COLORADO LOTTERY

FINANCIAL AND COMPLIANCE AUDIT

June 30, 2018 and 2017

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Members of the Legislative Audit Committee:

We have completed the financial statement audit of the Colorado Lottery as of and for the years ended June 30, 2018 and 2017. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We were engaged to conduct our audit pursuant to Section 24-35-211, C.R.S., which requires the State Auditor to annually audit the Lottery Fund. The reports we have issued as a result of this engagement are set forth in the table of contents which follows.

Eide Bailly LLP

Fort Collins, Colorado
October 23, 2018

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Purposes and Scope of Audit

Authority, Purpose and Scope

The Office of the State Auditor, State of Colorado, engaged Eide Bailly LLP to conduct the financial audit of the Colorado Lottery for the Fiscal Year ended June 30, 2018. The audit of the Colorado Lottery (the Lottery) was performed under authority of Section 24-35-211, C.R.S., which requires the State Auditor to conduct an annual audit of the Lottery. The purpose of the audit was to express opinions on the financial statements of the Lottery for the years ended June 30, 2018 and 2017.

Eide Bailly LLP conducted the audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States of America.

The purposes and scope of this audit were:

- To express opinions on the financial statements of the Lottery as of and for the years ended June 30, 2018 and 2017, including consideration of the related systems of internal controls as required by auditing standards generally accepted in the United States of America.

- To test the Lottery's compliance with certain rules and regulations governing the expenditure of State funds for the year ended June 30, 2018.

- To evaluate progress in implementing the prior audit recommendations, if any.

Summary of Major Audit Comments

Audit Findings and Financial Statement Audit Report Section

There were no prior year audit recommendations outstanding.

There were no new recommendations as a result of the current year audit.

Audit Opinions and Reports

The independent auditor's reports included herein, state that the financial statements of the Lottery are fairly stated, in all material respects, in accordance with accounting principles generally accepted in the United States of America, and that no material weaknesses in internal controls were identified during the course of the audit.

Auditor's Communication to Legislative Audit Committee

The auditor's communication to the Legislative Audit Committee describes the auditor's responsibility under auditing standards generally accepted in the United States of America and significant management judgments and estimates. This communication is located on page 79.

COLORADO LOTTERY
Background
Years Ended June 30, 2018 and 2017

In 1980, Colorado voters passed a referendum that added Article XVIII, Section 2(1) to the Colorado Constitution, allowing the establishment of a state-supervised lottery. Senate Bill 82-119 created the Lottery as a division within the Department of Revenue. The Lottery began operations on July 1, 1982 and sold its first lottery ticket on January 24, 1983.

During Fiscal Year 2018, the Lottery employed 116 employees in its headquarters in Pueblo and branch offices in Denver, Fort Collins and Grand Junction.

The Lottery games are governed by rules and regulations established by a Commission of five members appointed by the Governor and approved by the Senate. By statute, Lottery Commission members must include an attorney, a certified public accountant and a law enforcement officer. Members may serve up to two 4-year terms.

Colorado Revised Statutes (C.R.S.) Section 24-35-210(9), requires that no less than 50% of the total revenue from sales of lottery tickets be for prizes. The legislation also provides guidelines for distribution of net proceeds to beneficiary agencies. Article XXVII of the Colorado Constitution states that “net lottery proceeds” (that is, proceeds after the payment of prizes and lottery expenses and a reserve for future operations) are to be distributed to the Conservation Trust Fund within the Department of Local Affairs, the Division of Parks and Wildlife within the Department of Natural Resources, and the Great Outdoors Colorado Trust Fund (GOCO). The amount distributed to GOCO is limited by a constitutional cap, which was calculated to be $66.3 million for the year ended June 30, 2018.

Prior to 2002, amounts exceeding the GOCO cap (the spillover) were distributed to the State General Fund. For Fiscal Years 2002 through 2007, the spillover funds were distributed to the State Public School Fund Contingency Reserve. For Fiscal Year 2008, the spillover funds were transferred to the Lottery Proceeds Contingency Reserve Fund. For Fiscal Years 2009 through 2018, the spillover funds were required to be transferred to the Public School Capital Construction Assistance Fund pursuant to C.R.S. 22-43.7-104.

Independent Auditor's Report

To the Members of the Legislative Audit Committee
State of Colorado, Department of Revenue, Lottery Division
Denver, Colorado

Report on the Financial Statements
We have audited the accompanying financial statements of the Colorado Lottery, an enterprise fund of the State of Colorado, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Colorado Lottery's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Colorado Lottery as of June 30, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Notes 2 and 14 the Colorado Lottery has adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions*, which has resulted in a restatement of the net position as of July 1, 2017. In accordance with GASB Statement No. 75, the 2017 financial statements have not been restated to reflect this change. Our opinion is not modified with respect to this matter.

Relationship with the State of Colorado

As discussed in Note 1 – Nature of Operations and Summary of Significant Accounting Policies, the financial statements of the Colorado Lottery are intended to present the financial position and cash flows for only that portion of the financial reporting entity, the State of Colorado, which is attributable to the transactions of the Colorado Lottery. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2018 and 2017, and the changes in its financial position, or, where applicable, its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 21, the schedule of the Colorado Lottery's proportionate share of the net pension liability, the schedule of the Colorado Lottery's contributions for the Colorado Lottery's defined benefit pension plan on pages 68 through 69, as well as the schedule of the Colorado Lottery's proportionate share of the net OPEB liability and the schedule of Colorado Lottery's contributions for the Lottery's OPEB through the Health Care Trust Fund on pages 70 through 71 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Colorado Lottery's basic financial statements. The Schedule of Revenues and Costs for Scratch and Jackpot Games, Schedule of Percent of Prize Expense to Gross Ticket Sales and Budgetary Comparison (Supplementary Information) are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2018 on our consideration of the Colorado Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Colorado Lottery's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Colorado Lottery's internal control over financial reporting and compliance.

Eide Bailly LLP

Fort Collins, Colorado
October 23, 2018

This discussion and analysis of the Colorado Lottery's financial performance provides an overview of financial activities for the Fiscal Years ended June 30, 2018 and 2017. Please read it in conjunction with the Lottery's financial statements, which begin on page 23. These financial statements reflect only activities of the Colorado Lottery.

Games Offered by the Colorado Lottery

Currently, the Lottery offers two different ways to play: scratch games and jackpot games. Scratch games consist of pre-printed tickets that may be purchased for various prices ($1, $2, $3, $5, $10, $20 and $50) at any Lottery retailer. When scratched, they provide instant knowledge if the ticket is a winner and can be cashed immediately at the retailer if the amount of the winnings is $599 or less. Prizes over $599 must be redeemed at the Lottery offices. On the other hand, jackpot games which include Powerball, Lotto, Cash 5, Mega Millions, Pick 3, and Lucky For Life 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 possibly more playing boards for one draw or up to thirteen weeks of draws. Each board consists of a set of numbers, with the combination of numbers required for play varying by game. The winning numbers for each game are posted after their respective draw, with drawings held every day of the week. 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 if the amounts of the total winnings by ticket are $599 or less. Tickets with prizes over $599 must be redeemed at the Lottery offices. Also offered by Colorado Lottery, the add-on game Cash 5 EZ Match gives players the opportunity to pay an extra $1 per Cash 5 ticket for the chance to win a randomly assigned instant prize (a jackpot ticket purchase with the instant winning experience of a scratch ticket). With no draw involved and with prizes ranging from $2 to $500, winning tickets may be cashed instantly at the retailer.

Financial Highlights

- The Colorado Lottery's overall sales performance was record setting for Fiscal Year 2018. Coming in at $612.0 million, this was the highest sales year in the Lottery's thirty-six year history and the first time sales surpassed the $600 million mark. Fiscal Year 2016 with total sales of $594.4 million moved to the second highest sales year, while Fiscal Year 2013 sales of $566.3 million moved to the third spot. Overall sales for Fiscal Year 2018 reflected a $56.7 million or 10.2 percent increase over Fiscal Year 2017 with record-breaking sales on both the scratch and jackpot sides. Leading the way, scratch sales ended at $407.5 million or 7.2 percent higher than the previous fiscal year's scratch sales. With a $5.2 million boost in holiday sales in December 2017 compared to the prior December and a strong finish to the remaining six months of the fiscal year, scratch sales broke the $400 million mark for the first time in Lottery history. With several long jackpot runs and the resulting higher Powerball and Mega Millions jackpots, total jackpot sales benefitted and ended at $204.5 million, a 16.8 percent increase over Fiscal Year 2017. Again, a sales mark never reached before—$200 million in jackpot sales—was achieved.

- Funds distributed or available for distribution from Fiscal Year 2018 sales were over $140.7 million, second highest in the Lottery's history. Fiscal Year 2018 distributions included a spill-over of funds to the Public School Capital Construction Assistance Fund of $4.1 million. This spill-over occurred when the Great Outdoors Colorado (GOCO) proceeds cap of nearly $66.3 million in the current fiscal year was reached. 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. This was the seventeenth year in a row the Lottery successfully reached the GOCO cap, ranging from $46.5 million in Fiscal Year 2002 to the nearly $66.3 million in the current fiscal year. Since its start in Fiscal Year 2009, the spill-over going to Building Excellent Schools Today (BEST), a capital construction grant program administered by the Public School Capital Construction Assistance Fund, has totaled nearly $40.7 million.

- Fiscal Year 2018 gross profit (Lottery product sales minus costs tied directly to those sales) as a percent of sales decreased by 1.3 percent from the previous fiscal year (from 29.0 percent to nearly 27.7 percent). Costs tied directly to sales include prize expense, retailer commissions and bonuses, scratch ticket costs and vendor fees charged for the use of the jackpot gaming systems provided by the third party vendor International Game Technology (IGT). An increase of 1.2 percent in prize expense as a percentage of sales was the chief reason for the overall 1.3 percent decrease in the gross profit percentage. In addition, bonuses paid to retailers and vendor fees paid to the jackpot gaming systems provider combined for an increase of nearly 0.3 percent as a percentage of sales. These increases were offset by a 0.1 percent as a percentage of sales drop in the costs of commissions paid to retailers and of the costs for printing and license property fees of scratch tickets sold from Fiscal Year 2017 to Fiscal Year 2018.

- Total prize expense as a percentage of sales for all Lottery products increased from 61.5 percent to 62.7 percent in Fiscal Years 2017 and 2018, respectively, with increases from 67.5 percent to 68.9 percent for scratch games and from 48.4 percent to 50.3 percent for combined jackpot games. The increased prize expense as a percentage of sales seen in Fiscal Year 2018 over Fiscal Year 2017 for both scratch and jackpot games was mainly due to the decrease in unclaimed prizes recognized in the current fiscal year. The write off of prizes that expire and are no longer available to be claimed by Lottery players ultimately lowers the prize expense as a percentage of sales. Unclaimed prizes in the current fiscal year dropped by a total of $3.0 million, with a $1.1 million decrease in scratch unclaimed prizes and $1.9 million decrease in jackpot unclaimed prizes, from the unpredictably high total of unclaimed prizes written off in the previous fiscal year. Additionally, scratch prize expense as a percentage of sales increased in Fiscal Year 2018 due to the introduction of a $50 scratch game in December 2017 and the required booking of its $3 million second-chance drawing prize to prize expense at the start of the game.

- Retailer commissions as a percentage of sales decreased slightly from Fiscal Year 2017 to Fiscal Year 2018 due to the higher percentage of jackpot products sold compared to scratch products in Fiscal Year 2018. Jackpot product sales carry a lesser commission rate than the sales of scratch products. Retailer bonuses as a percentage of sales increased mainly due to the substantial increase of scratch product sales in the current fiscal year on which the sales bonuses were based. Combined retailer commission and bonus costs as a percentage of sales in Fiscal Years 2018 and 2017 were 7.5 percent and 7.3 percent, respectively. Cost of tickets sold in Fiscal Year 2018 decreased 0.1 percent as a percentage of sales from the previous fiscal year due to the mix of scratch games offered and their associated printing and licensed property fee costs, when they existed. More games were offered in Fiscal Year 2017 compared to the current fiscal year that carried a higher price per ticket sold for the use of the licensed name on the tickets. Vendor fees increased slightly in Fiscal Year 2018 due both to the continued increase in the use by Lottery players of the self-serving Gemini terminals to purchase their lottery tickets that carries a slightly higher vendor fee rate and due to the vendor fees paid for the use of signs displaying jackpot amounts provided by the gaming vendor.

Using this Annual Report

This annual report consists of a series of financial statements. The Statements of Net Position provide information about the Lottery's assets, liabilities and deferred inflows and outflows and reflect the Lottery's financial position as of June 30, 2018 and 2017. The Statements of Revenues, Expenses and Changes in Net Position report the activity of selling the Lottery products and the expenses related to such activity for the years ended June 30, 2018 and 2017. Finally, the Statements of Cash Flows outline the cash inflows and outflows related to the activity of selling the Lottery products for the years ended June 30, 2018 and 2017.

Statements of Net Position

The Statements of Net Position present a financial snapshot of the Lottery at June 30, 2018 and 2017. It presents the fiscal resources of the Lottery (assets), the consumption of net assets that is applicable to a future reporting period (deferred outflows), the claims against those resources (liabilities), the acquisition of net assets that is applicable to a future reporting period (deferred inflows) and the residual available for future operations (net position). Assets and liabilities are classified by liquidity as either current or noncurrent.

Deferred outflows are reported in a separate section following assets, with deferred inflows reported in a separate section following liabilities. Net position is classified by the ways in which these assets may be used for future operations.

Condensed Statements of Net Position
June 30, 2018, 2017, and 2016

	2018	2017	2016
Assets			
Current assets	$ 68,768,925	$ 67,863,202	$ 70,565,459
Restricted assets	7,012,424	6,516,413	6,465,986
Capital assets	284,956	285,567	438,258
Total assets	$ 76,066,305	$ 74,665,182	$ 77,469,703
Deferred Outflows			
Pensions	$ 9,748,300	$ 12,888,492	$ 2,865,826
Other postemployment benefits	64,281	-	-
Total deferred outflows	$ 9,812,581	$ 12,888,492	$ 2,865,826
Liabilities			
Current liabilities	$ 73,250,713	$ 71,502,770	$ 73,990,705
Long-term liabilities	810,865	780,887	782,973
Net pension liability	45,852,060	41,110,831	25,257,445
Net other postemployment benefits liability	1,066,928	-	-
Total liabilities	$ 120,980,566	$ 113,394,488	$ 100,031,123
Deferred Inflows			
Pensions	$ 2,165,329	$ 1,427,150	$ 1,066,323
Other postemployment benefits	17,849	-	-
Total deferred inflows	$ 2,183,178	$ 1,427,150	$ 1,066,323
Net Position			
Net Investment in Capital Assets	$ 284,956	$ 285,567	$ 438,258
Restricted – Licensed Agent Recovery Reserve	593,286	516,720	424,591
Restricted – Operating Reserve	1,700,000	1,600,000	1,500,000
Unrestricted - Unrealized Gain/Loss on Investments	(573,515)	(20,762)	333,176
Unrestricted - Unfunded Pension Liability	(38,269,089)	(29,649,489)	(23,457,942)
Unrestricted - Unfunded Other Postemployment Benefits Liability	(1,020,496)	-	-
Total net position	$ (37,284,858)	$ (27,267,964) [1]	$ (20,761,917)

[1] Beginning net position at July 1, 2017 was restated to adopt the provisions of GASB Statement No. 75. See Note 14 - Adoption of New Standard.

