prize expense as a percentage of sales. Gross profit as a percent of sales decreased by 1.9 percent between fiscal years 2007 and 2008, a reflection of the increase in prize expense of 1.6 percent. The overall prize expense percentage decreased from 62.3 percent to 61.1 percent for the fiscal years ended June 30, 2008 and 2009, respectively. The decrease was the result of reductions in prize expense for the scratch, lotto and cash5 products. The reduction in the scratch prize expense of 1.2 percent is the result of a conscious effort to slightly reduce the prize percentage payouts on all scratch games. The lotto prize expense was lowered by a reduction in the number of jackpot hits. In fiscal year 2008, the jackpot was won a total of eight times, as compared to five times in fiscal year 2009. In addition, the overall prize expense percentage for the on-line games decreased slightly from 49.5 percent to 48.5 percent for the fiscal years ended June 30, 2008 and 2009, respectively. Another contributing factor to the 1.1 percent increase in gross profit as a percent of sales in fiscal year 2009 and to the 1.9 percent decrease in gross profit as a percent of sales in fiscal year 2008 was a 0.2 percent decrease as a percentage of sales in fiscal year 2009 and a 0.2 percent increase as a percent of sales in fiscal year 2008 in commissions and bonuses paid to our retailers to sale and promote our products. Commissions and bonuses as a percentage of sales were 7.4 percent, 7.6 percent and 7.4 percent for the fiscal years ended June 30, 2007, 2008 and 2009, respectively. Cost of tickets sold and vendor fees as a percentage of sales increased slightly from 2.0 percent to 2.1 percent for fiscal years ended June 30, 2008 and 2009, respectively. Cost of tickets sold and vendor fees as a percentage of sales was 1.8 percent for the fiscal year ended June 30, 2007. Changes in the billing rate for vendor fees was the major factor contributing to the upward trend in the percentage of cost of tickets sold and vendor fees as a percentage of sales. The billing rate for fiscal year 2007 was 1.458 percent of sales. The billing rate for fiscal year 2008 was 1.458 percent of sales for July through November and 1.718 percent of sales from December through June. The billing rate for fiscal year 2009 was 1.718 percent. Vendor fees totaled \$5,957,142, \$7,394,112 and \$7,825,356 for fiscal years ended June 30, 2007, 2008 and 2009, respectively. Unclaimed prizes increased by more than \$200,000 from fiscal year 2008 to fiscal year 2009 and by more than \$500,000 from fiscal year 2007 to fiscal year 2008. A change in the number of scratch games reaching their final claims date within a fiscal year and the randomness in the design of how on-line prizes can be won, both contribute to fluctuations in unclaimed prizes.

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Years Ended June 30, 2009 and 2008

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, 2009 and 2008. 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, 2009 and 2008. 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, 2009 and 2008.

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Management's Discussion and Analysis

Years Ended June 30, 2009 and 2008

Statements of Net Assets

The statements of net assets presents a financial snapshot of the Lottery at June 30, 2009, and 2008. It presents the fiscal resources of the Lottery (assets), the claims against those resources (liabilities) and the residual available for future operations (net assets). Assets and liabilities are classified by liquidity as either current or noncurrent. Net assets are classified by the ways in which they may be used for future operations.

Condensed Statements of Net Assets June 30, 2009, 2008 and 2007

	2009	2008	2007
Assets			
Current assets	\$ 57,535,254	\$ 50,368,307	\$ 52,318,926
Restricted assets	5,417,337	5,687,849	5,822,526
Capital assets	<u>2,759,701</u>	<u>498,156</u>	<u>696,916</u>
Total assets	<u>\$ 65,712,292</u>	<u>\$ 56,554,312</u>	<u>\$ 58,838,368</u>
Liabilities			
Current liabilities	\$ 60,062,604	\$ 53,249,984	\$ 55,507,616
Long-term liabilities	<u>995,069</u>	<u>913,886</u>	<u>906,065</u>
Total liabilities	<u>\$ 61,057,673</u>	<u>\$ 54,163,870</u>	<u>\$ 56,413,681</u>
Net Assets			
Investment in capital assets	\$ 2,759,701	\$ 498,156	\$ 696,916
Restricted – Licensed Agent			
Recovery Reserve	388,771	443,139	426,058
Restricted – Operating Reserve	1,100,000	1,300,000	1,500,000
Unrestricted	<u>406,147</u>	<u>149,147</u>	<u>(198,287)</u>
Total net assets	<u>\$ 4,654,619</u>	<u>\$ 2,390,442</u>	<u>\$ 2,424,687</u>

The Lottery's total assets at June 30, 2009 were \$65.7 million. Assets consisted primarily of cash and investments with the State Treasury, including restricted balances, of \$36.8 million, Prepaid Prize Expense with Multi-State Lottery (MUSL) of \$3.9 million, receivables from Lottery retailers for the sale of Lottery products of \$20.5 million and a net investment in fixed assets of \$2.8 million.

Comparable figures at June 30, 2008 were \$56.6 million in total assets, including \$32.3 million in cash and investments with the State Treasury, Prepaid Prize Expense with MUSL of \$3.9 million, receivable from retailers of \$18.8 million and a net investment in fixed assets of \$0.5 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.

The Lottery's total assets, increased by \$9.1 million from fiscal year 2008 to fiscal year 2009. This increase was primarily caused by the \$4.5 increase in cash and investments, \$1.7 million increase

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Management's Discussion and Analysis

Years Ended June 30, 2009 and 2008

in receivables from retailers and a \$2.3 million increase in the net investment in fixed assets. Both the \$4.5 million increase in cash and investments and the \$1.7 million increase in receivables from retailers can be attributed to the increase in size of the Powerball estimated jackpot at the close of the fiscal year. The estimated jackpot at the close of fiscal year 2008 was \$25 million as compared to \$75 million at the close of fiscal year 2009. The \$2.3 million increase in the net investment in fixed assets was the result of the capitalization of the development of the back office computer system. Total assets decreased from fiscal year 2007 to fiscal year 2008 by \$2.2 million. The decrease was a result of the decrease in cash and investments of \$2.9 million. Again, the Powerball estimated jackpot can be noted as the major contributor to this decrease. The Powerball jackpot near the close of fiscal year 2007 was \$103 million compared to \$75 million at the close of fiscal year 2008.

The Lottery's total liabilities at June 30, 2009 totaled approximately \$61.1 million, consisting primarily of proceeds distributions due to recipients of \$28.1 million and prize liability on all the Lottery products of about \$27.0 million.

