

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

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

(UNAUDITED)

FOR THE FISCAL YEAR ENDED

JUNE 30, 2017

**COLORADO LOTTERY
FINANCIAL STATEMENTS
(UNAUDITED)**

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STATE OF COLORADO

COLORADO LOTTERY DIVISION
Department of Revenue

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John Hickenlooper
Governor

Mike Hartman
Executive Director

Brendon Reese
Interim Lottery
Director

January 15, 2018

Members of the Lottery Commission and
Mr. Brendon Reese, Interim Lottery Director

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

The financial performance for the fiscal year ended June 30, 2017 depicts total revenues of \$558.8 million, which includes gross ticket sales of \$555.3 million. Net income before proceeds distributions is \$132.9 million with a decrease in net position of \$0.6 million. Accordingly, a total of nearly \$133.5 million in distributions will have been made by September 1, 2017 in the following manner: nearly \$64.5 million to the Great Outdoors Colorado Fund, \$13.3 million to the Colorado Parks and Wildlife, and \$53.4 million to the Conservation Trust Fund, for distribution to cities and other local government agencies and \$2.3 million to the Public School Capital Construction Assistance Fund.

The attached financial statements for the first quarter ended June 30, 2017 have not been audited. They have been prepared in accordance with generally accepted accounting principles, using established accounting and internal control procedures. These procedures support the production of reliable financial statements. As with any system of accounting and internal control procedures, there are inherent limitations, and the procedures cannot be relied upon to completely eliminate the occurrence of discrepancies, errors or omissions, but should reduce that risk to a relatively low tolerable level.

Respectfully submitted,

A handwritten signature in cursive script that reads "John Caligaris".

John Caligaris
Controller
Colorado Lottery

**COLORADO LOTTERY
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**INCLUDING STATEMENT OF LOTTERY REVENUES
PRIZE DISBURSEMENTS AND OTHER EXPENSES
(UNAUDITED)**

TABLE OF CONTENTS

Financial Highlights	1
Supplement to Financial Highlights	2
Statements of Net Position	3
Statements of Revenues, Expenses, and Changes in Fund Net Position	4
Statements of Cash Flows	5
Schedule of Revenue and Costs for Scratch and On-Line Games.....	6
Schedule of Percent of Prize Expense to Gross Ticket Sales	6
Budget Status	7

COLORADO LOTTERY
FINANCIAL HIGHLIGHTS
\$ IN MILLIONS
FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

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, 2017 and 2016 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,			
	FY 2017		FY 2016	
	Total	Actual Percent	Total	Actual Percent
INCOME				
Gross Ticket Sales	\$555.33		\$594.41	
Nonoperating revenue	0.49		1.67	
TOTAL INCOME	555.82		596.08	
LESS:				
PRIZES	\$341.52	61.5% (1)	\$370.51	62.3% (1)
RETAILER COMMISSIONS AND BONUSES	\$40.72	7.3% (2)	\$43.92	7.4% (2)
ADMINISTRATIVE COSTS				
Ticket Costs and Vendor Fees	12.21		12.06	
Other Operating Expenses	28.21	(4)	25.87	
TOTAL ADMINISTRATIVE COSTS (Note 3)	40.42	7.3% (3)	37.93	6.4% (3)
	133.16		143.72	
OTHER NONOPERATING EXPENSES	6.19		0.77	
NET CHANGE IN NET ASSETS	(6.50)		(0.62)	
PROCEEDS DISTRIBUTION	\$133.47	24.0% (3)	\$143.57	24.1% (3)

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

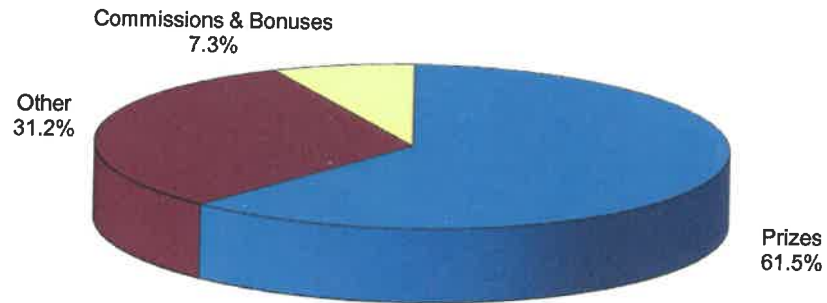
Note 2: Percent of gross ticket sales.