The Lottery's total assets at June 30, 2018 were nearly $76.1 million. Assets consisted primarily of cash and investments of $47.0 million, including restricted balances of $2.3 million, receivables from Lottery retailers for the sales of Lottery products of $22.1 million, prepaid prize expense with Multi-State Lottery Association (MUSL) of $4.7 million, scratch ticket inventory of nearly $1.9 million and a net investment in fixed assets of nearly $0.3 million.

Comparable figures at June 30, 2017 were $74.7 million in total assets, principally including cash and investments of $47.4 million, including restricted balances of $2.1 million, receivables from retailers of $21.0 million, prepaid prize expense with MUSL of over $4.4million, scratch ticket inventory of over $1.4 million and a net investment in fixed assets of nearly $0.3 million.

Comparable figures at June 30, 2016 were $77.5 million in total assets, principally including cash and investments of $50.1 million, including restricted balances of $1.9 million, receivables from retailers of $20.9 million, prepaid prize expense with MUSL of over $4.5 million, scratch ticket inventory of nearly $1.5 million and a net investment in fixed assets of over $0.4 million.

The Lottery's total assets increased by $1.4 million from Fiscal Year 2017 to Fiscal Year 2018. The increase in total assets was primarily made up of the increases in receivables from retailers of nearly $1.1 million, in scratch ticket inventory of $0.4 million and in prepaid prize expense with MUSL of $0.3 million, offset by a decrease in cash and investments of $0.4 million. A change in receivables from retailers from fiscal year end to fiscal year end is directly tied to the number of days billed to retailers but not collected and the sales levels seen during those days. With nearly the same sales levels at Fiscal Year 2018 and 2017 year end, the $1.1 million increase in receivables from retailers can be attributed to the one additional day of receivables in Fiscal Year 2018 compared to Fiscal Year 2017 (9 days versus 8 days, respectfully). The Lottery's total assets decreased by $2.8 million from Fiscal Year 2016 to Fiscal Year 2017. This decrease was primarily made up of decreases in cash and investments of $2.6 million, in net investment in fixed assets of over $0.1 million, and in MUSL prepaid prize expense of $0.1 million.

The Lottery's total liabilities at June 30, 2018 totaled nearly $121.0 million, which consisted primarily of net pension liability of nearly $45.9 million recorded in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, GASB Statement No. 71 and GASB Statement No. 73, prize liability on all Lottery products of nearly $37.1 million, proceeds distributions due to recipients of nearly $30.5 million, over $2.6 million due to retailers for bonuses, $1.4 million due to MUSL, net other postemployment benefits liability (OPEB) of nearly $1.1 million recorded in accordance with the newly issued GASB Statement No. 75, and wages and benefits due to Lottery employees of $0.9 million.

The Lottery's total liabilities at June 30, 2017 totaled $113.4 million, which consisted primarily of net pension liability of $41.1 million, prize liability on all Lottery products of nearly $35.4 million, proceeds distributions due to recipients of $32.7 million, over $1.2 million due to retailers for bonuses, and MUSL payments due and wages and benefits due to Lottery employees of $0.8 million each.

The Lottery's total liabilities at June 30, 2016 totaled over $100.0 million, which consisted primarily of prize liability on all Lottery products of nearly $38.0 million, proceeds distributions due to recipients of $31.9 million, net pension liability of nearly $25.3 million tied to the GASB Statements mentioned above, nearly $1.0 million due to Lottery vendors and retailer bonus payments due of over $1.8 million.

The Lottery's total liabilities of nearly $121.0 million at June 30, 2018 increased by $7.6 million over the previous fiscal year chiefly due to the over $4.7 million increase in the net pension liability, the over $1.7 million increase in prize liability, the $1.4 million increase in retailer bonus liability, the nearly $0.6 million increase in the amount due to MUSL and the nearly $0.2 million increase in vendor liability, plus the addition of the $1.1 million in net OPEB liability due to the implementation of GASB 75, offset by a decrease of $2.3 million in funds available for proceeds distribution. Remaining liability categories showed much smaller changes from June 30, 2017 to June 30, 2018.

The Lottery's total liabilities of $113.4 million at June 30, 2017 increased by nearly $13.4 million over the previous fiscal year chiefly due to the over $15.8 million increase in the net pension liability, the $0.8 million increase in funds available for proceeds distribution, and the nearly $0.3 million increase in the amount due to MUSL, offset by decreases of $2.6 million in prize liability, $0.6 million in retailer bonus liability and $0.4 million in vendor liability. Remaining liability categories showed much smaller changes from June 30, 2016 to June 30, 2017.

Components of the Lottery's net position are: 1) an amount to represent the Lottery's net investment in capital assets as required by the reporting model under GASB Statement No. 34, (see "Total Capital Assets" on the Statements of Net Position); 2) a Licensed Agent Recovery Reserve (bonding reserve) funded by retailers in accordance with Section 24-35-219, C.R.S. to cover any uncollectible receivable accounts; 3) an amount representing the funds held by the Lottery in an operating reserve to ensure the operation of the Lottery for the ensuing year in accordance with Section 24-35-210 (4.1)(a), C.R.S. (see "Cash and Investments – Operating Reserve") on the Statements of Net Position; 4) unrestricted, unrealized gain/loss on investments, which represents an adjustment made by the Lottery to reflect its share of unrealized gains or losses on investments held by the State Treasurer, 5) unrestricted, unfunded pension liability, which represents the Lottery's share of the State's unfunded net pension liability as calculated by PERA and 6) unrestricted, unfunded OPEB liability, which represents the Lottery's share of the State's unfunded net liability for the Health Care Trust Fund as calculated by PERA.

The Lottery's total net position decreased $9.0 million from June 30, 2017 to June 30, 2018 after the restatement of net position at July 1, 2017. This included 1) a minimal change in investment in capital assets due to the depreciation expense of $176 thousand recognized in Fiscal Year 2018, totally offset by current year additions of capital assets of $176 thousand; 2) an increase in the Licensed Agent Recovery Reserve (also known as bonding reserve) from $517 thousand to $593 thousand; 3) a net increase in operating reserve of $100 thousand from $1.6 million to $1.7 million; 4) an unrealized loss on investments of $553 thousand resulting from a net decrease in the adjustments on State Treasury investments; 5) a net increase in unfunded net pension liability and related deferrals of $8.6 million; and 6) a net increase in unfunded net OPEB liability and related deferrals of $1.0 million due to the new GASB 75 reporting requirement.

Following is a schedule of net position for Fiscal Years 2018 and 2017:

	2018	2017	Change
Net Investment in Capital Assets	$ 284,956	$ 285,567	$ (611)
Restricted - Licensed Agent Recovery Reserve	593,286	516,720	76,566
Restricted - Operating Reserve	1,700,000	1,600,000	100,000
Unrestricted - Unrealized Gain or Loss on Investments	(573,515)	(20,762)	(552,753)
Unrestricted - Unfunded Pension Liability	(38,269,089)	(29,649,489)	(8,619,600)
Unrestricted - Unfunded Other Postemployment Benefits Liability	(1,020,496)	-	(1,020,496)
Total net position	$ (37,284,858)	$ (27,267,964)	$ (10,016,894)

The change in net position from June 30, 2016 to June 30, 2017 consisted of a decrease in investment in capital assets of $153 thousand due to the depreciation expense of $197 thousand recognized in Fiscal Year 2017 combined with a net loss of $8 thousand on the disposal of fixed assets offset by current year additions of capital assets of $52 thousand, an increase in the bonding reserve from $425 thousand to $517 thousand, a net increase in operating reserve of $100 thousand from $1.5 million to $1.6 million, an unrealized loss on investments of $354 thousand resulting from a net decrease in the adjustments on State Treasury investments, and a net increase in unfunded pension liability of $6.2 million for a total net decrease in net position of $6.5 million.

Following is a schedule of net position for Fiscal Years 2017 and 2016:

	2017	2016	Change
Net Investment in Capital Assets	$ 285,567	$ 438,258	$ (152,691)
Restricted - Licensed Agent Recovery Reserve	516,720	424,591	92,129
Restricted - Operating Reserve	1,600,000	1,500,000	100,000
Unrestricted - Unrealized Gain or Loss on Investments	(20,762)	333,176	(353,938)
Unrestricted - Unfunded Pension Liability	(29,649,489)	(23,457,942)	(6,191,547)
Total net position	$ (27,267,964)	$ (20,761,917)	$ (6,506,047)

Following is a schedule of net position excluding the effects of the reporting requirements of GASB 68 and GASB 75.

	2018	2017	2016
Total Net Position	$ (37,284,858)	$ (27,267,964)	$ (20,761,917)
Add back Unrestricted - Unfunded Pension Liability	38,269,089	29,649,489	23,457,942
Add back Unrestricted - Unfunded Other Postemployment Benefits Liability	1,020,496	-	-
Net position excluding pension and OPEB effect	$ 2,004,727	$ 2,381,525	$ 2,696,025

The Lottery's net position excluding the effects of GASB 68 and GASB 75 decreased by $377 thousand from June 30, 2017 to June 30, 2018 and by nearly $315 thousand from June 30, 2016 to June 30, 2017. The decreases are tied chiefly to the unrealized loss on investments resulting from the net decrease in the adjustments on State Treasury investments. The other three components of the Lottery's net position, as explained above, combine for a positive and relatively unchanged net position of $2.6 million, $2.4 million and $2.4 million at June 30, 2018, June 30, 2017, and June 30, 2016, respectively.

Statements of Revenues, Expenses and Changes in Net Position

The statements of revenues, expenses and changes in net position present 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 Position
For the Fiscal Years Ended June 30, 2018, 2017, and 2016

	2018	2017	2016
Operating Revenues	$ 611,993,333	$ 555,333,490	$ 594,411,905
Direct Operating Expenses	442,729,142	394,451,245	426,499,528
Gross Profit on Sale of Tickets	169,264,191	160,882,245	167,912,377
Other Operating Expenses			
Marketing and communications	13,597,868	13,634,184	11,295,008
Wages and benefits	10,067,087	9,411,009	9,223,414
Other operating expenses	5,785,369	5,168,772	5,353,196
Total Other Operating Expenses	29,450,324	28,213,965	25,871,618
Other Operating Revenue	163,651	177,409	858,465
Total Operating Income	139,977,518	132,845,689	142,899,224
Nonoperating Revenues (Expenses)			
Investment income	382,486	314,792	813,205
Unfunded pension expense	(8,619,600)	(6,191,547)	(765,943)
Unfunded OPEB expense	(19,676)	-	-
Proceeds distributions	(140,736,802)	(133,474,981)	(143,570,004)
Total Nonoperating Expenses	(148,993,592)	(139,351,736)	(143,522,742)
Net Loss	$ (9,016,074)	$ (6,506,047)	$ (623,518)
Net Position, Beginning of Year	$ (27,267,964)	$ (20,761,917)	$ (20,138,399)
Restatement - Adoption of New Accounting Standard	(1,000,820)	-	-
Net Position, Beginning of Year, as Restated	(28,268,784)	(20,761,917)	(20,138,399)
Net Change in Net Position	(9,016,074)	(6,506,047)	(623,518)
Net Position, End of Year	$ (37,284,858)	$ (27,267,964)	$ (20,761,917)

Sales Activities

With an early boost to jackpot sales from the nearly $759 million Powerball jackpot reached in August 2017 and the record setting pace of scratch sales starting during the holiday season and continuing through the remainder of the fiscal year, revenues from the sales of Lottery products for the Fiscal Year ended June 30, 2018 ended at an all-time record of $612.0 million. Sales revenues for the current fiscal year were up from the previous fiscal year by nearly $56.7 million, representing a 10.2 percent increase in overall sales. Fiscal Year 2017 sales revenues of $555.3 million were down from the previous fiscal year of 2016 by $39.1 million, representing a 6.6 percent drop. At $594.4 million, Fiscal Year 2016 held the previous highest total sales mark prior to the completion of the current fiscal year.

Fiscal Year 2018 scratch sales of $407.5 million represented a nearly $27.3 million or 7.2 percent increase from the prior fiscal year scratch sales of $380.2 million and a new all-time scratch sales record, breaking the old record by $12.3 million. Starting in the month of November 2017 and continuing through the end of the fiscal year, scratch sales were up when compared to the prior fiscal year month over month. The introduction of the second $50 scratch game in Lottery history in December 2017 resulted in a $9.1 million or 41.2 percent increase in ticket sales at that price level over the sales of the remaining inventory of the first $50 priced ticket seen in Fiscal Year 2017. Sales of the $3, $5, $10 and $20 priced tickets, led by a jump in the $20 priced tickets of $8.0 million, combined for a $21.6 million increase in scratch sales compared to Fiscal Year 2017, offset by a decline in sales of the lower $1 and $2 priced tickets of $3.5 million. The introduction of three new $20 priced scratch games, including ones with $1 million and $750 thousand top prizes, resulted in the nearly 11.0 percent increase in sales at that price point.

Fiscal Year 2017 scratch sales of over $380.2 million represented a $14.9 million or 3.8 percent decrease from Fiscal Year 2016 scratch sales of $395.2 million, the previous scratch sales fiscal-year record. The decline in sales in Fiscal Year 2017 can be attributed to the $13.5 million decline in sales of the first $50 priced ticket introduced in the previous fiscal year of 2016 and the $10.9 million drop in sales of the $1, $2, $3, $5 and $20 priced tickets combined. An increase of $9.5 million in the $10 priced games offset this decline and was the bright spot in Fiscal Year 2017 scratch sales when compared to the prior fiscal year.