The Lottery's total liabilities at June 30, 2008 totaled approximately \$54.2 million, which consisted primarily of proceeds distributions due 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 \$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 increased by \$6.9 million from fiscal year 2008 to fiscal year 2009. This increase was primarily the result of a \$0.9 million increase in proceeds distributions due to recipients and a \$5.4 million increase in prize liability on Lottery products. The \$0.9 million increase in proceeds distributions was the result of a higher net profit for the fourth quarter of fiscal year 2009 versus the fourth quarter of fiscal year 2008. The \$5.4 million increase in the prize liability on Lottery products from fiscal year 2008 to fiscal year 2009 was the result of the increase in the Powerball estimated jackpot as mentioned above and of the increase of scratch games being offered for sale. At the close of fiscal year 2008, the number of active scratch games was 51 versus 60 at the close of fiscal year 2009. The Lottery's total liabilities decreased from fiscal year 2007 to fiscal year 2008 by \$2.2 million. This decrease was primarily the result of a decrease of \$1.5 million in proceeds distributions and a decrease of \$2.0 in prize liability of Lottery products. Again, the decrease in proceeds distributions was a result of a decrease in the fourth quarter net profit from fiscal year 2007 to fiscal year 2008 and the decrease in the prize liability on Lottery products was a result of the decrease in the Powerball estimated jackpot from \$103 million to \$75 million from fiscal year 2007 to fiscal year 2008. These decreases were offset by an increase of \$0.9 million in accounts payable to vendors from fiscal year 2007 to fiscal year 2008.

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) remaining unrestricted net assets, which represents an adjustment made by the Lottery to reflect its share of unrealized gains or losses on investments held by the State Treasurer.

Colorado Lottery
Management's Discussion and Analysis
Years Ended June 30, 2009 and 2008

The change in net assets from June 30, 2008 to June 30, 2009 consisted of a increase in investment in capital assets from \$.5 million to \$2.8 million, a decrease in the bonding reserve from \$443,139 to \$388,771, a decrease in the operating reserve from \$1.3 million to \$1.1 million and a net increase in unrealized gain and losses on investments of \$257,000 resulting from a net increase in the adjustments on State Treasury investments.

Following is a schedule of net assets for fiscal years 2009 and 2008:

	2009	2008	Change
Investment in capital assets	\$ 2,759,701	\$ 498,156	\$ 2,261,545
Bonding reserve	388,771	443,139	(54,368)
Operating reserve	1,100,000	1,300,000	(200,000)
Unrestricted -unrealized gain (loss) on investments	<u>406,147</u>	<u>149,147</u>	<u>257,000</u>
Total net assets	<u>\$ 4,654,619</u>	<u>\$ 2,390,442</u>	<u>\$ 2,264,177</u>

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)
Unrestricted -unrealized gain (loss) on investments	<u>149,147</u>	<u>(198,287)</u>	<u>347,434</u>
Total net assets	<u>\$ 2,390,442</u>	<u>\$ 2,424,687</u>	<u>\$ (34,245)</u>

Colorado Lottery
Management's Discussion and Analysis
Years Ended June 30, 2009 and 2008

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, 2009, 2008 and 2007**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating Revenues	\$ 493,364,094	\$ 505,814,066	\$ 455,916,812
Direct Operating Expenses	<u>348,679,448</u>	<u>363,280,175</u>	<u>318,684,531</u>
Gross Profit on Sale of Tickets	<u>144,684,646</u>	<u>142,533,891</u>	<u>137,232,281</u>
Other Operating Expenses			
Marketing and communications	11,914,439	8,892,973	8,886,036
Wages and benefits	8,527,025	8,841,445	8,603,295
Other operating expenses	<u>4,070,286</u>	<u>5,327,843</u>	<u>3,512,986</u>
Total other operating expenses	<u>24,511,750</u>	<u>23,062,261</u>	<u>21,002,317</u>
Operating Income	<u>120,172,896</u>	<u>119,471,630</u>	<u>116,229,964</u>
Nonoperating Revenues (Expenses)			
Other revenue	267,188	428,513	665,162
Investment income	1,427,948	2,365,744	2,169,983
Proceeds distributions	<u>(119,603,855)</u>	<u>(122,300,132)</u>	<u>(118,995,450)</u>
Total nonoperating expenses	<u>(117,908,719)</u>	<u>(119,505,875)</u>	<u>(116,160,305)</u>
Increase (Decrease) in Net Assets	2,264,177	(34,245)	69,659
Net Assets, Beginning of Year	<u>2,390,442</u>	<u>2,424,687</u>	<u>2,355,028</u>
Net Assets, End of Year	<u>\$ 4,654,619</u>	<u>\$ 2,390,442</u>	<u>\$ 2,424,687</u>

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

Colorado Lottery

Management's Discussion and Analysis

Years Ended June 30, 2009 and 2008

Sales Activities

Revenues from the sale of the Lottery products for the fiscal year ended June 30, 2009 were the second highest in the Lottery's 27-year history. As shown in the financial statements, overall sales decreased by 2.5 percent from the prior year's record sales of \$505.8 to \$493.4 million in the current year fiscal year. Fiscal year 2008 sales of \$505.8 million represented an increase of 10.9 percent or \$49.9 million from fiscal year 2007 sales of \$455.9 million. The decrease in scratch sales from \$336.0 million in fiscal year 2008 to \$328.3 million in fiscal year 2009 represented a percentage decrease of 2.3 percent, and was reflective of the downturn in the economy. Scratch sales had increased in fiscal year 2008 from fiscal year 2007 by \$38.9 million. Fiscal year 2007 scratch sales totaled \$297.1 million. Powerball sales decreased from \$109.6 million in fiscal year 2008 to \$100.7 million in the current fiscal year, which represented a percentage decrease from last year's sales of 8.1 percent. As stated on page 1, the decrease can be attributed to the decrease in the size of the Powerball jackpots. Powerball sales in fiscal year 2007 were \$101.6 million. Lotto sales grew slightly in the current fiscal year to \$43.5 million, an increase of \$2.5 million or 6.0 percent over the prior fiscal year. This was the third year since the start up of Powerball that Lotto sales experienced an increase in sales. In fiscal year 2008 and fiscal year 2007, Lotto sales totaled \$41.1 million and \$39.8 million, respectively. Cash 5 sales again experienced an increase from \$19.1 million in fiscal year 2008 to \$20.8 million in the current fiscal year, which represents 8.8 percent increase. Cash 5 sales increased from fiscal year 2007 sales of \$17.4 million to \$19.1 million in fiscal year 2008, an increase of 10.0 percent.

The following tables compare Lottery product sales between fiscal years.