Note 3: Percent of total income.

Note 4: Total operating expenses per the statement of revenues, expenses and changes in fund net position includes unappropriated expenses such as depreciation and accrued annual and sick leave. The actual administrative costs percentage would be slightly lower if they were removed from the calculation.

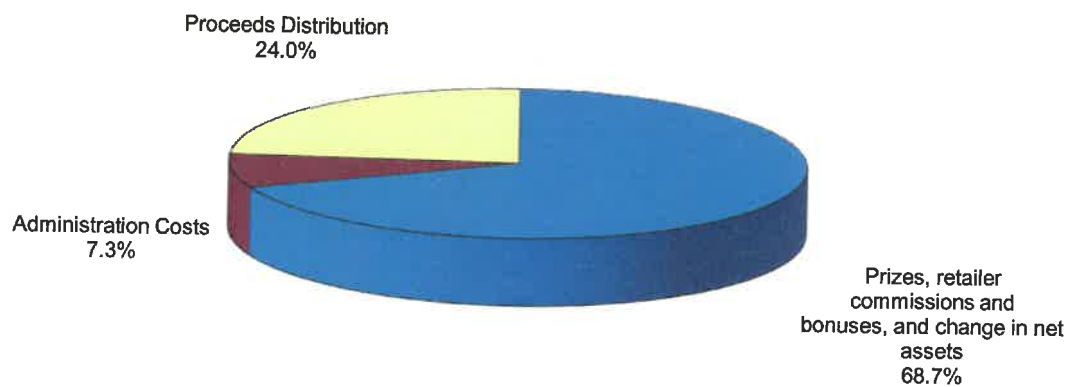
COLORADO LOTTERY
SUPPLEMENT OF FINANCIAL HIGHLIGHTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

PERCENT OF GROSS TICKET SALES



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

PERCENT OF TOTAL INCOME



To depict status of administrative expenditures to date.

COLORADO LOTTERY
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016
(UNAUDITED)

ASSETS	<u>FY 2017</u>	<u>FY 2016</u>
Current Assets:		
Cash and Investments	\$ 45,319,051	\$ 48,143,610
Accounts Receivable, net of the allowance for doubtful accounts of \$151,555 in 2017 and \$203,463 in 2016	21,001,734	20,877,979
Consignment Inventory, at Cost	162,080	95,370
Warehouse Inventory, at Cost	1,284,359	1,376,545
Prepaid Expenses	95,978	71,955
Total Current Assets	<u>67,863,202</u>	<u>70,565,459</u>
Reserve and Restricted Assets:		
Cash and Investments-Operating Reserve	1,600,000	1,500,000
Cash and Investments-Licensed Agent Recovery Reserve Receipts	516,720	424,591
Prepaid Prize Expense with MUSL	4,399,693	4,541,395
Total Reserve and Restricted Assets	<u>6,516,413</u>	<u>6,465,986</u>
Capital Assets:		
Equipment	5,924,273	6,011,671
Leasehold Improvements	64,711	64,711
Less Accumulated Depreciation and Amortization	(5,703,417)	(5,638,124)
Total Capital Assets	<u>285,567</u>	<u>438,258</u>
TOTAL ASSETS	<u>\$ 74,665,182</u>	<u>\$ 77,469,703</u>
DEFERRED OUTFLOWS - PENSION	<u>\$ 12,888,492</u>	<u>\$ 2,865,826</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 87,553,674</u>	<u>\$ 80,335,529</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 543,157	\$ 963,432
Prize Liability	35,358,009	37,970,798
Payable to MUSL	822,931	569,030
Wages and Benefits	806,265	750,542
Accrued Annual and Sick Leave	593	-
Retailer Bonus Liability	1,227,820	1,821,535
Funds Available for Distribution	32,743,995	31,915,368
Total Current Liabilities	<u>71,502,770</u>	<u>73,990,705</u>
Long-Term Liabilities:		
Accrued Annual and Sick Leave	749,741	747,820
Expired Warrants Liability	31,146	35,153
Net Pension Liability	41,110,831	25,257,445
Total Long-Term Liabilities	<u>41,891,718</u>	<u>26,040,418</u>
TOTAL LIABILITIES	<u>113,394,488</u>	<u>100,031,123</u>
DEFERRED INFLOWS - PENSION	<u>\$ 1,427,150</u>	<u>\$ 1,066,323</u>
NET POSITION		
Investment in Capital Assets	285,567	438,258
Restricted-Licensed Agent Recovery Reserve	516,720	424,591
Restricted-Operating Reserve	1,600,000	1,500,000
Unrestricted-Other	(20,762)	333,176
Unrestricted-Unfunded Pension Liability	<u>(29,649,489)</u>	<u>(23,457,942)</u>
TOTAL NET POSITION	<u>(27,267,964)</u>	<u>(20,761,917)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>\$ 87,553,674</u>	<u>\$ 80,335,529</u>