Combined jackpot game sales also reached record setting levels in Fiscal Year 2018. Jackpot sales for the current fiscal year ended at $204.5 million, a $29.4 million or 16.8 percent increase over the previous fiscal year and a nearly $5.3 million increase over the previous record of $199.2 million seen in Fiscal Year 2016. The increase in jackpot game sales can be attributed to the higher sales associated with three Powerball and two Mega Millions jackpots that reached the $450 million level or higher throughout the current fiscal year, with the Powerball jackpot of $758.7 million mentioned earlier the highest. Changes in late October 2017 to the Mega Millions game of its number combination matrix and from a $1.00 to $2.00 priced game contributed to higher sales, in and of itself, but also to the subsequent, longer jackpot runs that also drove up sales. This resulted in a $12.6 million or 48.9 percent increase in Mega Million sales over the previous fiscal year. Fiscal Year 2018 Powerball sales jumped nearly $15.2 million or 20.8 percent over Fiscal Year 2017. Combined sales of $77.9 million from all other jackpot products (Lotto, Cash 5 with Cash 5 EZ Match, Pick 3 and Lucky For Life) remained relatively flat in Fiscal Year 2018 with a modest $1.7 million increase over the sales of the same products in the previous fiscal year.

Fiscal Year 2017 jackpot game sales saw a $24.2 million decrease from Fiscal Year 2016 jackpot sales. This was due to the drop off of Powerball sales of $42.1 million, with more "normal" jackpot levels seen throughout the fiscal year as compared to the unprecedented nearly $1.6 billion Powerball jackpot seen in January 2016 of the previous fiscal year. Additionally, Fiscal Year 2017 saw declines in Mega Millions sales of $3.0 million and in Cash 5 base game sales of nearly $1.4 million. The introduction of the new Lucky For Life game and the Cash EZ Match add-on game and the addition of a midday draw for Pick 3 increased jackpot sales by $19.1 million for these games. This, plus an increase in Lotto sales of $3.2 million due to fewer, yet higher jackpots in Fiscal Year 2017, brought the total decrease in jackpot sales to $24.2 million or a 12.1 percent drop.

The following tables compare Lottery product sales between fiscal years.

Product Sales	2018	2017	Difference	Change
Scratch	$ 407,489,335	$ 380,249,492	$ 27,239,843	7.2 %
Powerball	88,156,321	73,002,056	15,154,265	20.8
Lotto	28,462,945	30,609,106	(2,146,161)	(7.0)
Mega Millions	38,401,894	25,789,410	12,612,484	48.9
Cash 5	17,666,933	17,632,114	34,819	0.2
Cash 5 EZ Match	3,881,956	1,060,341	2,821,615	266.1
Pick 3	12,247,661	10,995,867	1,251,794	11.4
Lucky For Life	15,686,288	15,995,104	(308,816)	(1.9)
Total	$ 611,993,333	$ 555,333,490	$ 56,659,843	10.2

Product Sales	2017	2016	Difference	Change
Scratch	$ 380,249,492	$ 395,162,447	$ (14,912,955)	(3.8) %
Powerball	73,002,056	115,122,117	(42,120,061)	(36.6)
Lotto	30,609,106	27,422,320	3,186,786	11.6
Mega Millions	25,789,410	28,763,801	(2,974,391)	(10.3)
Cash 5	17,632,114	18,991,636	(1,359,522)	(7.2)
Cash 5 EZ Match	1,060,341	-	1,060,341	N/A
Pick 3	10,995,867	8,949,584	2,046,283	22.9
Lucky For Life	15,995,104	-	15,995,104	N/A
Total	$ 555,333,490	$ 594,411,905	$ (39,078,415)	(6.6)

Other Operating Revenues

Other operating revenues for both the Fiscal Years ended June 30, 2018 and June 30, 2017 totaled $0.2 million with a slight decrease in the current fiscal year of only $14 thousand. Other operating revenues mainly represent the net change in the bonding reserve mentioned earlier, amounts collected from Lottery retailers for annual licensing fees, liquidated damages charged to the jackpot gaming vendor for failure to satisfy or perform the duties and obligations as outlined in their contract between them and the Lottery, and fees the Lottery is allowed to charge retailers for failure to clear their weekly sweep of amounts owed.

Nonoperating Revenues

Nonoperating revenues for the years ended June 30, 2018 and June 30, 2017 totaled $0.4 million and $0.3 million, respectively. The major reason for the nearly $68 thousand increase was due to the $267 thousand net increase in nonoperating interest revenue earned on investments held by the Treasury and by the MUSL group mainly due to an increase in the average cash balances held and in the interest rate paid on investments throughout the current fiscal year. An increase in the Lottery's share of the unrealized losses on investments held by the Treasury tied to the GASB Statement No. 31 adjustment recording offset this amount. The adjustment resulted in a decrease in revenue of $199 thousand due to the change from a net loss of $354 thousand recorded in Fiscal Year 2017 to a net loss of $553 thousand recorded in Fiscal Year 2018.

Total Revenues

Total revenues were $612.5 million and $555.8 million for the years ended June 30, 2018 and 2017, respectively. The major contributing factor to the increase in total revenues of approximately $56.7 million was primarily due to the overall 10.2 percent increase in jackpot and scratch game sales for a total increase of over $56.6 million in game sales in the current fiscal year. In addition, other operating revenue and investment income combined for a modest increase of $54 thousand as outlined above.

Major Expenses

The Lottery incurred over $442.7 million or 93.8 percent of its total expenses of $472.2 million for Fiscal Year ended June 30, 2018 in direct support of the Lottery games. These expenses include prize expense, retailer compensation, money spent to purchase scratch tickets and compensation to the vendor who maintains and supports the jackpot gaming system. Of the over $442.7 million spent in Fiscal Year 2018 for the direct support of the Lottery games; $383.5 million was for prize expense associated with those games.

In comparison, approximately $394.5 million or 93.3 percent of the Lottery's total expenses of $422.7 million for the Fiscal Year ended June 30, 2017 were game-related expenses. Of the $394.5 million spent in Fiscal Year 2017 for direct support of the Lottery games, $341.5 million was spent for prize expense associated with those games.

Total prize expense in Fiscal Year 2018 increased nearly $42.0 million from Fiscal Year 2017. Based on the overall prize expense as a percentage of sales of 61.5 percent in Fiscal Year 2017 and on the overall sales increase of nearly $56.7 million in Fiscal Year 2018, a $33.2 million increase in prize expense would have been expected. The additional nearly $8.8 million increase in prize expense can be primarily attributed, as mentioned earlier, to the drop in unclaimed prizes written off in Fiscal Year 2018, and to the booking of the second-chance drawing for the $50 scratch game, and to a lesser degree to the change in sales product mix and the associated prize expense percentage tied to the games played. Total unclaimed prizes decreased from $13.2 million or 2.4% of sales in Fiscal Year 2017 to nearly $10.2 million or 1.7% of sales in Fiscal Year 2018 for a total increase to prize expense of $3.0 million. The booking of the second-chance drawing prize at the start of the $50 scratch game increased prize expense by $3 million. The remaining $2.8 million increase in prize expense can be attributed to several factors. In the scratch area, when compared to the prior fiscal year, Fiscal Year 2018 saw shifts in the sales mix to the higher priced games, especially to the $20 and to the new $50 price point games from the $1 and $2 price point games. The higher priced games carry a higher prize expense percentage and, therefore, increase the price expense as a percentage in sales. In the jackpot area, the overall prize expense percentage increased by 0.5 percent after removing the effect of the drop in unclaimed prizes.

The primary reason for the increase was due to the increase in the Lotto prize expense as a percentage of sales in the current fiscal year. It significantly increased when compared to the prior fiscal year due to the number of Lotto jackpot hits seen in Fiscal Year 2018 – 7 jackpots compared to Fiscal Year 2017 – 4 jackpots. When the Lotto jackpot is hit, the next initial jackpot of $1 million must be funded, increasing the prize expense of the Lotto game by $500,000 for each hit. The overall 1.9 percent product shift from scratch sales (from 68.5 percent of total sales to 66.6 percent) to jackpots sales (from 31.5 percent of total sales to 33.4 percent) had little effect to the overall prize expense change in the current fiscal year compared to Fiscal Year 2017 due to the increase in jackpot prize expense as a percentage of sales in Fiscal Year 2018.

Total prize expense in Fiscal Year 2017 decreased $29.0 million from Fiscal Year 2016. Based on the overall prize expense as a percentage of sales of 62.3 percent in Fiscal Year 2016 and on the overall sales decrease of $39.1 million in Fiscal Year 2017, a $24.4 million decrease in prize expense would have been expected. The additional $4.6 million decrease in prize expense in Fiscal Year 2017 compared to Fiscal Year 2016 can be attributed to several factors. These included the jump in unclaimed prizes, that ultimately lowers prize expense, from $9.5 million or 1.6 percent of sales in Fiscal Year 2016 to $13.2 million or 2.4 percent of sales in Fiscal Year 2017; a shift in sales due to the sellout of inventory from the first $50 scratch game to the lower priced scratch games with carry a lower associated prize expense; and due to a significant drop in the Lotto prize expense due to the smaller number of jackpot hits mentioned above.

As a percentage of sales, the overall other game-related expenses other than prize expense increased from 9.5 percent in Fiscal Year 2017 to 9.7 percent in Fiscal Year 2018. Increases in retailer bonuses and vendor fees cost percentages were offset by a decrease in retailer commissions and cost of tickets percentages. Following are tables comparing the game-related expenses between Fiscal Years 2018 and 2017:

Game-Related Expenses	2018	% of Sales	2017	% of Sales	Difference	Change in % of Sales
Prize Expense						
Scratch	$ 280,699,778	68.9 %	$ 256,841,122	67.5 %	$ 23,858,656	1.4 %
Powerball	41,966,627	47.6	33,189,585	45.5	8,777,042	2.1
Lotto	15,298,252	53.7	14,569,038	47.6	729,214	6.1
Mega Millions	18,667,694	48.6	11,408,993	44.2	7,258,701	4.4
Cash 5	9,550,117	54.1	9,294,847	52.7	255,270	1.4
Cash 5 EZ Match	2,293,935	59.1	648,493	61.2	1,645,442	(2.1)
Pick 3	5,923,621	48.4	5,509,525	50.1	414,096	(1.7)
Lucky For Life	9,087,701	57.9	10,056,946	62.9	(969,245)	(5.0)
Total prize expense	383,487,725	62.7	341,518,549	61.5	41,969,176	1.2
Retailer compensation						
Commissions	40,701,692	6.7	37,031,098	6.7	3,670,594	-
Bonuses	5,424,871	0.9	3,694,336	0.6	1,730,535	0.3
Ticket costs	2,624,629	0.4	2,950,426	0.5	(325,797)	(0.1)
Vendor fees	10,490,225	1.7	9,256,836	1.7	1,233,389	-
Total direct op. exp.	$ 442,729,142	72.4 %	$ 394,451,245	71.1 %	$ 48,277,897	1.3 %

Following are tables comparing the game-related expenses between Fiscal Years 2017 and 2016:

Game-Related Expenses	2017	% of Sales	2016	% of Sales	Difference	Change in % of Sales
Prize Expense						
Scratch	$ 256,841,122	67.5 %	$ 269,831,938	68.3 %	$ (12,990,816)	(0.8) %
Powerball	33,189,585	45.5	55,934,400	48.6	(22,744,815)	(3.1)
Lotto	14,569,038	47.6	16,170,096	59.0	(1,601,058)	(11.4)
Mega Millions	11,408,993	44.2	13,838,464	48.1	(2,429,471)	(3.9)
Cash 5	9,294,847	52.7	10,399,581	54.8	(1,104,734)	(2.1)
Cash 5 EZ Match	648,493	61.2	-	N/A	648,493	N/A
Pick 3	5,509,525	50.1	4,339,071	48.5	1,170,454	1.6
Lucky For Life	10,056,946	62.9	-	N/A	10,056,946	N/A
Total prize expense	341,518,549	61.5	370,513,550	62.3	$ (28,995,001)	(0.8)
Retailer compensation						
Commissions	37,031,098	6.7	39,527,758	6.7	(2,496,660)	-
Bonuses	3,694,336	0.6	4,394,548	0.7	(700,212)	(0.1)
Ticket costs	2,950,426	0.5	2,486,931	0.4	463,495	0.1
Vendor fees	9,256,836	1.7	9,576,741	1.6	(319,905)	0.1
Total direct op. exp.	$ 394,451,245	71.1 %	$ 426,499,528	71.7 %	$ (32,048,283)	(0.6) %

Non game-related expenses totaled over $29.4 million in Fiscal Year 2018 compared to $28.2 million in Fiscal Year 2017, a $1.2 million or 4.4 percent increase. Of the $29.4 million non game-related expenses in Fiscal Year 2018, $13.6 million was for marketing agency fees, promotions, and institutional and product advertising compared to nearly the same amount in Fiscal Year 2017. Increases in specific product advertising, special events and research costs were more than offset by decreases in proceeds, advertising and free ticket promotion costs due to the reimbursement from the MUSL group for Powerball ticket giveaways with a cost of $164 thousand. Other significant non game-related expenses included $10.1 million for wages and benefits, $1.7 million for payments made to other state agencies including indirect cost allocations paid to the Department of Revenue and the Office of Information Technology (OIT) and audit costs paid to the Office of the State Auditor and $1.0 million for delivery of scratch games. Increases in non game-related expenses for wages and benefits (nearly $0.7 million), auditing costs ($0.3 million), and combined increases of delivery, space rental, equipment costs ($0.2 million) were offset by smaller decreases in telephone, marketing, depreciation and travel expenses ($0.1 million).

Non game-related expenses totaled $28.2 million in Fiscal Year 2017 compared to $25.9 million in Fiscal Year 2016, a $2.3 million or nearly 9.1 percent increase. Of the $28.2 million non game-related expenses in Fiscal Year 2017, $13.6 million was for marketing agency fees, promotions and institutional and product advertising. The increase was chiefly due to a nearly $2.3 million increase in specific product and proceeds advertising costs tied to the advertising for new games over the previous fiscal year's amount of $11.3. Other significant non game-related expenses included $9.4 million for wages and benefits, $1.4 million for payments made to other state agencies including indirect cost allocations paid to the Department of Revenue and to the Office of Information Technology, $0.9 million for delivery of scratch games, and $0.8 million for building rental expenses. Increases in non game-related expenses of the indirect cost allocation for the Lottery's share of Department of Revenue overhead ($0.3 million), of wages and benefits (nearly $0.2 million), and of equipment maintenance ($0.1 million) were offset by decreases in expenses of equipment purchases ($0.3 million) and of depreciation (over $0.2 million).

Nonoperating Expenses

Nonoperating expenses excluding distribution of proceeds were $8.6 million in Fiscal Year 2018 compared to $6.2 million in Fiscal Year 2017 for unfunded pension expense, tied to the requirements of GASB Statement No. 68, GASB Statement No. 71, and GASB Statement No. 73 and $19,676 in the current year for unfunded OPEB expense tied to the requirements of GASB Statement No 75.