Product Sales	2009	2008	Difference	Change
Scratch	\$ 328,254,471	\$ 336,038,899	\$ (7,784,428)	(2.3)%
Powerball	100,733,520	109,562,516	(8,828,996)	(8.1)
Lotto	43,544,371	41,064,087	2,480,284	6.0
Cash 5	<u>20,831,732</u>	<u>19,148,564</u>	<u>1,683,168</u>	<u>8.8</u>
Total	<u>\$493,364,094</u>	<u>\$505,814,066</u>	<u>\$(12,449,972)</u>	<u>(2.5)%</u>

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	<u>19,148,564</u>	<u>17,407,163</u>	<u>1,741,401</u>	<u>10.0</u>
Total	<u>\$505,814,066</u>	<u>\$455,916,812</u>	<u>\$49,897,254</u>	<u>10.9%</u>

Colorado Lottery

Management's Discussion and Analysis

Years Ended June 30, 2009 and 2008

Total Revenues

Nonoperating revenues for the years ended June 30, 2009 and June 30, 2008 totaled \$1.7 million and \$2.8 million, respectively. The decrease included a reduction in interest received from the treasury of approximately \$509,000 from fiscal year 2008 to fiscal year 2009. This decrease occurred as a result of a decrease in interest rates from an average of 4.27 percent in fiscal year 2008 to 2.72 percent in fiscal year 2009. Also contributing to the decrease in nonoperating revenues was a decrease in the interest received from the Multi-State Lottery Association (MUSL). In fiscal year 2008 the total received was a little over \$425,000 compared with just \$89,000 in fiscal year 2009. The downturn in the economy resulting in a downturn to the return on investments was the major factor contributing to this decrease. The GASB 31 adjustment recording the Lottery's share of the unrealized gains and losses on investments held by the Treasury decreased from \$347,434 in fiscal year 2008 to \$257,000 in fiscal year 2009. In addition, the royalty income received from MUSL, for the use of the Powerball name decreased from \$68,757 in fiscal year 2008 to \$25,212 in fiscal year 2009. Other decreases occurred in fines and penalties (\$74,710) reflecting a reduction in the assessment of liquidated damages to the on-line vendor and net licensed agent recovery reserve receipts (\$71,449), a result of writing off uncollectible receivables in excess of bonding fee collections. An increase occurred in other miscellaneous revenue from \$23,509 in fiscal year 2008 to \$52,315 in fiscal year 2009 as a result of revenues recorded in conjunction with the scratch vendor contract bidding process.

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 was 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 from fiscal year 2007 to 2008 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. Offsetting these increases, interest received from MUSL decreased slightly by a little over \$2,500. Other decreases occurred in fines and penalties (\$133,900), the MUSL reimbursement (\$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.

Total revenues were \$495.1 million and \$508.6 million for the years ended June 30, 2009 and 2008, respectively. As mentioned elsewhere, the major contributing factor to the decrease in total revenues of approximately \$13.5 million was a decrease in Lottery sales of \$12.4 million. As outlined above, nonoperating revenues decreased by \$1.1 million for the same period.

Total revenues for the year ended June 30, 2007 were \$458.7 million. The major contributing factor for the increase in total revenues from fiscal year 2007 to 2008 of \$49.9 million was an increase in ticket sales of \$49.9 million. Non-operating revenues remained steady for the same period.

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Management's Discussion and Analysis
Years Ended June 30, 2009 and 2008

Major Expenses

Approximately \$348.7 million of the Lottery's total expenses of \$373.2 for the fiscal year ended June 30, 2009 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, \$363.3 million of the Lottery's total expenses of \$386.3 million for the fiscal year ended June 30, 2008, were game-related expenses.

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.

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

Game-Related Expenses	2009	2008	Difference	Change
Prize expense/Powerball prize variance	\$301,674,566	\$314,934,975	\$(13,260,409)	(4.2)%
Retailer compensation				
Commissions	32,844,563	33,668,027	(823,464)	(2.4)
Bonuses	3,636,346	4,724,151	(1,087,805)	(23.0)
Ticket costs	2,698,617	2,558,910	139,707	5.5
Vendor fees	<u>7,825,356</u>	<u>7,394,112</u>	<u>431,244</u>	<u>5.8</u>
Total	<u>\$348,679,448</u>	<u>\$363,280,175</u>	<u>\$(14,600,727)</u>	<u>(4.0)%</u>

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	<u>7,394,112</u>	<u>5,957,142</u>	<u>1,436,970</u>	<u>24.1</u>
Total	<u>\$363,280,175</u>	<u>\$318,684,531</u>	<u>\$44,595,644</u>	<u>14.0%</u>

The decrease in the game-related expenses, including prize expense, commission expense and bonus expense (fiscal year 2008 to fiscal year 2009) is reflective of the decrease in product sales. (See the product sales schedule above.) In addition, the prize expense percentage was decreased in fiscal year 2009 from the prize expense percentage in fiscal year 2008 as a result of the conscious effort to slightly lower the prize percentage payouts on all scratch games and as a result of the difference in the number of lotto jackpots won as mentioned on page 2. The decrease in bonus expense from fiscal year 2008 to fiscal year 2009 was mainly the result of the reduction in the marketing performance bonuses paid to retailers. The total marketing performance bonuses paid in fiscal year 2009 and fiscal year 2008 were \$1,183,539 and \$2,069,385, respectively. A number of retailers were unable to reach the sales levels required to earn the marketing performance bonus as

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

Colorado Lottery

Management's Discussion and Analysis

Years Ended June 30, 2009 and 2008

defined by the plan. The increase in ticket costs from fiscal year 2008 to fiscal year 2009 was the result of the lottery's expansion of licensed property games, which require additional fees to cover the rights to use patented game names, emblems, designs, logos, symbols, characters, still images, artwork, depictions, illustrations, labels, insignia, indicia, trade dress, and any visual representations of any type collectively or individually. The increase in the vendor fees from fiscal year 2008 to fiscal year 2009 was the result of the increase in the vendor fee rate in November 2007, as mentioned on page 2.

Of the \$24.5 million in fiscal year 2009 expenses that were non game-related, more than \$11.9 million was for promotions and institutional and product advertising and about \$8.5 million was for compensation to the Lottery employees.

In comparison, of the fiscal year 2008 non game-related expenses of \$23.1 million, nearly \$8.9 million was for promotions and institutional and product advertising and \$8.8 million was for compensation to the Lottery employees.

The \$3.0 million increase in promotions and institutional and product advertising from fiscal year 2008 to fiscal year 2009 was the result of an increase in appropriated funds approved by the JBC to support an effort to increase the overall sale of lottery products. This effort was mitigated by the downturn in the economy in fiscal year 2009 but in the future should contribute to the increase of lottery sales.

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

Distributions to the Proceeds Recipients

The Lottery's efforts generated funds available for distributions of \$119.6 million in the current fiscal year. Of these total proceeds, \$54.3 million was allocated to the Great Outdoors Colorado Trust Fund, \$47.8 million to the Conservation Trust Fund and \$12.0 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 \$54.3 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 Public School Capital Construction Assistance Fund of \$5.5 million, pursuant to C.R.S. 22-43.7-104 (2)(b)(III).

The Lottery's proceeds distributions for the fiscal year 2008, the second highest year ever, totaled \$122.3 million. Approximately \$53.1 million was distributed to Great Outdoors Colorado, \$48.9 million to the Conservation Trust Fund, \$12.2 million to the Division of Parks and Outdoor Recreation and a spill-over into the Lottery Contingency Reserve Fund of \$8.1 million.

The Lottery's proceeds distributions for 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 nearly \$8.2 million.