COLORADO LOTTERY
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016
(UNAUDITED)

	<u>FY 2017</u>	<u>FY 2016</u>
OPERATING REVENUES		
Gross Ticket Sales	\$ 555,333,490	\$ 594,411,905
DIRECT OPERATING EXPENSES		
Prize Expense	341,518,549	370,513,550
Retailer Commissions and Bonuses	40,725,434	43,922,306
Cost of Tickets and Vendor Fees	12,207,262	12,063,672
Total Direct Operating Expenses	<u>394,451,245</u>	<u>426,499,528</u>
GROSS PROFIT ON SALE OF TICKETS	<u>160,882,245</u>	<u>167,912,377</u>
OTHER OPERATING EXPENSES		
Marketing and Communications	13,634,184	11,295,008
Administration Fees Paid to MUSL	119,397	111,812
Wages and Benefits	9,411,009	9,232,428
Professional Services	274,144	255,983
State Agencies Services	712,736	745,102
Indirect Costs Assessments	702,836	434,425
Travel	96,939	103,110
Equipment	184,231	458,148
Depreciation	196,608	442,583
Accrued Annual and Sick Leave	2,144	(9,014)
Space Rental	814,119	790,701
Rents for Equipment	28,389	29,720
Motorpool Leasing	265,607	292,821
Materials and Supplies	103,644	143,339
Telephone	253,274	240,517
Equipment Maintenance	308,589	202,905
Printing	19,047	18,128
Delivery Expense	932,271	923,863
Other	154,797	160,039
Total Other Operating Expenses	<u>28,213,965</u>	<u>25,871,618</u>
OTHER OPERATING REVENUE (EXPENSE)	177,409	858,465
TOTAL OPERATING INCOME	<u>132,845,689</u>	<u>142,899,224</u>
NONOPERATING REVENUES (EXPENSES)		
Investment Income	314,792	813,205
Unfunded Pension Expense	(6,191,547)	(765,943)
Funds Distributed for Current Year	(100,730,986)	(111,654,636)
Funds Available for Distribution for Current Year	(32,743,995)	(31,915,368)
Total Nonoperating Revenues (Expenses)	<u>(139,351,736)</u>	<u>(143,522,742)</u>
NET INCOME (LOSS)	<u>\$ (6,506,047)</u>	<u>\$ (623,518)</u>
NET POSITION, BEGINNING OF YEAR	(20,761,917)	(20,138,399)
Net Change in Net Position	<u>(6,506,047)</u>	<u>(623,518)</u>
NET POSITION, END OF PERIOD	<u>\$ (27,267,964)</u>	<u>\$ (20,761,917)</u>

COLORADO LOTTERY
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016
(UNAUDITED)