Distributions to the Proceeds Recipients

The Lottery's proceeds distribution for Fiscal Year 2018 totaled $140.7 million, the second highest proceeds amount in the Lottery's history and an increase of $7.3 million or 5.4 percent from the Fiscal Year 2017 proceeds amount of $133.5 million. Fiscal Year 2016, with proceeds distribution totaling $143.6 million, remained the fiscal year with the highest proceeds amount. As a percentage of total revenue, the Lottery returned 23.0 percent in Fiscal Year 2018, a decrease of 1.0 percent from the 24.0 percent in Fiscal Year 2017. Of these total proceeds, nearly $66.3 million, the cap amount, was allocated to the Great Outdoors Colorado Trust Fund, $56.3 million to the Conservation Trust Fund and nearly $14.1 million to the Division of Parks and Outdoor Recreation per the distribution formula stated in Colorado Revised Statutes (C.R.S.) 24-35-210. Due to the fact that the maximum distribution to Great Outdoors Colorado of nearly $66.3 million, pursuant to C.R.S. 33-60-104(1)(c) and 33-60-104(2), was reached, $4.1 million spilled over into the Public School Capital Construction Assistance Fund pursuant to C.R.S. 22-43.7-104 (2)(b)(III).

Capital Assets

The Lottery's investment in net capital assets at June 30, 2018, 2017, and 2016, amounted to $0.3 million, $0.3 million, and $0.4 million, respectively. The investment in capital assets as of June 30, 2018, 2017, and 2016 included computer equipment, servers, back office computer system, drawing equipment, modular furniture, cameras, recorders and leasehold improvements net of accumulated depreciation. The asset values of equipment decreased by $611 from Fiscal Year 2017 to Fiscal Year 2018.

The $74 thousand net increase in equipment from Fiscal Year 2017 to Fiscal Year 2018 was due to the nearly $174 thousand purchase and capitalization of computer equipment and software and upgrades to the video conferencing and phone systems netted against the write off of fully-depreciated miscellaneous computer and security equipment of $100 thousand. The decrease in equipment from Fiscal Year 2016 to Fiscal Year 2017 was due to the purchase and capitalization of miscellaneous computer equipment and a Wi-Fi system upgrade totaling nearly $52 thousand, more than offset by the write off of miscellaneous computer equipment for $139 thousand. Capital assets are shown on the Statement of Net Position at the cost on the day of acquisition.

Analysis of changes in capital assets is as follows:

Capital Assets as of
June 30, 2018, 2017, and 2016

	2018	2017	2016
Capital Assets			
Equipment	$ 5,998,573	$ 5,924,273	$ 6,011,671
Leasehold Improvements	64,711	64,711	64,711
Less: Accumulated Depreciation	(5,778,328)	(5,703,417)	(5,638,124)
Net capital assets	$ 284,956	$ 285,567	$ 438,258

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. Many of the appropriation lines in the Long Bill are at the Department of Revenue (department) level, and the department has the discretion to allocate them among each agency within the department. 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. Department level re-allocations were approved in variable vehicle, leased space and vehicle lease payments. The final method of funding is special legislation. There was no special legislation affecting the Lottery's budget in Fiscal Year 2018.

The approved Lottery budget at the beginning of Fiscal Year 2018 was $502.4 million. Department level reallocations approved throughout the fiscal year decreased the overall budget slightly by $13,779 to an amended total of over $502.3 million. Total expenditures and roll-forwards for Fiscal Year 2018 on a budget basis came to $472.9 million, resulting in excess appropriations (or savings) of $29.4 million.

Economic Outlook

According to The Colorado Outlook - Economic and Fiscal Review for June, 2018 published by the Governor's Office of State Planning and Budgeting, Colorado's economic growth remains strong throughout most sectors of the state's economy with expectations of continued growth in the future. Unemployment rates remain among the lowest in the nation; and as the formation of new businesses continue to grow, job opportunities will be expanded. As the Colorado economy grows, so does the confidence of its citizens and their willingness to spend.

Building on the State's and its own recent successes, the Colorado Lottery is projecting sales of $608 million and proceeds to recipients of $139.1 million for Fiscal Year 2019. The Lottery is once again expecting to exceed the statutory capped amount that is distributed to Great Outdoors Colorado with a spillover to the BEST program of over $1 million. With the continued increase to the GOCO cap amount, however, the projected spillover amount is lower than in the prior fiscal year.

The Lottery expects to achieve these goals by making its products and mission more relevant to more people by appealing to the infrequent or lapsed players and to millennial audiences while reinvigorating its core players. This will be achieved through its products, support from marketing and sales, and through the ongoing messaging of proceeds.

By generating unique products with various advertising and promotional efforts, the Lottery plans to continue the sales successes of its scratch products. Fiscal Year 2019 will see the return of the *$10 Golden Ticket* that sold in record time in Fiscal Year 2017. The colorful and dazzling *Holiday* line along with a new *family of games* will be supported with strong advertising campaigns. The introduction of new tickets at all price point levels, including licensed property tickets, will excite the core players while appealing to other audiences.

Jackpot games remain the most profitable of the products offered by the Lottery. As such, the Lottery will strive to maintain awareness and encourage play of the full jackpot game portfolio. Through jackpot amount advertisement, specific game advertisement and promotional giveaways, the Lottery will continue to promote awareness and renewed interest in jackpot games. Additionally, jackpot games will be incorporating a second-chance element with a new phone app in Fiscal Year 2019, similar to the scratch product.

The Lottery supports its more than 3,200 retailers as they play a vital role in the sale of the Lottery's products. Through merchandizing, promotions and retailer motivation, the Lottery sales team will continue to assist retailers in maximizing their marketing potential and earnings. Continued retailer recruitment will play a large role in meeting the goals set by the Lottery.

The Lottery will continue to weave the brand look and image it has so carefully built throughout everything it does. With an emphasis on its primary mission of maximizing proceeds for the people of Colorado, the Lottery will strive to attract players with not only an opportunity to win but with an opportunity to feel good about playing. The Lottery's brand, products and proceeds message will continue to be brought to life across all marketing areas including in the Lottery's website, in email communications, at retail locations, through the many events and sponsorships the Lottery participates in across the state, and through the Lottery's news media and social media channels.

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 2017 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 Nancy Bartosz, the Colorado Lottery's Controller, 225 North Main Street, Pueblo, CO 81003***.***

COLORADO LOTTERY
Statements of Net Position
June 30, 2018 and 2017

	2018	2017
ASSETS		
Current Assets:		
Cash and Investments	$ 44,741,997	$ 45,319,051
Accounts Receivable, net of the allowance for doubtful accounts of $122,970 in 2018 and $151,555 in 2017	22,062,655	21,001,734
Consignment Inventory, at Cost	100,948	162,080
Warehouse Inventory, at Cost	1,769,127	1,284,359
Prepaid Expenses	94,198	95,978
Total Current Assets	68,768,925	67,863,202
Reserved and Restricted Assets:		
Cash and Investments-Operating Reserve	1,700,000	1,600,000
Cash and Investments-Licensed Agent Recovery Reserve Receipts	593,286	516,720
Prepaid Prize Expense with MUSL	4,719,138	4,399,693
Total Reserved and Restricted Assets	7,012,424	6,516,413
Capital Assets:		
Equipment	5,998,573	5,924,273
Leasehold Improvements	64,711	64,711
Less Accumulated Depreciation and Amortization	(5,778,328)	(5,703,417)
Total Capital Assets	284,956	285,567
TOTAL ASSETS	76,066,305	74,665,182
DEFERRED OUTFLOWS		
Pensions	9,748,300	12,888,492
Other Postemployment Benefits	64,281	-
TOTAL DEFERRED OUTFLOWS	9,812,581	12,888,492
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 85,878,886	$ 87,553,674

COLORADO LOTTERY
Statements of Net Position
June 30, 2018 and 2017

	2018	2017
LIABILITIES		
Current Liabilities:		
Accounts Payable	$ 707,663	$ 543,157
Prize Liability	37,101,507	35,358,009
Payable to MUSL	1,387,224	822,931
Accrued Annual and Sick Leave	3,448	593
Wages and Benefits	927,389	806,265
Retailer Bonus Liability	2,659,524	1,227,820
Funds Available for Distribution	30,463,958	32,743,995
Total Current Liabilities	73,250,713	71,502,770
Long-Term Liabilities:		
Accrued Annual and Sick Leave	784,134	749,741
Expired Warrants Liability	26,731	31,146
Net Pension Liability	45,852,060	41,110,831
Other Postemployment Benefits Liability	1,066,928	-
Total Long-Term Liabilities	47,729,853	41,891,718
TOTAL LIABILITIES	120,980,566	113,394,488
DEFERRED INFLOWS		
Pensions	2,165,329	1,427,150
Other Postemployment Benefits	17,849	-
TOTAL DEFERRED INFLOWS	2,183,178	1,427,150
NET POSITION		
Net Investment in Capital Assets	284,956	285,567
Restricted-Licensed Agent Recovery Reserve	593,286	516,720
Restricted-Operating Reserve	1,700,000	1,600,000
Unrestricted (deficit)	(39,863,100)	(29,670,251)
TOTAL NET POSITION	(37,284,858)	(27,267,964)
TOTAL LIABILITIES AND NET POSITION	$ 85,878,886	$ 87,553,674

COLORADO LOTTERY
Statements of Revenues, Expenses, and Changes in Fund Net Position
For the Years Ended June 30, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Gross Ticket Sales	$ 611,993,333	$ 555,333,490
DIRECT OPERATING EXPENSES		
Prize Expense	383,487,725	341,518,549
Retailer Commissions and Bonuses	46,126,563	40,725,434
Cost of Tickets and Vendor Fees	13,114,854	12,207,262
Total Direct Operating Expenses	442,729,142	394,451,245
GROSS PROFIT ON SALE OF TICKETS	169,264,191	160,882,245
OTHER OPERATING EXPENSES		
Marketing and Communications	13,597,868	13,634,184
Administration Fees Paid to MUSL	127,308	119,397
Wages and Benefits	10,102,264	9,413,153
Professional Services	308,442	274,144
State Agencies Services	1,009,405	712,736
Department of Revenue Services	718,738	702,836
Travel	82,057	96,939
Equipment (including loss on disposition of equipment of $0 and $7,713, respectively)	241,291	184,231
Depreciation	176,158	196,608
Space Rental	889,867	814,119
Rents for Equipment	31,269	28,389
Motor Pool Leasing	315,012	265,607
Materials and Supplies	154,633	103,644
Telephone	174,281	253,274
Equipment Maintenance	332,596	308,589
Printing	14,529	19,047
Delivery Expense	1,011,990	932,271
Other	162,616	154,797
Total Other Operating Expenses	29,450,324	28,213,965
OTHER OPERATING REVENUE	163,651	177,409

See Notes to Financial Statements

COLORADO LOTTERY
Statements of Revenues, Expenses, and Changes in Fund Net Position
(Continued)
For the Years Ended June 30, 2018 and 2017

	2018	2017
TOTAL OPERATING INCOME	$ 139,977,518	$ 132,845,689
NONOPERATING REVENUES (EXPENSES)		
Investment Income	382,486	314,792
Unfunded PERA Pension Expense	(8,619,600)	(6,191,547)
Other Postemployment Benefits Expense	(19,676)	-
Funds Distributed for Current Year	(110,272,844)	(100,730,986)
Funds Available for Distribution for Current Year	(30,463,958)	(32,743,995)
Total Nonoperating Expenses	(148,993,592)	(139,351,736)
NET LOSS	$ (9,016,074)	$ (6,506,047)
NET POSITION, BEGINNING OF YEAR	(27,267,964)	(20,761,917)
Restatement - Adoption of New Accounting Standard	(1,000,820)	-
NET POSITION, BEGINNING OF YEAR, AS RESTATED	(28,268,784)	(20,761,917)
Net Change in Net Position	(9,016,074)	(6,506,047)
NET POSITION, END OF YEAR	$ (37,284,858)	$ (27,267,964)

COLORADO LOTTERY
Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Cash received from retailers	$ 611,338,227	$ 555,809,670
Cash paid in prizes	(380,834,168)	(344,236,811)
Cash paid in retailer commissions	(40,701,692)	(37,031,098)
Cash payments to suppliers	(33,454,467)	(31,145,800)
Cash payments to employees for services	(9,943,892)	(9,354,916)
Cash paid in retailer bonus	(3,994,596)	(4,290,282)
Net cash provided by operating activities	142,409,412	129,750,763
Cash Flows from Noncapital Financing Activities		
Distribution of net proceeds	(143,016,839)	(132,646,354)
Net cash used by noncapital financing activities	(143,016,839)	(132,646,354)
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	(175,547)	(51,631)
Net cash used by capital and related financing activities	(175,547)	(51,631)
Cash Flows from Investing Activities		
Interest received	935,239	668,730
Change in fair market value of investments	(552,753)	(353,938)
Net cash provided by investing activities	382,486	314,792
Decrease in Cash and Investments	(400,488)	(2,632,430)
Cash and Investments, Beginning of Year (including $2,116,720 and $1,924,591 in restricted accounts for 2018 and 2017, respectively)	47,435,771	50,068,201
Cash and Investments, End of Year, (including $2,293,286 and $2,116,720 in restricted accounts for 2018 and 2017, respectively)	$ 47,035,283	$ 47,435,771

COLORADO LOTTERY
Statements of Cash Flows
(Continued)
For the Years Ended June 30, 2018 and 2017

	2018	2017
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 139,977,518	$ 132,845,689
Adjustments of reconcile operating income to net cash provided by operating activities		
Depreciation	176,158	196,608
Gain on disposition of equipment	-	7,713
Change in:		
Accounts Receivable	(1,060,921)	(123,755)
Warehouse and Consignment Inventory	(423,636)	25,476
Prepaid Expenses	1,780	(24,023)
Prepaid Prize Expense with MUSL	(319,445)	141,702
Liabilities (excluding funds available for distribution)	4,057,958	(3,318,647)
Net cash provided by operating activities	$ 142,409,412	$ 129,750,763
Reconciliation of Cash and Investments		
Cash and investments	$ 44,741,997	$ 45,319,051
Restricted cash and investments- Licensed Agent Recovery Reserve	593,286	516,720
Restricted cash and investments- Operating Reserve	1,700,000	1,600,000
Cash and Investments, End of Year	$ 47,035,283	$ 47,435,771

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 games and jackpot games including Lotto, Powerball, Cash 5, Cash 5 EZ Match, Mega Millions, Pick 3, and Lucky For Life.