Colorado Lottery
Management's Discussion and Analysis
Years Ended June 30, 2009 and 2008

Capital Assets

The Lottery's investment in capital assets at June 30, 2009, 2008 and 2007 amounted to \$2.8 million, \$0.5 million and \$0.7 million, respectively. The investment in capital assets as of June 30, 2009 includes, computer equipment, servers, drawing equipment, modular furniture, cameras, recorders plus the capitalization of salaries and other costs related to the development of a new back office system (Construction in Progress). The investment in capital assets as of June 30, 2008 and 2007 also included leasehold improvements which have since been abolished. Capital assets are shown on the Statement of Net Assets at the cost on the day of acquisition. Analysis of changes in capital assets is as follows:

**Capital Assets as of
June 30, 2009, 2008 and 2007**

Capital Assets	2009	2008	2007
Equipment	\$ 3,144,554	\$ 3,159,600	\$ 3,772,195
Construction in Progress	2,295,614	0	0
Leasehold Improvements	0	11,978	11,978
Less: Accumulated Depreciation	<u>(2,680,467)</u>	<u>(2,673,422)</u>	<u>(3,089,332)</u>
Net capital assets	<u>\$ 2,759,701</u>	<u>\$ 498,156</u>	<u>\$ 696,916</u>

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 2009, 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, DOR postage, and capital outlay payments, offset by reductions in payments in ticket costs, personal services and lease space. The final method of funding is special legislation. There was no special legislation affecting the Lottery's budget in fiscal year 2009.

The approved Lottery budget at the beginning of fiscal year 2009 was \$429.6 million. Supplemental appropriations and adjustments made in the third quarter increased the budget by \$66.0 million, department level allocations approved at the beginning of the fiscal year increased the budget by \$2.8 million to an amended total of \$498.4 million. Total expenditures and roll-forwards for fiscal year 2009 on a budget basis came to \$383.2 million, resulting in excess appropriations (or savings) of more than \$115.2 million.

Colorado Lottery

Management's Discussion and Analysis

Years Ended June 30, 2009 and 2008

Economic Outlook

- The appropriation for promotions and institutional and product advertising was increased by \$3.0 million for fiscal year 2010 in an effort to increase the overall sale of lottery products.
- The back office system was implemented on July 12, 2009 whose functionality will allow the development of new games and the enhancement of existing games. Plans include the addition of a seventh draw for the Cash 5 game in the November time range and the introduction of a new online game in early spring.
- An additional \$0.5 million was appropriated to cover the cost of implementing a new courier delivery system for our scratch product to come on line sometime in November or December 2009.

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 2009 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, 2009 AND 2008

The table included below and the graphs included on page 2 present certain summarized operating results of the Colorado Lottery for the fiscal years ended June 30, 2009, and 2008 and should be read in conjunction with the financial statements presented herein. The graphs included on page 2 are presented for the purpose of demonstrating the Colorado Lottery's compliance with certain statutes that pertain to its operations.

	For the fiscal years ended June 30,			
	2009		2008	
	Total	Actual Percent	Total	Actual Percent
INCOME				
Gross Ticket Sales	\$493.36		\$505.81	
Nonoperating revenue	1.70		2.79	
TOTAL INCOME	495.06		508.60	
LESS:				
PRIZES	\$301.68	61.1% (1)	\$314.93	62.3% (1)
RETAILER COMMISSIONS AND BONUSES	\$36.48	7.4% (1)	\$38.39	7.6% (1)
ADMINISTRATIVE COSTS				
Ticket Costs and Vendor Fees	10.52		9.95	
Other Operating Expenses	24.51		23.06	
TOTAL ADMINISTRATIVE COSTS (Note 3)	35.03	7.1% (2)	33.01	6.5% (2)
	121.87		122.27	
NET CHANGE IN NET ASSETS	2.27		-0.03	
PROCEEDS DISTRIBUTION	\$119.60	24.2% (2)	\$122.30	24.0% (2)

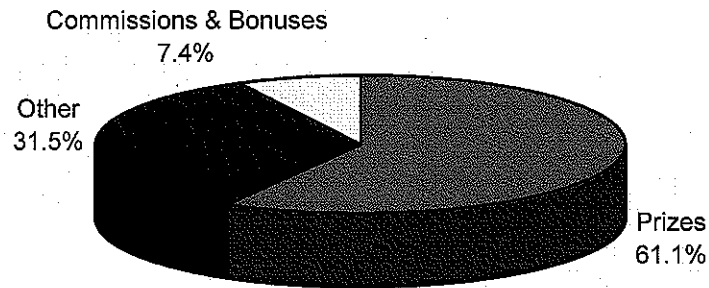
Note 1: Percent of gross ticket sales.

Note 2: Percent of total income.

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

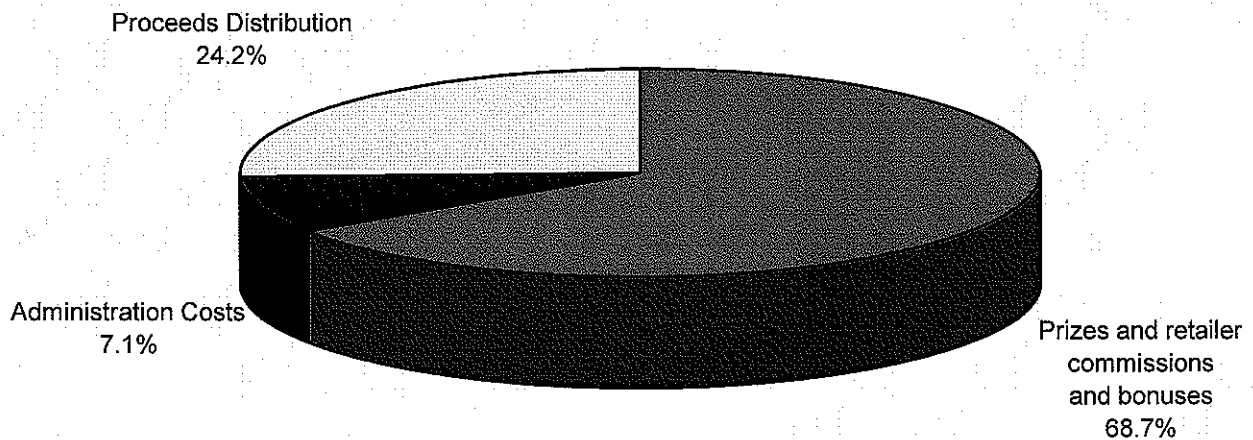
COLORADO LOTTERY
SUPPLEMENT OF FINANCIAL HIGHLIGHTS
FOR THE FISCAL YEAR
ENDED JUNE 30, 2009

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, 2009 AND 2008
(UNAUDITED)