	FY2016	FY2015
Operating Activities		
Cash received from retailers	\$ 555,809,670	\$ 595,446,771
Cash paid in prizes	(344,236,811)	(358,758,960)
Cash paid in retailer commissions	(37,031,098)	(39,527,758)
Cash payments to suppliers	(31,145,800)	(29,343,208)
Cash payments to employees for services	(9,354,916)	(9,283,398)
Cash paid in retailer bonus	(4,290,282)	(3,915,411)
Net cash provided by operating activities	129,750,763	154,618,036
Noncapital Financing Activities		
Distribution of net proceeds	(132,646,354)	(143,474,253)
Net cash used by noncapital financing activities	(132,646,354)	(143,474,253)
Capital and Related Financing Activities		
Acquisition of capital assets	(51,631)	(334,900)
Net cash used by capital and related financing activities	(51,631)	(334,900)
Investing Activities		
Interest received	668,730	605,036
Change in fair market value of investments	(353,938)	208,169
Net cash provided by investing activities	314,792	813,205
Increase (Decrease) in Cash and Investments	(2,632,430)	11,622,088
Cash and Investments, Beginning of Year (including \$1,924,591 and \$1,878,903, respectively, in restricted accounts)	50,068,201	38,446,113
Cash and Investments, End of Period, (including \$2,116,720 and \$1,924,591 respectively, in restricted accounts)	\$ 47,435,771	\$ 50,068,201
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
<i>Operating income</i>	\$ 132,845,689	\$ 142,899,224
<i>Depreciation</i>	196,608	442,583
<i>Loss (gain) on disposition of equipment</i>	7,713	3,749
<i>Change in:</i>		
<i>Accounts Receivable</i>	(123,755)	(660,056)
<i>Ticket Inventory</i>	25,476	(346,791)
<i>Prepaid Expenses</i>	(24,023)	3,778
<i>Prepaid Prize Expense with MUSL</i>	141,702	40,245
<i>Liabilities(excluding funds available for distribution)</i>	(3,318,647)	12,235,304
<i>Net cash provided by operating activities</i>	\$ 129,750,763	\$ 154,618,036
Statement of Net Position Classification		
Cash and investments	\$ 45,319,051	\$ 48,143,610
Cash and investments- Licensed Agent Recovery Reserve	516,720	424,591
Cash and investments- Operating Reserve	1,600,000	1,500,000
Cash and Investments, End of Period	\$ 47,435,771	\$ 50,068,201

COLORADO LOTTERY
SCHEDULE OF REVENUE AND COSTS FOR SCRATCH AND JACKPOT GAMES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(With Comparative Totals for the Fiscal Year Ended June 30, 2016)

	Scratch	Scratch \$50	Lotto	Powerball	Cash 5	Jackpot Games				FY 17	FY 16
						Cash 5 EZ Match	Mega Millions	Pick 3	Lucky For Life	Total	Scratch and Jackpot Games
TICKET SALES	\$358,075,742	\$22,173,750	\$30,609,106	\$73,002,056	\$17,632,114	\$1,060,341	\$25,789,410	\$10,995,867	\$15,995,104	\$555,333,490	\$594,411,905
PRIZE EXPENSE	(240,218,349)	(16,622,773)	(14,569,038)	(33,189,585)	(9,294,847)	(648,493)	(11,408,993)	(5,509,525)	(10,056,946)	(341,518,549)	(370,513,550)
NET REVENUE AFTER PRIZES	117,857,393	5,550,977	16,040,068	39,812,471	8,337,267	411,848	14,380,417	5,486,342	5,938,158	213,814,941	223,898,355
COMMISSIONS, BONUSES, TICKET COSTS & VENDOR FEES (Note 1)											
Retailer Commission	(25,008,846)	(1,543,990)	(1,831,468)	(4,370,849)	(1,055,778)	(63,458)	(1,543,368)	(657,668)	(955,673)	(37,031,098)	(39,527,758)
Retailer Bonus	(2,818,865)	(176,174)	(122,231)	(200,600)	(123,097)	(8,385)	(85,876)	(67,699)	(91,409)	(3,694,336)	(4,394,548)
Cost of Tickets Sold	(2,923,644)	(26,782)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(2,950,426)	(2,486,931)
Telecomm Reimbursements	497,915	30,831	42,563	101,511	24,518	1,474	35,861	15,290	22,242	772,205	770,790
Vendor Fees	(6,682,608)	(413,791)	(523,486)	(1,209,506)	(294,250)	(17,030)	(435,608)	(181,166)	(271,596)	(10,029,041)	(10,347,531)
TOTAL	(36,936,048)	(2,129,906)	(2,434,622)	(5,679,444)	(1,448,607)	(87,399)	(2,028,991)	(891,243)	(1,296,436)	(52,932,696)	(55,985,978)
GROSS PROFIT ON SALE OF TICKETS	\$80,921,345	\$3,421,071	\$13,605,446	\$34,133,027	\$6,888,660	\$324,449	\$12,351,426	\$4,595,099	\$4,641,722	\$160,882,245	\$167,912,377
AVERAGE DAILY TICKET SALES	\$981,029	\$60,750	\$83,861	\$200,006	\$48,307	\$2,905	\$70,656	\$30,126	\$43,822 *	\$1,521,462	\$1,624,076

Note 1: Administrative costs of Lottery operations, including wages, advertising and other expenses are not shown.