The financial statements reflect activities of the Lottery, an enterprise fund of the State of Colorado, for the Fiscal Years ended June 30, 2018 and 2017. The Lottery is an agency of the State of Colorado. The financial statements are intended to present the financial position and results of operations and cash flows of only that portion of the State of Colorado that is attributable to the transactions of the Lottery in accordance with accounting principles generally accepted in the United States of America.

The accounting policies of the Lottery conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources 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 position 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 position, revenues and expenditures.

Enterprise Fund

The Lottery accounts for its operations as an enterprise fund. The intent of the State of Colorado Legislature is that the Lottery's costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. 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 prize payments, 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.

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions

The Lottery participates in the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the SDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. Governmental accounting standards require the net pension liability and related amounts of the SDTF for financial reporting purposes be measured using the plan provisions in effect as of the SDTF's measurement date of December 31, 2017. As such, the following disclosures do not include the changes to plan provisions required by SB 18-200 with the exception of the section titled *Changes between the measurement date of the net pension liability and June 30, 2018.*

Other Postemployment Benefits (OPEB)

The Lottery participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the HCTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefits paid on behalf of health care participants are recognized when due and/or payable in accordance with the benefit terms. Investments are reported at fair value.

Basis of Accounting

Basis of accounting refers to when revenues and 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, Cash 5, Cash 5 EZ Match, Mega Millions, Pick 3, and Lucky For Life ticket sales are recognized when the tickets are sold. Prize expense for scratch tickets is recognized at the point of ticket activation. Prize expense for Lotto, Powerball, Cash 5, Cash 5 EZ Match, Mega Millions, Pick 3, and Lucky For Life is recognized when tickets are sold. Other operating expenses are recognized when they are incurred.

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budget

By October 24th of each year, the Department of Revenue Executive Director submits to the Governor's Office of State Planning and Budgeting a proposed legislative budget for the fiscal year commencing the following July 1. The legislative budget includes proposed expenditures and the means of financing them.

Public hearings are conducted by the Joint Budget Committee to obtain clarification and taxpayer comments. Prior to June 30, the budget is legally enacted through passage of a law referred to as the Long Bill.

During the fiscal year, the approved legislative budget may be modified due to roll-forward authorization, supplemental budget approval or line item transfer authorization. All modifications must be approved by the State Controller and the Office of State Planning and 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 jackpot game sales. Billable accounts receivable consist of amounts due from retailers for settled scratch ticket packs and uncollected jackpot game sales. Billable accounts receivable is invoiced weekly and is electronically transferred from the retailers' accounts into the Lottery's account one week following the invoice date.

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, and 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 $122,970 and $151,555 as of June 30, 2018 and 2017, respectively.

Warehouse Inventory

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

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consignment Inventory

Inventory on consignment represents non-activated ticket inventory in the possession of retailers who act as agents of the Lottery. The retailer cannot sell a pack of tickets until the pack is activated by the retailer, which then enables the winning tickets to be cashed. The activation is therefore the point at which the transfer of ownership is recognized. Since the Lottery still owns non-activated tickets, the tickets are included in the inventory and reported on the Statements of Net Position. Consignment inventory 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 Position.

Prepaid Prize Expense

As part of the Lottery's agreement with the Multi-State Lottery Association (MUSL), for both the Powerball and Mega Millions games, a certain percentage of sales must be paid to MUSL, when required, to bring the set prize and grand prize reserves up to the reserve requirement amounts as determined by MUSL. During Fiscal Year 2018, a total of $705,399 was transferred from the Powerball Set Prize Reserve to cover the payment of lower-tier prizes. Repayments of $750,315, including net transfers of $229,203 from the grand prize reserve to the set prize reserve, were made to the meet the rebalanced reserve requirements of the Lottery. At fiscal year end, a total deficit of $380 thousand still existed between the total set prize and grand prize reserve requirements of over $3.5 million and the amount held by MUSL. No payments were required to be made to the Powerball reserves in Fiscal Years 2017 to bring the reserves to the required amounts. Rather in Fiscal Year 2017, MUSL rebalanced the Powerball reserves and new reserve ceilings were determined for each member state. This resulted in a refund of $119,661 of the Powerball reserves. In September 2017, a rebalancing of the total Mega Millions Prize Reserve of $45 million was performed by MUSL and a payment of $433 was required to bring the Lottery's share to the required reserve requirement. With the change to Mega Millions to a $2 game and to its odds of winning in late October 2017, the total reserve requirement was increased to $100 million for all Mega Millions member states. The Lottery's reserve requirement was raised from $1.1 million to over $2.3 million at that point in time. Payments of $406,129, representing two percent of sales, were made from October 2017 to March 2018. A subsequent reserve rebalance done in March 2018 (based on sales of the previous year April 2017 to March 2018) raised the Lottery's reserve requirement to $2.7 million. The additional two percent payments continued through the end of the fiscal year in the amount of $154,116 and with a total of $56,946 transferred from the Mega Millions Prize Reserve to cover the payment of lower-tier prizes in May 2018, the Mega Millions Prize reserve totaled over $1.5 million at the end of Fiscal Year 2018. With an over $1.1 million deficit to the required amount, payments to MUSL will continue into the following fiscal year until the required amount is reached. During Fiscal Year 2017 a total of $140,713 was transferred from the Mega Million Prize Reserve to cover the payment of lower-tier prizes. Of this amount, repayments of $118,669 were subsequently required to be made back to MUSL to meet the rebalanced reserve requirement, resulting in a net decrease of the Mega Millions reserve of $22,044. In addition, with the Lottery's approval, MUSL holds small amounts in an unreserved account to be used to pay miscellaneous, unforeseen expenses. The unreserved account included in prepaid prize expense at June 30, 2018 and June 30, 2017 was nominal at $3.

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets, which include internal use computer software, equipment, vehicles, and leasehold improvements, are stated at cost. The Lottery adheres to 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 and internal use computer software is computed on the straight-line method over estimated useful lives ranging from three to ten years. Depreciation for vehicles is computed on the straight-line method over an estimated useful life of five years. Leasehold improvements are depreciated over the greater of five years or the term of the lease. 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statements of Net Position includes a separate section for deferred outflows of resources. This separate element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Lottery's Deferred Outflows for Pensions and OPEB represents the amount of pension and health care trust fund contributions made to the State plans subsequent to the December 31, 2017 measurement date, the deferred variance in expected to actual investment earnings, the deferred experience gains and losses, changes in employer proportion and differences between contributions recognized and proportionate share of contributions and changes in assumptions.

In addition to liabilities, the Statements of Net Position includes a separate section for deferred inflows of resources. This separate element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Lottery's Deferred Inflows for Pensions and OPEB represents the change in the Lottery's "proportionate share" developed to distribute the aggregate plan liability and expense among all the employers' represented by the cost-sharing multiple-employer defined benefit pension plan in which the Lottery participates, the deferred experience gains and losses, and the change in pension and health care investments.

Accrued Wages and Benefits

At the end of each fiscal year, the state shifts the pay date for the month of June for employees paid on a monthly basis, deferring the date from the last working day of June to the first working day of July. For the Lottery, along with other minor payroll accruals, this created a liability for accrued wages and benefits at June 30, 2018 and 2017 of $927,389 and $806,265, respectively.

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, the Lottery continues to meet this requirement. Additional prize expense and corresponding liability may be incurred as a result of market fluctuations in the cost of annuities used to pay various jackpots (see Note 11).

All scratch, jackpot game and special drawing prizes are accounted for using the accrual basis of accounting. Scratch prize liability and expense are recognized at the point of ticket pack activation. The liability and expense for jackpot game prizes are recognized at the point of retail sale and are adjusted as the jackpot game draws occur and actual prize liability is determined. The liability for special drawing prizes is accrued on the first day of sales of the associated game. Prize liability for all games is reduced as prizes are paid to winners. The net prize liability at June 30, 2018 and 2017 was $37,101,507 and $35,358,009, respectively.

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. Retailer accounts are credited for any prize payments retailers 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 accrued as a liability 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 $6,137,678 for Fiscal Year ended June 30, 2018 and $7,259,105 for Fiscal Year ended June 30, 2017.

Payments of cumulative jackpot game 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. Retailer accounts are credited for any prize payments retailers make on a daily basis. Jackpot game prizes may be claimed up to 180 days after the date of the drawing. After the final claim date, unclaimed jackpot game 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 jackpot game prizes resulted in a decrease to prize expense of $4,010,642 for Fiscal Year ended June 30, 2018 and $5,920,255 for Fiscal Year ended June 30, 2017.

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retailer Bonus Liability

Pursuant to provisions 5.17, 10.13 and 14.19 of the Colorado Lottery Commission Rules and Regulations, each licensee is entitled to receive a cashing bonus of one percent (1%) of each prize paid by the licensee up to and including $599.99**.** In addition, a marketing performance bonus up to five-tenths of one percent (0.5%) of total product sales may be earned by licensees that meet the criteria set forth by the Lottery Director or their designee. In the event there is a residual from the accrual of the one percent (1%) cashing bonus and/or the five-tenths (0.5%) marketing bonus, the Director may provide additional compensation to licensees or may revert the excess amount thereby decreasing the bonus expense.

The cashing bonus is accrued as tickets are sold and paid as winning tickets are redeemed. The write off of the accrued cashing bonus liability tied to unclaimed prizes at the end of the 180-day claim period in Fiscal Years 2018 and 2017 is recorded as a reduction of bonus expense.

The marketing performance bonus is accrued monthly and paid to retailers in accordance with the criteria as set out in the fiscal year marketing performance plan as approved by the Director. The write off of any excess marketing performance bonus accrued is recorded as a reduction of bonus expense.

Licensed Agent Recovery Reserve

Under the provisions of Section 24-35-219, C.R.S., a Licensed Agent Recovery Reserve, established on January 1, 1988, is used 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, 2018 and June 30, 2017, the Lottery had reserved $593,286 and $516,720, respectively. The Lottery utilizes restricted net position before using unrestricted net position for bad debts.

Lottery Fund Net Position

In accordance with Section 24-35-210 (4.1)(a), C.R.S., the Lottery is required to reserve "sufficient monies, as of the end of the fiscal year, to ensure the operation of the Lottery for the ensuing fiscal year." The moneys reserved by the lottery shall be held in cash and investments.

In June 2002 the Lottery Commission approved a balance in net assets "equal to the net value of the Lottery's capital assets". As of June 30, 2018 and June 30, 2017, the Lottery had reserved $284,956 and $285,567, respectively.

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 is reviewed annually and adjusted accordingly. The annual reviews were completed in January 2018 and December 2016. The reserve increased to $1.7 million in Fiscal Year 2018 from the $1.6 million in Fiscal Year 2017, in accordance with the reviews.

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equipment Expense

Included in “The Statement of Revenues, Expenses, and Changes in Fund Net Position” is an account titled equipment. This account reports the gain or loss on disposed assets, fixed asset purchases under the capitalization threshold, 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 upon termination. In addition, employees who are classified as non-exempt from overtime pay have accumulated overtime which must be taken as compensatory time or paid. The estimated cost of compensated absences for which employees are vested is as follows:

	June 30, 2017	Increases	Decreases	June 30, 2018
Annual leave	$ 646,901	$ 547,795	$ (534,048)	$ 660,648
Sick leave	102,591	44,868	(23,438)	124,021
Total annual and sick leave	749,492	592,663	(557,486)	784,669
Compensatory time	842	15,420	(13,349)	2,913
Total compensated leave	$ 750,334	$ 608,083	$ (570,835)	$ 787,582

	June 30, 2016	Increases	Decreases	June 30, 2017
Annual leave	$ 641,192	$ 531,492	$ (525,783)	$ 646,901
Sick leave	106,156	38,126	(41,691)	102,591
Total annual and sick leave	747,348	569,618	(567,474)	749,492
Compensatory time	472	3,383	(3,013)	842
Total compensated leave	$ 747,820	$ 573,001	$ (570,487)	$ 750,334

The short-term portion of the above accrued annual and sick leave at June 30, 2018 and June 30, 2017 is $3,448 and $593, respectively. This represents the amount to be paid out to known current employees planning to retire and cash in their leave balances within the next twelve months.

Expired Warrants Liability

Expired warrants liability represents the expiration of aged uncashed warrants and imprest checks that 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.

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Lottery must request reimbursement from the Unclaimed Property Fund for any warrants presented for payment that expired after June 30, 2003. No request for reimbursement was made for Fiscal Years ending June 30, 2018 and June 30, 2017 from the Unclaimed Property Fund.

Promotional Activity

The Lottery engages in three types of promotional activities in an attempt to enhance sales, to increase player awareness and to increase the player base: special promotions and drawings, direct giveaways, and buy x-get-y. The number and amount of promotional activities can and do vary year over year due to such factors as budget availability, retailer and special events participation, and new product introductions. Specific promotional coupons/tickets are distributed/awarded to players through special promotions and drawings and can be redeemed/claimed at any lottery office for a specified Lottery product. Specific promotional coupons/tickets with a total face value of $3,904 and $1,700 were redeemed in Fiscal Years ended June 30, 2018 June 30, 2017, respectively.

Scratch and jackpot game 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, 2018 and June 30, 2017, scratch tickets with a total face value of $156,729 and $169,867, respectively, were given away. No free jackpot tickets were given away in Fiscal Year 2018, while free jackpot tickets with a total face value of $600 were given away in Fiscal Year 2017.

For the "buy x-get-y" promotions, players are given the opportunity to receive a "free" jackpot ticket when a qualifying purchase is made, for instance buy five Lotto tickets receive a free Pick 3 ticket. During the Fiscal Year ended June 30, 2018, Powerball jackpot game tickets with a total face value of $328,182 were given away with several different buy x qualifiers. The associated prize expense of the tickets of $164,091 was reimbursed by MUSL through the approved use of the funds by the Powerball Group. During the Fiscal Year ended June 30, 2017, Lotto jackpot game tickets with a total face value of $612,477 were given away during a "Buy $4 of Lucky For Life Tickets, Get a Free Lotto Ticket" promotion, used to introduce the new Lucky For Life game to Colorado players while promoting a game with which players were already familiar.

Scratch and jackpot game tickets and coupon promotions are valued at cost. For the Fiscal Years ended June 30, 2018 and June 30, 2017, $118,673 and $435,200, respectively, were recorded as costs related to special promotions and drawings, direct giveaways, and free tickets. These costs were included in Marketing and Communications expense in the statements of revenues, expenses and changes in fund net position.

NOTE 2 – Change in Accounting Policy

Implementation GASB Statement No. 75

As of July 1, 2017, the Lottery adopted GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions*. The implementation of this standard replaces the requirements of GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* and requires governments calculate and report the costs and obligations associated with postemployment benefits other than pensions (OPEB) in their basic financial statements. Employers are required to recognize OPEB amounts for all benefits provided through the plan which include the Net OPEB Liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense. The effect of the implementation of this standard on beginning net position is disclosed in Note 14 and the additional disclosures required by this standard is included in Note 10.