ASSETS	2009	2008
Current Assets:		
Cash and Investments	\$ 35,337,291	\$ 30,577,235
Accounts Receivable, net of the allowance for doubtful accounts of \$182,993 in 2009 and \$222,816 in 2008	20,549,443	18,812,076
Consignment Inventory, at Cost	118,917	94,352
Warehouse Inventory, at Cost	1,389,571	802,513
Prepaid Expenses	140,032	82,131
Total Current Assets	57,535,254	50,368,307
Reserve and Restricted Assets:		
Cash and Investments-Operating Reserve	1,100,000	1,300,000
Cash and Investments-Licensed Agent Recovery Reserve Receipts	388,771	443,139
Prepaid Prize Expense with MUSL	3,928,566	3,944,710
Total Reserve and Restricted Assets	5,417,337	5,687,849
Capital Assets:		
Equipment	3,144,554	3,159,600
Construction in Progress	2,295,614	0
Leasehold Improvements	0	11,978
Less Accumulated Depreciation and Amortization	(2,680,467)	(2,673,422)
Total Capital Assets	2,759,701	498,156
TOTAL ASSETS	\$ 65,712,292	\$ 56,554,312
LIABILITIES		
Current Liabilities:		
Accounts Payable	3,357,721	2,588,688
Prize Liability	26,950,117	21,630,167
Payable to MUSL	0	0
Wages and Benefits	722,020	848,606
Accrued Annual and Sick Leave	8,741	14,806
Retailer Bonus Liability	606,258	704,862
Funds Available for Distribution	28,090,232	27,155,421
Deferred Revenue	327,515	307,434
Total Current Liabilities	60,062,604	53,249,984
Long-Term Liabilities:		
Accrued Annual and Sick Leave	911,937	819,401
Expired Warrants Liability	83,132	94,485
Total Long-Term Liabilities	995,069	913,886
TOTAL LIABILITIES	61,057,673	54,163,870
NET ASSETS		
Investment in Capital Assets	2,759,701	498,156
Restricted-Licensed Agent Recovery Reserve	388,771	443,139
Restricted-Operating Reserve	1,100,000	1,300,000
Unrestricted-Other	406,147	149,147
Total Net Assets	4,654,619	2,390,442
TOTAL LIABILITIES AND NET ASSETS	\$ 65,712,292	\$ 56,554,312

See Notes to Financial Statements

COLORADO LOTTERY
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008
(UNAUDITED)

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Gross Ticket Sales	\$ 493,364,094	\$ 505,814,066
DIRECT OPERATING EXPENSES		
Prize Expense	301,506,498	313,796,804
Powerball Prize Variance	168,068	1,138,171
Retailer Commissions and Bonuses	36,480,909	38,392,178
Cost of Tickets and Vendor Fees	<u>10,523,973</u>	<u>9,953,022</u>
GROSS PROFIT ON SALE OF TICKETS	<u>144,684,646</u>	<u>142,533,891</u>
OTHER OPERATING EXPENSES		
Marketing and Communications	11,914,439	8,892,973
Administration Fees Paid to MUSL	98,250	102,955
Wages and Benefits	8,527,025	8,841,445
Professional Services	251,587	415,610
State Agencies Services	161,235	139,926
Department of Revenue Services	556,672	458,881
Travel	109,457	112,329
Equipment (including the loss on disposition of equipment of \$9,916 and \$65,894, respectively)	93,528	1,355,526
Depreciation	136,691	149,397
Accrued Annual and Sick Leave	94,725	8,320
Space Rental	678,684	692,825
Rents for Equipment	29,933	28,116
Motorpool Leasing	391,867	350,097
Materials and Supplies	86,879	92,541
Telephone	104,912	110,708
On-Line Telecommunications	475,801	502,406
Data Processing Supplies and Services	20,040	85,011
Equipment Maintenance	316,938	250,676
Postage	67,201	68,745
Printing	7,618	10,171
Other	388,268	393,603
Total Other Operating Expenses	<u>24,511,750</u>	<u>23,062,261</u>
OPERATING INCOME	<u>120,172,896</u>	<u>119,471,630</u>
NONOPERATING REVENUES (EXPENSES)		
Other Revenue	267,188	428,513
Investment Income	1,427,948	2,365,744
Funds Distributed for Current Year	(91,513,623)	(95,144,711)
Funds Available for Distribution for Current Year	(28,090,232)	(27,155,421)
Total Nonoperating Revenues (Expenses)	<u>(117,908,719)</u>	<u>(119,505,875)</u>
NET INCOME (LOSS)	<u>\$ 2,264,177</u>	<u>\$ (34,245)</u>
NET ASSETS, BEGINNING OF YEAR	2,390,442	2,424,687
Net Change in Net Assets	<u>2,264,177</u>	<u>(34,245)</u>
NET ASSETS, END OF YEAR	<u>\$ 4,654,619</u>	<u>\$ 2,390,442</u>

See Notes to Financial Statements

COLORADO LOTTERY
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 & 2008
(UNAUDITED)

	2009	2008
Operating activities		
Cash received from retailers	\$ 490,961,741	\$ 505,162,834
Cash paid in prizes	(296,077,156)	(317,267,109)
Cash paid in retailer commissions	(32,844,563)	(33,668,027)
Cash payments to suppliers	(25,841,745)	(22,322,364)
Cash payments to employees for services	(8,538,590)	(8,735,998)
Cash paid in retailer bonus	(3,721,928)	(4,513,389)
	123,937,759	118,655,947
Noncapital Financing Activities		
Distribution of net proceeds	(118,669,044)	(123,850,829)
Capital and related financing activities		
Acquisition of capital assets	(2,190,975)	(16,530)
	(2,190,975)	(16,530)
Investing activities		
Interest received	1,170,948	2,018,310
Increase in Cash and Investments	4,248,688	(3,193,102)
Change in Fair Market Value of Investments	257,000	347,434
Cash and investments, Beginning of Year (including \$1,743,139 and \$1,926,058, respectively, in restricted accounts)	32,320,374	35,166,042
Cash and investments, End of Year, (including \$1,488,771 and \$1,743,139, respectively, in restricted accounts)	\$ 36,826,062	\$ 32,320,374
<i>Reconciliation of operating income to net cash provided by operating activities</i>		
<i>Operating income</i>	\$ 120,172,896	\$ 119,471,630
<i>Adjustments to reconcile operating income to net cash provided by operating activities</i>		
<i>Depreciation</i>	136,691	149,397
<i>Loss on disposition of equipment</i>	9,916	65,894
<i>Other revenue</i>	267,188	428,513
<i>(Increase)Decrease in Prepaid Prize Expense with MUSL</i>	16,144	(48,243)
<i>Change in:</i>		
<i>Accounts Receivable</i>	(1,737,367)	(531,793)
<i>Ticket Inventory</i>	(611,623)	(172,671)
<i>Prepaid Expenses</i>	(57,901)	(7,666)
<i>Liabilities(excluding funds available for distribution)</i>	5,741,815	(699,114)
	\$ 123,937,759	\$ 118,655,947
Net cash provided by operating activities		
Statement of Net Assets Classification		
Cash and investments	\$ 35,337,291	\$ 30,577,235
Cash and investments- Licensed Agent Recovery Reserve	388,771	443,139
Cash and investments- Operating Reserve	1,100,000	1,300,000
	\$ 36,826,062	\$ 32,320,374

See Notes to Financial Statements

COLORADO LOTTERY
POWERBALL ANNUITY WINNERS TRUST FUND
STATEMENTS OF FIDUCIARY NET ASSETS
JUNE 30, 2009 AND 2008

(UNAUDITED)

	2009	2008
ASSETS		
Current Assets:		
Current Portion Long Term Investments-PB Annuity	386,000	371,000
Long Term Assets:		
Long Term Investments-PB Annuity	9,507,414	9,379,262
TOTAL ASSETS	\$ 9,893,414	\$ 9,750,262
 NET ASSETS		
Held in Trust for Powerball Winner	9,893,414	9,750,262
TOTAL NET ASSETS	\$ 9,893,414	\$ 9,750,262