* Lucky For Life game started July 17, 2016

* Cash 5 EZ Match game started May 7, 2017

COLORADO LOTTERY
SCHEDULE OF PERCENT OF PRIZE EXPENSE TO GROSS TICKET SALES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Scratch	Scratch \$50	Lotto	Powerball	Cash 5	Cash 5 EZ Match	Mega Millions	Pick 3	Lucky For Life	FY 17	FY 16
										Total	Total
Prize Expense (/)/Ticket Sales	\$240,218,349 358,075,742	\$16,622,773 22,173,750	\$14,569,038 30,609,106	\$33,189,585 73,002,056	\$9,294,847 17,632,114	\$648,493 1,060,341	\$11,408,993 25,789,410	\$5,509,525 10,995,867	\$10,056,946 15,995,104	\$341,518,549 \$555,333,490	\$370,513,550 594,411,905
Prize %	67.09%	74.97%	47.60%	45.46%	52.72%	61.16%	44.24%	50.11%	62.88%	61.50%	62.33%

COLORADO LOTTERY
BUDGETARY COMPARISON
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Fiscal Year 2017 Original Budget	Supplementals Allocations & Internal Transfers	Fiscal Year 2017 Final Budget	Fiscal Year 2017 Actual Expenditures	Under Expended	Percent Under Expended
Personal Services	\$9,490,911	\$ 1,632,386	\$ 11,123,297	\$ 9,586,542	\$ 1,536,755	13.82%
Amortization Equalization	330,351	(330,351)	-	-	-	N/A
Supplemental Amort. Equal.	326,910	(326,910)	-	-	-	N/A
Workmen's Compensation	90,340	-	90,340	90,340	-	0.00%
Health and Life	949,966	(949,966)	-	-	-	N/A
Short Term Disability	13,076	(13,076)	-	-	-	N/A
Operating	1,203,156	-	1,203,156	1,021,198	181,958	15.12%
Variable Vehicle	163,062	(30,753)	132,309	117,919	14,390	10.88%
Leased Space	884,416	(50,000)	834,416	805,594	28,822	3.45%
Leased Space-Grand Junction	6,714	-	6,714	6,714	-	0.00%
Risk Management	30,631	-	30,631	30,631	-	0.00%
Vehicle Lease Payments	154,295	(8,833)	145,462	143,103	2,359	1.62%
Travel	113,498	-	113,498	96,939	16,559	14.59%
Marketing, Communications & Sales	14,700,000	-	14,700,000	13,634,184	1,065,816	7.25%
Payments to Other Agencies	239,410	-	239,410	85,530	153,880	64.27%
Legal Services	34,999	44,036	79,035	74,207	4,828	6.11%
Indirect Costs	760,199	(13,223)	746,976	702,836	44,140	5.91%
Ticket Costs-Scratch	6,578,000	-	6,578,000	3,905,201	2,672,799	40.63%
Research	250,000	-	250,000	-	250,000	100.00%
Vendor Fees	12,571,504	-	12,571,504	10,029,041	2,542,463	20.22%
Prize Payments	424,104,016	-	424,104,016	341,518,549	82,585,467	19.47%
Retailer Compensation	52,241,350	-	52,241,350	40,725,434	11,515,916	22.04%
Multi-State Lottery Fund	177,433	-	177,433	119,397	58,036	32.71%
CORE Conversion	36,223	-	36,223	36,223	-	0.00%
OIT Payments	552,999	-	552,999	552,999	-	N/A
TOTAL	\$ 526,003,459	\$ (46,690)	\$ 525,956,769	\$ 423,282,581	\$ 102,674,188	19.52%

FY17 Staffing - FTE - (Note 1) 117.1 (Appropriated) 114.5 (Actual)

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

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

Prize Expense	\$ 341,518,549
Commissions and Bonuses	40,725,434
Cost of Tickets & Vendor Fees	12,207,262
Operating Expenses	28,213,965
Total Expenses per Statement of Revenues, Expenses and Changes in Net Position	422,665,210
Plus: Telecommunications offset classified as revenue	772,205
Less: Non-appropriated expenses	
Depreciation	(196,608)
Accrued Annual and Sick Leave	(2,144)
Book Value of Assets Written Off	(7,713)
Sub-Total	423,230,950
Plus: Capitalized purchases	51,631
Total	\$ 423,282,581

Note 1 - The Governor's budget office has informed departments that the appropriated FTE can be exceeded by 10% for FY 2017