NOTE 3 – CASH AND INVESTMENTS

Cash

Cash includes petty cash funds, change funds, an imprest account, a depository account and cash on deposit with the State Treasurer. A detail of cash at June 30, 2018 and 2017 is as follows:

	2018	2017
Petty cash	$ 1,150	$ 1,150
Change funds	73,000	73,000
Imprest account	169,000	168,000
Depository accounts	50,000	50,000
Cash on deposit with State Treasurer	44,448,847	45,026,901
Total unrestricted cash and investments	44,741,997	45,319,051
Restricted cash and investments - Licensed Agent		
Recovery Reserve Receipts on deposit with State Treasurer	593,286	516,720
Operating Reserve on deposit with State Treasurer	1,700,000	1,600,000
Total restricted cash and investments	2,293,286	2,116,720
Total cash and investments	$ 47,035,283	$ 47,435,771

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 2018 and 2017 was 1.65% and 1.13%, respectively.

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

In addition, the State Treasurer pools these deposits and invests them in securities approved by Section 24-75-601.1, C.R.S. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2018, the Lottery had cash on deposit with the State Treasurer of $46,742,133, which represented approximately 0.6 percent of the total $7,635.8 million fair value of deposits in the State Treasurer's Pool (Pool).

On the basis of the Lottery's participation in the Pool, the Lottery reports as an increase or decrease in cash its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The State Treasurer does not invest any of the Pool's resources in any external investment pool, and there is no assignment of income related to participation in the Pool. The unrealized gains/losses included in income reflect only the change in fair value for the fiscal year.

Additional information on investments of the State Treasurer's Pool may be obtained in the State's Comprehensive Annual Financial Report for the year ended June 30, 2018.

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.

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.

Statements of Cash Flows

The statements of cash flows are 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.

NOTE 4 – SCHEDULE OF CHANGES IN CAPITAL ASSETS

	June 30, 2017	Increases	Decreases	June 30, 2018
Capital assets being depreciated:				
Equipment and software	$ 5,924,273	$ 175,547	$ (101,247)	$ 5,998,573
Leasehold improvements	64,711	-	-	64,711
Total historical costs	5,988,984	175,547	(101,247)	6,063,284
Less accumulated depreciation for equipment	(5,638,706)	(176,158)	101,247	(5,713,617)
Less accumulated depreciation for leasehold improvements	(64,711)	-	-	(64,711)
Total accumulated depreciation	(5,703,417)	(176,158)	101,247	(5,778,328)
Total capital assets, being depreciated, net	$ 285,567	$ (611)	$ -	$ 284,956

	June 30, 2016	Increases	Decreases	June 30, 2017
Capital assets being depreciated:				
Equipment and software	$ 6,011,671	$ 51,631	$ (139,029)	$ 5,924,273
Leasehold improvements	64,711	-	-	64,711
Total historical costs	6,076,382	51,631	(139,029)	5,988,984
Less accumulated depreciation for equipment	(5,573,431)	(196,591)	131,316	(5,638,706)
Less accumulated depreciation for leasehold improvements	(64,693)	(18)	-	(64,711)
Total accumulated depreciation	(5,638,124)	(196,609)	131,316	(5,703,417)
Total capital assets, being depreciated, net	$ 438,258	$ (144,978)	$ (7,713)	$ 285,567

NOTE 5 – OPERATING LEASES

The Lottery occupies office and warehouse space in Pueblo, Denver, 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 and the lease agreement began on June 27, 2005. The original lease was superseded July 31, 2012 when a new lease agreement was executed. A lease amendment was signed on April 9, 2013 to provide the Lottery with funds to offset the costs of equipment and cabling, moving/relocation, and security equipment connected with acquiring the first and mezzanine floors of the building. A new lease amendment was signed on October 18, 2016 to clarify the Lottery's use of landlord owned equipment, and to agree to share the cost of a new uninterruptable power supply and a new power distribution system. The lease expires on June 30, 2022. The lease contains an option to renew for two additional five-year terms commencing on July 1, 2022. 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 new lease agreement with Santa Fe 250 LLC which was signed by the State Controller's Office on June 10, 2016 and became effective July 1, 2016 and expires June 30, 2019. The warehouse loft space included in the prior lease was eliminated from the agreement along with physical access to the loft. The lease contains an option to renew for two additional three-year term commencing on July 1, 2019. The lease also contains a holdover clause where the Lottery will become a month-to-month tenant if the Lottery fails to vacate the premises upon expiration or sooner termination of this lease. The rent to be paid by the Lottery during such continued occupancy shall be the same being paid by the Lottery as of the date of expiration or sooner termination. Landlord and the Lottery each hereby agree to give the other party at least thirty days written notice prior to termination of any holdover tenancy.

Denver

Office – The Lottery occupies office space in the Galleria Towers Building in Denver. The Lottery entered into a lease agreement, which began July 1, 2009 and expires June 30, 2019. The lease contains an option to renew the lease for two (2) consecutive additional periods of five years each. The lease also contains a holdover provision, whereby if the Lottery fails to vacate the premises upon the expiration or sooner termination of the lease, the Lottery will continue making the same monthly rent payment in effect pursuant to the lease agreement as of the date of expiration or sooner termination of the lease. Galleria Acquisitions, Inc. and the Lottery both agree to give each other thirty (30) days written notice prior to the termination of a holdover tenancy period.

Warehouse – On December 11, 2009, the Lottery entered into a lease agreement with Valley Business Corp., Inc. beginning on December 11, 2009 and expiring on June 30, 2015. Exercising its first renewal option, the Lottery executed Amendment #1 to the lease with Valley Business Corp. effective July 23, 2015, which extended the term of the lease from June 30, 2015 through June 30, 2020 and made certain modifications to the existing premises. The lease contains one (1) more option to renew for an additional consecutive period of five years. The lease also contains a holdover provision, whereby if the Lottery fails to vacate the premises upon the expiration or sooner termination of the lease, the Lottery will continue making the same monthly rent payment in effect pursuant to the lease agreement as of the date of expiration or sooner termination of the lease. Valley Business Corp. Inc. and the Lottery both agree to give each other thirty (30) days written notice prior to the termination of a holdover tenancy period.

NOTE 5 – OPERATING LEASES (CONTINUED)

Fort Collins

The Lottery occupies space leased by the Department of Revenue and is responsible for reimbursing the Department of Revenue for lease payments.

Grand Junction

The Lottery occupies space in the Grand Junction State Services Building and is responsible for reimbursing the Capitol Complex Division of the Colorado Department of Personnel and Administration for lease payments.

Wireless Jackpot Signage

Effective June 21, 2016 the Lottery amended the IGT contract providing the jackpot gaming system to include the lease of 1,500 new in-store wireless jackpot signs capable of displaying information regarding jackpot amounts. Installation of the new signs is on a schedule agreed upon from time-to-time by the parties. The lease commenced on the effective date and will expire on June 30, 2021 unless the IGT contract is sooner terminated or further extended.

	FUTURE MINIMUM LEASE PAYMENTS					
LOCATION	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**Later Years**
Pueblo Office	$ 363,685	$ 374,592	$ 385,713	$ 397,261	$ -	$ -
Pueblo Warehouse	168,805	-	-	-	-	-
Denver	223,570	-	-	-	-	-
Denver Warehouse	116,577	119,522	-	-	-	-
In-store signage	373,016	431,424	481,824	-	-	-
	$ 1,245,653	$ 925,538	$ 867,537	$ 397,261	$ -	$ -

NOTE 6 – OTHER REVENUE

A schedule of other revenue for the Fiscal Years ended June 30, 2018 and 2017 follows:

	2018	2017
License fees	$ 62,853	$ 63,756
Fines and penalties	16,403	11,898
Assignment fees	1,200	1,500
Net licensed agent recovery reserve receipts	76,566	92,129
Other	6,629	8,126
Total	$ 163,651	$ 177,409

NOTE 7 – 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 Wildlife 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 in 1992 dollars and is adjusted annually based on the consumer price index, which was calculated to be $66.3 million for the year ended June 30, 2018. Any excess over the limit shall be transferred to the State Public School Capital Construction Assistance Fund.

Income available for distribution at June 30:

	2018	2017
Operating income	$ 139,977,518	$ 132,845,689
Plus: Investment income	382,486	314,792
Less: Unfunded pension expense	(8,619,600)	(6,191,547)
Less: Unfunded other postemployment benefits expense (OBEB)	(19,676)	-
Income before distributions	131,720,728	126,968,934
Change in licensed agent recovery reserve	(76,566)	(92,129)
Change in fair market value of investments	552,753	353,938
Change in operating reserve	(100,000)	(100,000)
Change in investment in capital assets	611	152,691
Add back unfunded pension and OPEB expense not included in distributions calculation	8,639,276	6,191,547
Income available for distribution	140,736,802	133,474,981
Less distributions prior to year-end	(110,272,844)	(100,730,986)
Income available for distribution	$ 30,463,958	$ 32,743,995

NOTE 7 – DISTRIBUTION OF NET PROCEEDS (CONTINUED)

	Accrued at June 30, 2017	Proceed Distribution Expenses	Distributions Paid	Accrued at June 30, 2018
Great Outdoors Colorado	$ 14,098,436	$ 66,250,998	$ (69,234,858)	$ 11,114,576
Public School Capital Construction Assistance Fund	2,273,562	4,117,403	(2,273,562)	4,117,403
Conservation Trust Fund	13,097,598	56,294,721	(57,206,736)	12,185,583
Division of Parks and Outdoor Recreation	3,274,399	14,073,680	(14,301,683)	3,046,396
	$ 32,743,995	$ 140,736,802	$ (143,016,839)	$ 30,463,958

	Accrued at June 30, 2016	Proceed Distribution Expenses	Distributions Paid	Accrued at June 30, 2017
Great Outdoors Colorado	$ 7,887,187	$ 64,463,929	$ (58,252,680)	$ 14,098,436
Public School Capital Construction Assistance Fund	8,070,499	2,273,562	(8,070,499)	2,273,562
Conservation Trust Fund	12,766,147	53,389,992	(53,058,541)	13,097,598
Division of Parks and Outdoor Recreation	3,191,535	13,347,498	(13,264,634)	3,274,399
	$ 31,915,368	$ 133,474,981	$ (132,646,354)	$ 32,743,995

NOTE 8 – PENSION PLANS

Defined Benefit Pension Plan

Plan Description

Eligible employees of the Lottery are provided with pensions through the State Division Trust Fund (SDTF)—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at *www.copera.org/investments/pera-financial-reports*.

NOTE 8 – PENSION PLANS (CONTINUED)

Benefits Provided As of December 31, 2017

PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit

- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

As of December 31, 2017, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve for the SDTF.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. State Troopers whose disability is caused by an on-the-job injury are immediately eligible to apply for disability benefits and do not have to meet the five years of service credit requirement. The disability benefit amount is based on the retirement benefit formula considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

NOTE 8 – PENSION PLANS (CONTINUED)

Contributions provisions as of June 30, 2018

Eligible employees and the Lottery are required to contribute to the SDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, et seq. Eligible employees with the exception of State Troopers are required to contribute 8 percent of their PERA-includable salary.

The employer contribution requirements for all employees except State Troopers are summarized in the table below:

	Fiscal Year 2016		**Fiscal Year 2017**		**Fiscal Year 2018**	
	CY2015	*CY 2016*	*CY2016*	*CY2017*	*CY2017*	*CY2018*
	7/1/15 - 12/31/15	1/1/16 - 6/30/16	7/1/16 - 12/31/16	1/1/17 - 6/30/17	7/1/17 - 12/31/17	1/1/18 - 6/30/18
Employer Contribution Rate	10.15%	10.15%	10.15%	10.15%	10.15%	10.15%
Amount of Employer Contribution Apportioned to the Heath Care Trust Fund as specified in C.R.S. Section 24-51-208(1)(f)	-1.02%	-1.02%	-1.02%	-1.02%	-1.02%	-1.02%
Amount Apportioned to the SDTF	9.13%	9.13%	9.13%	9.13%	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411*	4.20%	4.60%	4.60%	5.00%	5.00%	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411	4.00%	4.50%	4.50%	5.00%	5.00%	5.00%
Total Employer Contribution Rate to the SDTF	17.33%	18.23%	18.23%	19.13%	19.13%	19.13%

*Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Employer contributions are recognized by the SDTF in the period in which the compensation becomes payable to the member and the Lottery is statutorily committed to pay the contributions to the SDTF. Employer contributions recognized by the SDTF from the Lottery were $1,290,829, $1,159,077 and $1,150,328 for the Fiscal Years ended June 30, 2018, 2017, and 2016, respectively and represented 100% of the total required contributions for each year.

NOTE 8 – PENSION PLANS (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018 and 2017, the Lottery reported a liability of $45,852,060 and $41,110,831, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll forward the total pension liability to December 31, 2017. The Lottery proportion of the net pension liability was based on the Lottery contributions to the SDTF for the calendar year 2017 relative to the total contributions of participating employers to the SDTF.

At December 31, 2017, the Lottery proportion was .2290543558 percent, which was an increase of .0052382737 percent from its proportion of .2238160821 percent measured as of December 31, 2016.

For the Fiscal Year ended June 30, 2018 and Fiscal Year ended June 30, 2017, the Lottery recognized pension expense of $9,910,429 and $7,479,410, respectively. At June 30, 2018, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Year ended June 30, 2018		Year ended June 30, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 714,940	$ -	$ 408,646	$ -
Changes of assumptions or other inputs	7,961,666	-	10,458,861	126,541
Net difference between projected and actual earnings on pension plan investments	-	1,726,950	1,362,856	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	428,378	438,379	10,656	1,300,609
Contributions subsequent to the measurement date	643,316	-	647,473	-
Total	$ 9,748,300	$ 2,165,329	$ 12,888,492	$ 1,427,150

The amount of $643,316 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the Fiscal Year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	
2019	$ 6,708,323
2020	1,529,112
2021	(641,510)
2022	(656,270)

NOTE 8 – PENSION PLANS (CONTINUED)

Actuarial assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 – 9.17 percent
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	5.26 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07; and DPS benefit structure (automatic)	2.00 percent
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

A discount rate of 4.72 percent was used in the roll-forward calculation of the total pension liability to the measurement date of December 31, 2017.

Healthy mortality assumptions for active members reflect the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Healthy, post-retirement mortality assumptions reflect the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The actuarial assumptions used in the December 31, 2016, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting.