See Notes to Financial Statements

COLORADO LOTTERY
POWERBALL ANNUITY WINNERS TRUST FUND
STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008

(UNAUDITED)

	<u>2009</u>	<u>2008</u>
Additions		
Investment Income	\$ 514,152	\$ 360,625
Contributions from Multi-State Lottery Association	<u>0</u>	<u>9,746,637</u>
Total Additions	<u>514,152</u>	<u>10,107,262</u>
Deductions		
Prize Payments	<u>371,000</u>	<u>357,000</u>
Change in net assets	143,152	9,750,262
Net Assets held in Trust for Powerball Winner		
Beginning of Year	<u>9,750,262</u>	<u>-</u>
End of Year	<u>\$ 9,893,414</u>	<u>\$ 9,750,262</u>

See Notes to Financial Statements

Colorado Lottery
Notes to Financial Statements
June 30, 2009 and 2008

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, 2009 and 2008. 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.

Colorado Lottery

Notes to Financial Statements

June 30, 2009 and 2008

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 non-operating 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. Those statements are 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 Fair Market Value of the original investment as of June 30, 2009. 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.

Colorado Lottery
Notes to Financial Statements
June 30, 2009 and 2008

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 \$182,993 and \$222,816 as of June 30, 2009 and 2008, 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.

Colorado Lottery
Notes to Financial Statements
June 30, 2009 and 2008

Prepaid Prize Expense

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

Capital Assets

Capital assets, which include construction-in-progress for software, 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, 2009 and 2008 of \$712,619 and \$704,570, 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 \$5,167,085 for the fiscal year ended June 30, 2009 and \$5,012,478 for the fiscal year ended June 30, 2008.

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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 \$4,072,551 for the fiscal year ended June 30, 2009 and \$4,023,101 for the fiscal year ended June 30, 2008.

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 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.

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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, 2009 and June 30, 2008, the Lottery has reserved \$388,771 and \$443,139, respectively. The Lottery utilizes restricted net assets before using unrestricted net assets.

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 reviews were completed in September 2007 and 2008 and the reserve was reduced to \$1.3 million and \$1.1 million in accordance with the reviews.

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 under the capitalization threshold, (see Note 3 – Schedule of Changes in Fixed Assets, page 32), software purchases under the capitalization threshold, and other miscellaneous equipment transactions that do not qualify for capitalization.

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:

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	<u>June 30, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2009</u>
Annual Leave	\$ 691,339	\$ 596,937	\$ (517,137)	\$ 771,139
Sick Leave	<u>140,969</u>	<u>44,746</u>	<u>(40,289)</u>	<u>145,426</u>
Total annual and sick leave	<u>832,308</u>	<u>641,683</u>	<u>(557,426)</u>	<u>916,565</u>
Compensatory time	<u>1,899</u>	<u>13,593</u>	<u>(11,379)</u>	<u>4,113</u>
Total compensated leave	<u>\$ 834,207</u>	<u>\$ 655,276</u>	<u>\$ (568,805)</u>	<u>\$ 920,678</u>

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. For fiscal years ending June 30, 2009 and 2008, there were no requests made and received from the Unclaimed Property Fund.

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, 2009 and 2008, is as follows:

	<u>2009</u>	<u>2008</u>
Advance Play - Lotto	\$ 106,900	\$ 97,188
Advance Play – Powerball	147,313	138,610
Advance Play – Powerplay	43,640	38,964
Advance Play – Cash 5	<u>29,662</u>	<u>32,672</u>
Total deferred revenue	<u>\$ 327,515</u>	<u>\$ 307,434</u>

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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 \$8,150 and \$10,750 were redeemed in fiscal years ended June 30, 2009 and June 30, 2008, 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, 2009 and 2008, scratch tickets with a total face value of \$171,917 and \$94,003, respectively, were given away. Scratch ticket and coupon promotions are valued at cost. For the fiscal years ended June 30, 2009 and 2008, \$116,441 and \$68,432, 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, 2009 and 2008 is as follows:

	2009	2008
Petty cash	\$ 800	\$ 800
Change funds	70,000	70,000
Imprest fund	693,000	722,000
Depository accounts	30,000	30,000
Cash on deposit with State Treasurer	<u>34,543,491</u>	<u>29,754,435</u>
 Total unrestricted cash and investments	 <u>35,337,291</u>	 <u>30,577,235</u>
 Restricted cash and investments – Licensed Agent Recovery Reserve Receipts on deposit with State Treasurer	 388,771	 443,139
Operating Reserve on deposit with State Treasurer	<u>1,100,000</u>	<u>1,300,000</u>
 Total restricted cash and investments	 <u>1,488,771</u>	 <u>1,743,139</u>
Total cash and investments	<u>\$ 36,826,062</u>	<u>\$ 32,320,374</u>

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 2009 and 2008 was 2.72% and 4.27%, respectively.

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for fiscal years 2009 and 2008 was 2.72% and 4.27%, 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.

The Lottery accounts are held in Public Deposit Protection Act (PDPA) qualified institutions, thus balances held in the Lottery's accounts in excess of \$250,000 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 MUSL, for the benefit of Colorado's Powerball annuity prize winners (Colorado Winners Trust). An investment policy followed by MUSL governs the purchase of these investments. The policy states that 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.

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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.

Investment Type	2009		2008	
	Fair Value	Weighted Average Maturity (in years)	Fair Value	Weighted Average Maturity (in years)
U. S. Treasury Investments	\$ 3,898,685	16.66	\$ 4,000,284	15.95
U.S. Aid Bonds	3,408,892	8.76	3,262,263	9.81
Resolution Funding Corp Strips	<u>2,585,837</u>	14.44	<u>2,487,715</u>	15.54
	<u>\$ 9,893,414</u>		<u>\$ 9,750,262</u>	

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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, other investments explicitly guaranteed by the U. S. government, mutual funds, and external investment pools) that represent 5% or more of the total investment as of June 30, 2009 are the Resolution Funding Corporation Strips which represent 26.1% and 25.5%, respectively, 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.

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Note 3: Schedule of Changes in Fixed Assets

	<u>June 30, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2009</u>
Construction in Progress-not depreciated	—	2,295,614	—	2,295,614
Capital assets being depreciated:				
Equipment	\$ 3,159,600	\$ 112,538	\$ (127,584)	\$ 3,144,554
Leasehold improvements	<u>11,978</u>	<u>—</u>	<u>(11,978)</u>	<u>—</u>
Total capital assets being depreciated	<u>3,171,578</u>	<u>2,408,152</u>	<u>(139,562)</u>	<u>5,440,168</u>
Less accumulated depreciation for equipment	(2,662,642)	(136,691)	118,866	(2,680,467)
Leasehold improvements	<u>(10,780)</u>	<u>—</u>	<u>10,780</u>	<u>—</u>
Total accumulated depreciation	<u>(2,673,422)</u>	<u>(136,691)</u>	<u>129,646</u>	<u>(2,680,467)</u>
Total capital assets, being depreciated, net	<u>\$ 498,156</u>	<u>\$ 2,271,461</u>	<u>\$ (9,916)</u>	<u>\$ 2,759,701</u>

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

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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. A third amendment to the lease was signed on April 8, 2009 extending the lease for two additional years effective July 1, 2009 and expiring on June 30, 2011. A fourth amendment to the lease was signed on August 7, 2009 to lease an additional 6,000 square feet, expiring on June 30, 2011.