NOTE 8 – PENSION PLANS (CONTINUED)

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016.

Several factors were considered in evaluating the long-term rate of return assumption for the SDTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent adoption of the long-term expected rate of return by the PERA Board, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return*
U.S. Equity - Large Cap	21.20%	4.30%
U.S. Equity - Small Cap	7.42%	4.80%
Non U.S. Equity - Developed	18.55%	5.20%
Non U.S. Equity - Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income - Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	100.00%	

* In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term results that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

NOTE 8 – PENSION PLANS (CONTINUED)

Discount rate

The discount rate used to measure the total pension liability was 4.72 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.

- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.

- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date, including current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.

- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.

- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.

- Benefit payments and contributions were assumed to be made at the end of the month.

NOTE 8 – PENSION PLANS (CONTINUED)

Based on the above assumptions and methods, the projection test indicates the SDTF's fiduciary net position was projected to be depleted in 2038 and, as a result, the municipal bond index rate was used in the determination of the discount rate. The long-term expected rate of return of 7.25 percent on pension plan investments was applied to periods through 2038 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Bond Buyer, was applied to periods on and after 2038 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.43 percent, resulting in a discount rate of 4.72 percent.

As of the prior measurement date, the long-term expected rate of return on plan investments of 7.25 percent and the municipal bond index rate of 3.86 percent were used in the discount rate determination resulting in a discount rate of 5.26 percent, 0.54 percent higher compared to the current measurement date.

Sensitivity of the Lottery's proportionate share of the net pension liability to changes in the discount rate
The following presents the proportionate share of the net pension liability calculated using the discount rate of 4.72 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.72 percent) or 1-percentage-point higher (5.72 percent) than the current rate:

	1% Decrease (3.72%)	Current Discount Rate (4.72%)	1% Increase (5.72%)
Proportionate share of the net pension liability	$ 57,043,255	$ 45,852,060	$ 36,664,774

Pension plan fiduciary net position

Detailed information about the SDTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

Payables to the pension plan

Changes between the measurement date of the net pension liability and June 30, 2018.

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through SB 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years.* The bill was signed into law by Governor Hickenlooper on June 4, 2018. SB 18-200 makes changes to the plans administered by PERA with the goal of eliminating the unfunded actuarial accrued liability of the Division Trust Funds and thereby reach a 100 percent funded ratio for each division within the next 30 years.

NOTE 8 – PENSION PLANS (CONTINUED)

A brief description of some of the major changes to plan provisions required by SB 18-200 are listed below. A full copy of the bill can be found online at www.leg.colorado.gov.

- Increases employer contribution rates by 0.25 percent on July 1, 2019.
- Increases employee contribution rates by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).
- Directs the state to allocate $225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution will be allocated to the SDTF based on the proportionate amount of annual payroll of the SDTF to the other divisions eligible for the direct distribution.
- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, modifying the highest average salary for employees with less than five years of service credit on December 31, 2019 and raises the retirement age for new employees.
- Member contributions, employer contributions, the direct distribution from the state, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years.
- Expands eligibility to participate in the PERA DC Plan to new members hired on or after January 1, 2019, who are classified college and university employees in the State Division. Beginning January 1, 2021, and every year thereafter, employer contribution rates for the SDTF will be adjusted to include a defined contribution supplement based on the employer contribution amount paid to defined contribution plan participant accounts that would have otherwise gone to the defined benefit trusts to pay down the unfunded liability plus any defined benefit investment earnings thereon.

At June 30, 2018, the Lottery reported a liability of $45,852,060 for its proportionate share of the net pension liability which was measured using the plan provisions in effect as of the pension plan's year-end based on a discount rate of 4.72%. For comparative purposes, the following schedule presents an estimate of what the Lottery's proportionate share of the net pension liability and associated discount rate would have been had the provisions of SB 18-200, applicable to the SDTF, become law on December 31, 2017. This pro forma information was prepared using the fiduciary net position of the SDTF as of December 31, 2017. Future net pension liabilities reported could be materially different based on changes in investment markets, actuarial assumptions, plan experience and other factors.

NOTE 8 – PENSION PLANS (CONTINUED)

Estimated Discount Rate Calculated Using Plan Provisions Required by SB 18-200 (pro forma)	Proportionate Share of the Estimated Net Pension Liability Calculated Using Plan Provisions Required by SB 18-200 (pro forma)
7.25%	$21,742,730

Recognizing that the changes in contribution and benefit provisions also affect the determination of the discount rate used to calculate proportionate share of the net pension liability, approximately $20,461,183 of the estimated reduction is attributable to the use of a 7.25 percent discount rate.

NOTE 9 – OTHER RETIREMENT PLANS

Defined Contribution Plan (DC Plan)

Plan Description

Employees of the State of Colorado that were hired on or after January 1, 2006 and employees of certain community colleges that were hired on or after January 1, 2008 which were eligible to participate in the SDTF, a cost-sharing multiple-employer defined benefit pension plan, have the option to participate in the SDTF or the Defined Contribution Retirement Plan (PERA DC Plan).

SB 18-200 expands eligibility to participate in the PERA DC Plan to new employees hired on or after January 1, 2019, who are classified college and university employees in the State Division. The PERA DC Plan is an Internal Revenue Code Section 401(a) governmental profit-sharing defined contribution plan. Title 24, Article 51, Part 15 of the C.R.S., as amended, assigns the authority to establish Plan provisions to the PERA Board of Trustees. The DC Plan is also included in PERA's comprehensive annual financial report as referred to above.

NOTE 9 – OTHER RETIREMENT PLANS (CONTINUED)

Funding Policy

All participating employees in the PERA DC Plan, with the exception of State Troopers, are required to contribute 8.00 percent of their PERA-includable salary and the State of Colorado is required to contribute 10.15 percent of PERA-includable salary on behalf of these employees. All participating State Troopers are required to contribute 10.00 percent of their PERA-includable salary and the State of Colorado is required to contribute 12.85 percent of PERA-includable salary on behalf of these employees.

Additionally, the State of Colorado is required to contribute AED and SAED to the SDTF as follows:

	Fiscal Year 2016		Fiscal Year 2017		Fiscal Year 2018	
	CY2015	*CY 2016*	*CY2016*	*CY2017*	*CY2017*	*CY2018*
	7/1/15 - 12/31/15	1/1/16 - 6/30/16	7/1/16 - 12/31/16	1/1/17 - 6/30/17	7/1/17 - 12/31/17	1/1/18 - 6/30/18
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411	4.20%	4.60%	4.60%	5.00%	5.00%	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411*	4.00%	4.50%	4.50%	5.00%	5.00%	5.00%
Total Additional Employer Contribution Rate to the SDTF	8.20%	9.10%	9.10%	10.00%	10.00%	10.00%

*Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Contribution requirements are established under Title 24, Article 51, Section 1505 of the C.R.S., as amended. Participating employees of the PERA DC Plan are immediately vested in their own contributions and investment earnings and are immediately 50 percent vested in the amount of employer contributions made on their behalf. For each full year of participation, vesting of employer contributions increases by 10 percent. Forfeitures are used to pay expenses of the PERA DC Plan in accordance with PERA Rule 16.08 as adopted by the PERA Board of Trustees in accordance with Title 24, Article 51, Section 204 of the C.R.S. As a result, forfeitures do not reduce pension expense. The Lottery made contributions to other retirement plans totaling $13,676 during Fiscal Year 2018 and $5,480 during Fiscal Year 2017.

Voluntary Investment Program

Plan Description

Employees of the Lottery that are also members of the SDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial report which includes additional information on the Voluntary Investment Program. That report can be obtained at www.copera.org/investments/pera-financial-reports.

NOTE 9 – OTHER RETIREMENT PLANS (CONTINUED)

Funding Policy

The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. Employees are immediately vested in their own contributions

457 Deferred Compensation Plan

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2017, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution) to a maximum of $18,500. Participants who are age 50 and older, and contributing the maximum amount allowable were allowed to make an additional $6,000 contribution in 2017. Special 457(b) catch-up contributions allow a participant for 3 years prior to the normal retirement age to contribute the lesser of (1) Twice the annual limit ($37,000 in 2015, 2016, and 2017), or (2) The basic annual limit plus the amount of the basic limit not used in prior years (only allowed if not using age 50 or over catch-up contributions). Contributions and earnings are tax deferred. At December 31, 2017, the plan had 18,211 participants.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS

Defined Benefit Other Post Employment Benefit (OPEB) Plan

Plan description

Eligible employees of the Lottery are provided with OPEB through the Health Care Trust Fund (HCTF)—a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. Title 24, Article 51, Part 12 of the C.R.S., as amended, sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of the premium subsidies. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits provided

The HCTF provides a health care premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA health care plans, however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The health care premium subsidy is based upon the benefit structure under which the member retires and the member's years of service credit. For members who retire having service credit with employers in the Denver Public Schools (DPS) Division and one or more of the other four Divisions (State, School, Local Government and Judicial), the premium subsidy is allocated between the HCTF and the Denver Public Schools Health Care Trust Fund (DPS HCTF). The

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS AND LIFE INSURANCE (CONTINUED)

basis for the amount of the premium subsidy funded by each trust fund is the percentage of the member contribution account balance from each division as it relates to the total member contribution account balance from which the retirement benefit is paid.

C.R.S. § 24-51-1202 et seq. specifies the eligibility for enrollment in the health care plans offered by PERA and the amount of the premium subsidy. The law governing a benefit recipient's eligibility for the subsidy and the amount of the subsidy differs slightly depending under which benefit structure the benefits are calculated. All benefit recipients under the PERA benefit structure and all retirees under the DPS benefit structure are eligible for a premium subsidy, if enrolled in a health care plan under PERACare. Upon the death of a DPS benefit structure retiree, no further subsidy is paid.

Enrollment in the PERACare is voluntary and is available to benefit recipients and their eligible dependents, certain surviving spouses, and divorced spouses and guardians, among others. Eligible benefit recipients may enroll into the program upon retirement, upon the occurrence of certain life events, or on an annual basis during an open enrollment period.

PERA Benefit Structure

The maximum service-based premium subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is $115 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 basis for the maximum service-based subsidy, in each case, is for benefit recipients with retirement benefits based on 20 or more years of service credit. There is a 5 percent reduction in the subsidy for each year less than 20. The benefit recipient pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

For benefit recipients who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, C.R.S. § 24-51-1206(4) provides an additional subsidy. According to the statute, PERA cannot charge premiums to benefit recipients without Medicare Part A that are greater than premiums charged to benefit recipients with Part A for the same plan option, coverage level, and service credit. Currently, for each individual PERACare enrollee, the total premium for Medicare coverage is determined assuming plan participants have both Medicare Part A and Part B and the difference in premium cost is paid by the HCTF or the DPS HCTF on behalf of benefit recipients not covered by Medicare Part A.

Contributions

Pursuant to Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the State, School, Local Government, and Judicial Divisions are required to contribute at a rate of 1.02 percent of PERA-includable salary into the HCTF.

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the Lottery is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the Lottery for the Fiscal Years ending June 30, 2018, 2017 and 2016 were $68,826, $65,749, and $64,484.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS AND LIFE INSURANCE (CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the Lottery reported a liability of $1,066,928 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2017. The Lottery's proportion of the net OPEB liability was based on the Lottery's contributions to the HCTF for the calendar year 2017 relative to the total contributions of participating employers to the HCTF.

At December 31, 2017, the Lottery proportion was .0820966264 percent, which was an increase of .0022816838 percent its proportion of .0798149426 percent measured as of December 31, 2016.

For the year ended June 30, 2018, the Lottery recognized OPEB expense of $88,502. At June 30, 2018, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Year ended June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 5,046	$ -
Changes of assumptions or other inputs		-
Net difference between projected and actual earnings on OPEB plan investments	-	17,849
Changes in proportion and differences between contributions recognized and proportionate share of contributions	24,934	-
Contributions subsequent to the measurement date	34,301	N/A
Total	$ 64,281	$ 17,849

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS AND LIFE INSURANCE (CONTINUED)

The amount of $34,301 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30,		
2019	$	1,428
2020		1,428
2021		1,428
2022		1,429
2023		5,890
Thereafer		528
		-

Actuarial assumptions

The total OPEB liability in the December 31, 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 percent in aggregate
Long-term investment rate of return, net of OPEB plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent
Health care cost trend rates	
PERA benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	5.00 percent
Medicare Part A premiums	3.00 percent for 2017, gradually rising to 4.25 percent in 2023
DPS benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	N/A
Medicare Part A premiums	N/A

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each actuarial valuation and on the pattern of sharing of costs between employers of each fund to that point.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS AND LIFE INSURANCE (CONTINUED)

Health care cost trend rates reflect the change in per capita health costs over time due to factors such as medical inflation, utilization, plan design, and technology improvements. For the PERA benefit structure, health care cost trend rates are needed to project the future costs associated with providing benefits to those PERACare enrollees not eligible for premium-free Medicare Part A.

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services. Effective December 31, 2016, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

The PERA benefit structure health care cost trend rates that were used to measure the total OPEB liability are summarized in the table below:

Year	PERACare Medicare Plans	Medicare Part A Premiums
2017	5.00%	3.00%
2018	5.00%	3.25%
2019	5.00%	3.50%
2020	5.00%	3.75%
2021	5.00%	4.00%
2022	5.00%	4.00%
2023	5.00%	4.25%
2024+	5.00%	4.25%

Mortality assumptions for the determination of the total pension liability for each of the Division Trust Funds as shown below are applied, as applicable, in the determination of the total OPEB liability for the HCTF. Affiliated employers of the State, School, Local Government, and Judicial Divisions participate in the HCTF.

Healthy mortality assumptions for active members were based on the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Healthy, post-retirement mortality assumptions for the State and Local Government Divisions were based on the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS AND LIFE INSURANCE (CONTINUED)

Healthy, post-retirement mortality assumptions for the School and Judicial Divisions were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, adjusted as follows:

- Males: Mortality improvement projected to 2018 using the MP-2015 projection scale, a 93 percent factor applied to rates for ages less than 80, a 113 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

- Females: Mortality improvement projected to 2020 using the MP-2015 projection scale, a 68 percent factor applied to rates for ages less than 80, a 106 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The following economic and demographic assumptions were specifically developed for, and used in, the measurement of the obligations for the HCTF:

- The assumed rates of PERACare participation were revised to reflect more closely actual experience.

- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2017 plan year.

- The percentages of PERACare enrollees who will attain age 65 and older ages and are assumed to not qualify for premium-free Medicare Part A coverage were revised to more closely reflect actual experience.

- The percentage of disabled PERACare enrollees who are assumed to not qualify for premium-free Medicare Part A coverage were revised to reflect more closely actual experience.