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 included a five-year renewal option. On February 23, 2009, the Lottery entered into a new lease agreement, which will begin on the date of substantial completion of required improvements and expire on June 30, 2019. The Lottery entered into a first amendment to the lease on June 23, 2009 which began on July 1, 2009 and will expire upon the commencement of the original lease agreement. The lease contains an option to renew the lease for two (2) consecutive additional periods of five years each. 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.

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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. The Lottery entered into an informal agreement with the Landlord to rent the space on a month to month basis. The Lottery expects to vacate the space by November 30, 2009. There are no other options for renewal.

Operating lease expense incurred for the fiscal years ended June 30, 2009 and 2008 and future minimum lease payments for fiscal years ending June 30, 2010 through 2014 and later years are as follows:

<u>LOCATION</u>			<u>FUTURE</u>	<u>MINIMUM</u>	<u>LEASE</u>	<u>PAYMENTS</u>		<u>LATER</u> <u>YEARS</u>
	<u>2008</u>	<u>2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	
Pueblo Office	\$234,207	\$228,306	\$223,292	\$ 229,909	\$236,526	\$243,482	\$250,607	\$258,072
Pueblo Warehouse	114,596	107,405	142,349	145,549	-	-	-	-
CoSprgs Warehouse	13,440	13,455	5,215	-	-	-	-	-
Denver	179,456	185,149	169,741	175,722	181,703	187,684	193,665	1,058,040
Denver Warehouse	101,473	99,621	15,961	-	-	-	-	-
Fort Collins	39,288	35,829	-	-	-	-	-	-
Grand Junction	<u>7,981</u>	<u>6,902</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 690,441</u>	<u>\$ 676,667</u>	<u>\$556,558</u>	<u>\$ 551,180</u>	<u>\$418,229</u>	<u>\$431,166</u>	<u>\$444,272</u>	<u>\$1,316,112</u>

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Note 5: Other Revenue

A schedule of other revenue for the fiscal years ended June 30, 2009 and 2008 follows:

	<u>2009</u>	<u>2008</u>
License fees	\$ 66,988	\$ 65,616
Fines and penalties	176,140	250,850
Assignment fees	901	2,700
Net Licensed Agent Recovery Reserve Receipts	(54,368)	17,081
Royalty Income	25,212	68,757
Other	<u>52,315</u>	<u>23,509</u>
Total	<u>\$ 267,188</u>	<u>\$ 428,513</u>

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. 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. Starting in fiscal year 2009 these proceeds shall be transferred to the Public School Capital Construction Assistance Fund as set forth in section 22-43.7-104(2)(b)(III).

Income available for distribution at June 30:

	<u>2009</u>	<u>2008</u>
Operating Income	\$ 120,172,896	\$ 119,471,630
Plus: Other Revenue	267,188	428,513
Investment Income	<u>1,427,948</u>	<u>2,365,744</u>
Income before distributions	\$ 121,868,032	\$ 122,265,887
Change in licensed agent recovery reserve	54,368	(17,081)
Change in fair market value of investments	(257,000)	(347,434)
Change in Operating Reserve	200,000	200,000
Other changes in net assets	<u>(2,261,545)</u>	<u>198,760</u>
Income available for distribution	119,603,855	122,300,132
Less distributions prior to year-end	<u>(91,513,623)</u>	<u>(95,144,711)</u>
Income available for distribution	<u>\$ 28,090,232</u>	<u>\$ 27,155,421</u>

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	Accrued at June 30, 2008	Proceeds Distributions Expenses	Distributions Paid	Accrued at June 30, 2009
Great Outdoors Colorado Lottery Proceeds	\$ 5,532,016	\$ 54,267,191	\$ (51,288,830)	\$ 8,510,377
Contingency Reserve Fund	8,045,692	-	(8,045,692)	-
Public School Capital Construction Assistance Fund	-	5,534,736	-	5,534,736
Conservation Trust Fund	10,862,169	47,841,542	(47,467,618)	11,236,093
Division of Parks and Outdoor Recreation	<u>2,715,544</u>	<u>11,960,386</u>	<u>(11,866,904)</u>	<u>2,809,026</u>
	<u>\$ 27,155,421</u>	<u>\$ 119,603,855</u>	<u>\$ (118,669,044)</u>	<u>\$ 28,090,232</u>

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

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.

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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 % 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 % increase between periods. For retirements after January 1, 2009 or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

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

- Hired before July 1, 2005 – 3.5 %, 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, 2007 – the littlest of 3 % or the actual increase in the national Consumer Price Index, limited to a 10 % 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, 2008, to December 31, 2008, the state contributed 12.05% (14.75% for state troopers and 15.56% for the judicial branch) of the employee's salary. From January 1, 2009 through June 30, 2009 the state contributed 12.95 % (15.65 % for state troopers and 16.46 % for the Judicial Branch). During all of Fiscal Year 2009, 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, 2007, 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

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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, 2009, 2008, and 2007, were \$797,259, \$759,314, and \$720,894, 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 % of gross covered wages to the Health Care Trust Fund. The Lottery

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contributed \$65,160, \$66,734, and \$67,494 as required by statute in Fiscal Years 2009, 2008 and 2007 respectively. In each year the amount contributed was 100 % 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, 2008, there were 45,888 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2008, the Health Care Trust Fund had an unfunded actuarial accrued liability of \$1.11 billion, a funded ratio of 18.7 %, and a 39-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 April 3, 2030.

Specified prize payments	\$ 412,803,690
Lifetime prize payments	<u>38,755,000</u>
Total guaranteed minimum prize payments	<u>\$ 451,558,690</u>

Prize Commitment – The Lottery also acts as a transfer agent for the single Powerball Jackpot Winner on October 10, 2007. These funds are held in trust at the MUSL in securities deemed appropriate by the Grand Prize Trust Agreement. The future value of this prize was \$19,272,000 as of June 30, 2009.

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

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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:

<u>Liability</u>	<u>Limits of Liability</u>
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 state 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,

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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. Per Option Letter #12, the amended total cost of the initial contract period is not to exceed \$72,122,925.

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, could 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. On November 17, 2007, 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. On October 17, 2008, the state exercised its remaining options to extend the contract for an additional two year period starting on December 1, 2008 and ending on November 30, 2010. The maximum amount available to cover both the original contract period and the extensions is \$23,479,002.33. The maximum amount available to cover costs for fiscal year 2009, which ended on June 30, 2009, was \$4,000,000.

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, 2009 is \$3,656,050 and is based on a percentage of sales. The total amount of the prize reserves funded as of June 30, 2009

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was \$3,928,566 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.

On November 3, 2008, the Lottery entered into a three year contract with a consulting firm contracted to develop and implement a new back office system including the maintenance and functionality of the Lottery’s scratch product. Renewal options include two additional twelve month periods. Task order letter #1 was signed on May 12, 2009, requiring additional services. The total cost of the initial contract period plus task order #1 is \$4,098,480.

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 Court of Appeals upheld the decision of the District Court as if related to the Lottery. The case was again appealed and heard orally by the Colorado Supreme Court on December 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 of Revenue for indirect costs. Interagency charges were \$1,152,460 and \$996,105 for the fiscal years ended June 30, 2009 and 2008, respectively.

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Notes to Financial Statements
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Note 13: Subsequent Event

The construction in progress identified on the balance sheet represents costs associated with the development of a new back office system. The conversion to the new system was completed on July 11, 2009.

Supplementary Information

COLORADO LOTTERY
SCHEDULE OF REVENUE AND COSTS FOR SCRATCH AND ON-LINE GAMES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(With Comparative Totals for the Fiscal Year Ended June 30, 2008)

	Games in Progress				FY 09	FY 08
	Scratch	Lotto	Powerball	Cash 5	Total	Scratch and On-Line
TICKET SALES	\$328,254,471	\$43,544,371	\$100,733,520	\$20,831,732	\$493,364,094	\$505,814,066
PRIZE EXPENSE	(221,618,604)	(21,830,159)	(47,221,636)	(10,836,099)	(301,506,498)	(313,796,804)
POWERBALL PRIZE VARIANCE	N/A	N/A	(168,068)	N/A	(168,068)	(1,138,171)
NET REVENUE AFTER PRIZES	106,635,867	21,714,212	53,343,816	9,995,633	191,689,528	190,879,091
COMMISSIONS, BONUSES, TICKET COSTS & VENDOR FEES (Note 1)						
Retailer Commission	(22,936,292)	(2,613,734)	(6,044,814)	(1,249,723)	(32,844,563)	(33,668,027)
Retailer Bonus	(2,501,168)	(285,537)	(656,297)	(193,344)	(3,636,346)	(4,724,151)
Cost of Tickets Sold	(2,698,617)	N/A	N/A	N/A	(2,698,617)	(2,558,910)
Telecomm Reimbursements	489,229	64,898	150,133	31,047	735,307	716,819
On-Line Vendor Fees	(5,687,541)	(758,793)	(1,752,405)	(361,924)	(8,560,663)	(8,110,931)
TOTAL	(33,334,389)	(3,593,166)	(8,303,383)	(1,773,944)	(47,004,882)	(48,345,200)
GROSS PROFIT ON SALE OF TICKETS	\$73,301,478	\$18,121,046	\$45,040,433	\$8,221,689	\$144,684,646	\$142,533,891
AVERAGE DAILY TICKET SALES	\$899,327	\$119,300	\$275,982	\$57,073	\$1,351,682	\$1,382,006

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, 2009

	Games in Progress				Powerball Prize Variance	FY 09 Total
	Scratch	Lotto	Powerball	Cash 5		
Prize Expense	\$221,618,604	\$21,830,159	\$47,221,636	\$10,836,099	\$168,068	\$301,674,566
(/)/Ticket Sales	328,254,471	43,544,371	100,733,520	20,831,732	N/A	493,364,094
Prize %	67.51%	50.13%	46.88%	52.02%		61.15%

COLORADO LOTTERY
BUDGETARY COMPARISON
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Fiscal Year 2009 Original Budget	Supplementals Allocations & Internal Transfers	Fiscal Year 2009 Final Budget	Fiscal Year 2009 Actual Expenditures	Under Expended	Percent Under Expended
Personal Services	\$8,718,974	\$190,141	\$8,909,115	\$8,174,474	\$734,641	8.25%
Amortization Equalization	0	121,243	121,243	110,147	11,096	9.15%
Supplemental Amort. Equal.	0	56,835	56,835	51,504	5,331	9.38%
Workmen's Compensation	0	63,645	63,645	63,645	0	0.00%
Health and Life	0	635,126	635,126	630,328	4,798	0.76%
Short Term Disability	0	9,851	9,851	9,108	743	7.54%
Operating	1,203,156	0	1,203,156	1,181,797	21,359	1.78%
DOR Postage Allocation	0	9,885	9,885	4,869	5,016	50.74%
Variable Vehicle	0	124,200	124,200	124,200	0	0.00%
Leased Space	0	711,981	711,981	671,782	40,199	5.65%
Grand Junction - Leased Space	0	6,902	6,902	6,902	0	0.00%
Risk Management	0	30,453	30,453	30,453	0	0.00%
Vehicle Lease Payments	0	146,003	146,003	127,303	18,700	12.81%
Capital Outlay	0	32,842	32,842	32,546	296	0.90%
Travel	113,498	0	113,498	109,457	4,041	3.56%
Purch. Serv. Comp. Center	0	3,128	3,128	3,128	0	0.00%
Marketing, Communications & Sales	11,671,710	0	11,671,710	11,664,439	7,271	0.06%
Communications Services	0	2,034	2,034	2,034	0	0.00%
Payments to MNT	0	374,676	374,676	374,676	0	0.00%
Payments to Other Agencies	239,410	0	239,410	141,733	97,677	40.80%
Legal Services	0	35,364	35,364	19,502	15,862	44.85%
Indirect Costs	556,672	0	556,672	556,672	0	0.00%
Ticket Costs-Scratch	7,529,350	(2,858,470)	4,670,880	2,763,037	1,907,843	40.85%
Research	250,000	0	250,000	250,000	0	0.00%
Vendor Fees	10,875,511	1,591,978	12,467,489	8,659,163	3,808,326	30.55%
Prize Payments	336,721,380	55,859,560	392,580,940	301,506,498	91,074,442	23.20%
Retailer Compensation	41,773,750	6,316,410	48,090,160	36,480,909	11,609,251	24.14%
Multi-State Lottery Fund	177,433	0	177,433	101,002	76,431	43.08%
Powerball Prize Variance	9,752,000	2,956,000	12,708,000	7,289,207	5,418,793	42.64%
Lottery Systems	0	2,415,000	2,415,000	2,073,949	341,051	14.12%
TOTAL	\$429,582,844	\$68,834,787	\$498,417,631	\$383,214,464	\$115,203,167	23.11%

FY09 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	301,506,498
Powerball Prize Variance	168,068
Commissions and Bonuses	36,480,909
Cost of Tickets & Vendor Fees	10,523,973
Operating Expenses	<u>24,511,750</u>

Total Expenses per Statement of Revenues, Expenses and Changes in Net Assets 373,191,198

Plus: Powerball Variance classified as revenue 7,121,139
Telecommunications offset classified as revenue 735,307

Less: Non-appropriated expenses
Depreciation (136,691)
Accrued Annual and Sick Leave (94,725)
Book Value of Assets Written Off (9,916)

Sub-Total 380,806,312

Plus: Capitalized purchases 2,010,767
Capitalized wages 397,385

383,214,464