- Assumed election rates for the PERACare coverage options that would be available to future PERACare enrollees who will qualify for the "No Part A Subsidy" when they retire were revised to more closely reflect actual experience.

- Assumed election rates for the PERACare coverage options that will be available to those current PERACare enrollees, who qualify for the "No Part A Subsidy" but have not reached age 65, were revised to more closely reflect actual experience.

- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

- The rates of PERAcare coverage election for spouses of eligible inactive members and future retirees were revised to more closely reflect actual experience.

- The assumed age differences between future retirees and their participating spouses were revised to reflect more closely actual experience.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS AND LIFE INSURANCE (CONTINUED)

The actuarial assumptions used in the December 31, 2016, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting. In addition, certain actuarial assumptions pertaining to per capita health care costs and their related trends are analyzed and reviewed by PERA's actuary, as needed.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016.

Several factors were considered in evaluating the long-term rate of return assumption for the HCTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent adoption of the long-term expected rate of return by the PERA Board, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return*
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income – Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	**100.00%**	

* In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS AND LIFE INSURANCE (CONTINUED)

Sensitivity of the Lottery's proportionate share of the net OPEB liability to changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability using the current health care cost trend rates applicable to the PERA benefit structure, as well as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates:

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.00%	3.00%	4.00%
Ultimate Medicare Part A trend rate	3.25%	4.25%	5.25%
Net OPEB Liability	$1,037,572	$1,066,928	$1,102,284

Discount rate

The discount rate used to measure the total OPEB liability was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2017, measurement date.

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.

- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date. For future plan members, employer contributions were reduced by the estimated amount of total service costs for future plan members.

- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.

- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits were estimated and included in the projections.

- Benefit payments and contributions were assumed to be made at the end of the month.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS AND LIFE INSURANCE (CONTINUED)

Based on the above assumptions and methods, the projection test indicates the HCTF's fiduciary net position was projected to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent.

Sensitivity of the Lottery's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the proportionate share of the net OPEB liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability	$ 1,199,562	$ 1,066,928	$ 953,721

OPEB plan fiduciary net position

Detailed information about the HCTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

NOTE 11 – 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 prizes in the event the insurance companies issuing the annuity contracts default. The following estimated prize payments for which annuity contracts have been purchased are due in varying amounts and are estimated to continue through September 22, 2079 based on updated life expectancy tables.

Specified prize payments	$96,225,646
Lifetime prize payments	31,459,000
Total guaranteed prize payments	$127,684,646

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 $15,190,000 as of June 30, 2018.

NOTE 11 – CONTINGENCIES AND COMMITMENTS (CONTINUED)

Self-insurance – The State of Colorado currently self-insures its agencies, officials and employees for the risks of losses to which they are exposed. These include general liability, motor vehicle liability, and workers' compensation. The Lottery participates in the Risk Management Fund. State agency premiums are based on an assessment of risk exposure and historical experience. The State Risk Management Fund is a Special Purpose General Fund used for claims adjustment, investigation, defense and authorization for the settlement and payment of claims or judgments against the state. The State insures its property through private carriers and is self-insured against general liability risks for both its officials and employees. It is also self-funded for employee healthcare plans, however, the risk resides with the employees.

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 injuries. The state utilizes the services of BroadspireServices, Inc. to administer its plan. The state reimburses BroadspireServices, Inc. for the current cost of claims paid and related administrative expenses.

Risk management liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

The limits of liability for which the state accepts responsibility pursuant to Section 24-10-114(1), C.R.S., are as follows:

Liability	**Limits of Liability**
General and automobile	Each person $350,000 Each occurrence $990,000

Before January 1, 1999, the Group Benefit Plans Fund provided an employer-paid short-term disability plan for all employees. On January 1, 1999, PERA began covering short-term disability claims for state employees eligible under its retirement plan. The Group Benefit Plans Fund continues to provide short-term disability coverage for employees not yet qualified for the retirement plan and secondary benefits for employees also covered under the PERA short-term disability plan.

The Group Benefit Plans short-term disability program provides an employee with 60 percent of their pay beginning after 30 days of disability or exhausting their sick leave balance, whichever is later. This benefit expires six months after the beginning of the disability. Although fully insured, the Group Benefit Plans disability program includes a risk-sharing feature that provides experience rating refunds calculated as earned premium less the aggregate of incurred claims, claim reserve, retention charge and refunds paid previously over the term of the contract. Refunds, when applicable, are paid annually.

Furniture and Equipment – The State of Colorado carries a $5,000 deductible replacement policy on all state owned furniture and equipment per Colorado Revised Statutes 24-30-1510.5(3)(a)(IV). For each loss incurred, the Lottery is responsible for the first $5,000 of the deductible. Any loss in excess of $5,000 is covered by the insurance carrier up to replacement cost.

NOTE 11 – CONTINGENCIES AND COMMITMENTS (CONTINUED)

Gaming Operations Commitments – The Lottery enters into long-term contracts with certain significant vendors related to providing jackpot data processing services and the design, production, and promotion of scratch tickets in support of the Lottery's gaming operations The Lottery entered into a contract with IGT formally GTECH for jackpot data processing services, effective November 9, 2014 through June 30, 2021. The contract contains an Option to Extend for continued performance for up to a maximum of two (2) two-year extensions. Additionally, upon written notice the Lottery may unilaterally extend the term of the contract beyond the initial term or renewal term for a period not to exceed two months. Effective June 21, 2016 the Lottery amended the IGT contract to include the lease of new in-store wireless jackpot signs, as well as to provide service and replacement of existing in-store wireless jackpot signage. The Lottery also exercised the option to purchase 25 additional Lottery ticket vending machines. The maximum amount payable under the contract, excluding renewal terms if any, is $75,403,000. Payments for the jackpot data processing contract were $11,110,849 for Fiscal Year ended June 30, 2018 and $9,965,028 for Fiscal Year ended June 30, 2017.

For scratch ticket production, the Lottery entered into new contracts with its three scratch ticket vendors beginning July 1, 2017 and ending June 30, 2023. The contracts each contain an option to extend for continued performance for up to a maximum of two (2) two-year extensions. The total costs of the new contracts under the initial term are not to exceed $30,000,000. Payments under these contracts were $3,050,766 for the Fiscal Year ended June 30, 2018.

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.

On November 15, 2012, the MUSL Powerball Group unanimously agreed to accept the recommendations of the Finance & Audit Committee and the Executive Committee and set the Prize Reserve Account (PRA) cap to $80 million reduced from the previous $100 million cap.

The total amount contributed by the Lottery to the Powerball prize reserves as of June 30, 2018 was $3,153,910 and is based on a percentage of sales. This amount is shown as prepaid prize expense – MUSL on the Statements of Net Position. 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. As of June 30, 2018 there were no excess funds held by MUSL over Colorado's required reserves balance of $3,534,261, but rather a deficit of $380,351 of the required balance.

In 2009, the Powerball and Mega Millions governing bodies entered discussions regarding cross-selling the Powerball and Mega Millions games, whereby each state currently selling Mega Millions tickets would also sell Powerball tickets and those states currently selling Powerball tickets would also sell Mega Million tickets. On March 10, 2010, the Lottery commission voted to allow the Colorado Lottery to participate in the cross-selling of the Mega Millions game. The rule became effective as of April 30, 2010 and the first day of ticket sales was May 16, 2010. MUSL agreed to undertake the administrative functions associated with the Mega Millions game for the states currently participating in their Powerball game.

NOTE 11 – CONTINGENCIES AND COMMITMENTS (CONTINUED)

MUSL immediately began collecting a percentage of sales to fund the newly formed Mega Millions prize reserve fund. On March 22, 2013, the MUSL Mega Millions Game Group set the maximum prize reserve fund at $45 million. With the change to the Mega Millions game mentioned earlier, on October 25, 2017 the Group set the maximum prize reserve balance at $100 million. The Group also determined to set the additional prize reserve contribution at 2 percent of sales effective beginning with the drawing of October 31, 2017. Additional contributions will continue until maximum balance amounts are reached. On March 31, 2018 MUSL calculated a new required reserve balance for the Lottery of $2,714,675. The Lottery's balance in the reserve held by MUSL as of June 30, 2018 was $1,565,225; with a deficit of $1,149,451 of the required balance.

In addition, MUSL may deposit and hold any Unreserved Account Funds in trust for the benefit of member lotteries. These funds will not be comingled with any other funds held in trust and can be used only for authorized uses of the unreserved funds. MUSL held a nominal $3 amount in the unreserved fund as of June 30, 2018.

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 beginning on May 21, 2017 and expiring on June 30, 2020. The contract contains an option to extend for continued performance for up to a maximum of two (2) one-year extensions. The total compensation allowed for services performed under the initial term of the contract is $44,850,000. Payments totaling $13,260,190 were made in the Fiscal Year ended June 30, 2018.

Litigation – At times, various suits and claims may be pending against the Lottery. Although the outcome of such suits and claims cannot be predicted with certainty, the Lottery believes that the final outcome of these matters will not materially affect the financial statements of the Lottery.

The Colorado Lottery is one of several states due to receive restitution from two individuals, after they were convicted of various charges in connection with manipulating computer coding used to generate winning lottery numbers and then collecting the resulting jackpot prizes. The affected computer coding and host machines have since been replaced with independently certified code and hardware.

According to the 1st individual's plea agreement and resulting court order, a total restitution of $2,222,863.60, with interest as applied at Iowa's standard statutory rate, will be paid to four states, with the Colorado Lottery's share being $1,137,980. The 2nd plea agreement and resulting court order agrees to a total restitution of $804,095, with interest as applied at Iowa's standard statutory rate, to two states, with the Colorado Lottery's share being $568,990, joint and several with the 1st individual.

The Lottery's attorneys have interpreted the court order as follows: $568,990 (the first half of the $1,137,980) will be paid to Colorado from either or both individuals. If the 2nd individual pays the entire $568,990 due Colorado, all of the 1st individual's restitution payments will go to the other states until they have been fully paid. Only after all states are paid, would the 1st individual's restitution payments be directed to Colorado. The Colorado Lottery's total potential recovery from restitution is $1,137,980.

The likelihood of collecting any of the restitution from either individual is unknown. The Lottery collected $80 in Fiscal Year 2018 and has not recorded any estimated revenue from possible future payments. If the Lottery receives any future restitution payments, the payments will be recorded as revenue in the period the payments are received.

NOTE 12 – 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 13 – 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 and the Governor's Office of Information Technology for information and communications technology (ICT) services. Interagency charges were $2,137,138 and $1,747,625 for the Fiscal Years ended June 30, 2018 and 2017, respectively.

NOTE 14 – ADOPTION OF NEW STANDARD

As of July 1, 2017, the Lottery adopted GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions*. The implementation of this standard replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and requires governments calculate and report the cost and obligations associated with other postemployment benefits other than pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position was restated to adopt the provisions of GASB Statement No. 75 to report the beginning net OPEB liability and deferred outflows of resources related to contributions made after the measurement date as follows:

Net position at June 30, 2017, as previously reported	$ (27,267,964)
Net other post employment benefits liability at June 30, 2017	(1,034,828)
Deferred outflows of resources related to contributions made during the year ended June 30, 2017	34,008
Net position at July 1, 2017, as restated	$ (28,268,784)

REQUIRED SUPPLEMENTARY INFORMATION

COLORADO LOTTERY
Schedule of the Colorado Lottery's Proportionate Share of the Net Pension Liability
Colorado Public Employees' Retirement Association

Last 10 Calendar Years*

	2017	2016	2015	2014
Lottery's proportion of the net pension liability	0.2290545580%	0.2238160821%	0.2398382458%	0.2511816995%
Lottery's proportionate share of the net pension liability	$ 45,852,060	$ 41,110,831	$ 25,257,445	$ 23,627,442
Lottery's covered payroll	$ 6,774,739	$ 6,440,000	$ 6,745,555	$ 6,885,135
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	676.81%	638.37%	383.22%	354.03%
Plan fiduciary net position as a percentage of the total pension liability	43.20%	42.60%	56.10%	59.80%

* Calendar Year 2014 was the 1st year of implementation, therefore only four years are shown.

COLORADO LOTTERY
Schedule of the Colorado Lottery's Contributions
Colorado Public Employees' Retirement Association

Last 10 Fiscal Years*

	2018	2017	2016	2015
Contractually required contribution	$ 1,290,829	$ 1,159,077	$ 1,142,872	$ 1,150,328
Contributions in relation to the contractually required contribution	(1,290,829)	(1,159,077)	(1,142,872)	(1,150,328)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Lottery's covered payroll	$ 6,821,281	$ 6,594,985	$ 6,520,365	$ 6,917,645
Contributions as a percentage of covered payroll	18.92%	17.58%	17.53%	16.63%

* The amounts presented for each fiscal year were determined as of 6/30.
* Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

COLORADO LOTTERY
Schedule of the Colorado Lottery's Proportionate Share of the Net OPEB Liability
Colorado Public Employees' Retirement Association – Healthcare Trust Fund

Last 10 Calendar Years*

	2017
Lottery's proportion of the net OPEB liability	0.0820966264%
Lottery's proportionate share of the net OPEB liability	$ 1,066,928
Lottery's covered payroll	$ 6,774,739
Lottery's proportionate share of the net OPEB liability as a percentage of its covered payroll	15.75%
Plan fiduciary net position as a percentage of the total OPEB liability	17.53%

* Calendar Year 2017 was the 1st year of implementation, therefore only one year is shown.

COLORADO LOTTERY
Schedule of the Colorado Lottery’s Contributions
Colorado Public Employees’ Retirement Association – Healthcare Trust Fund

Last 10 Fiscal Years*

	2018
Contractually required contribution	$ 68,826
Contributions in relation to the contractually required contribution	(68,826)
Contribution deficiency (excess)	$ -
Lottery's covered payroll	$ 6,821,281
Contributions as a percentage of covered payroll	1.01%

* The amounts presented for each fiscal year were determined as of 6/30.
* Fiscal year 2018 was the 1st year of implementation, therefore only one year is shown.

Changes of benefit terms. There have been no changes in benefit terms since the last valuation.

Changes of assumptions. There have been no changes in actuarial assumptions or methods since the last valuation.

SUPPLEMENTARY INFORMATION

COLORADO LOTTERY
Schedule of Revenue and Costs for Scratch and Jackpot Games
For the Fiscal Year Ended June 30, 2018

		Jackpot Games							FY 2018	FY 2017
	Scratch	Lotto	Powerball	Cash 5	Cash 5 EZ Match	Mega Millions	Pick 3	Lucky For Life	Total	Scratch and Jackpot Games
TICKET SALES	$407,489,335	$28,462,945	$88,156,321	$17,666,933	$3,881,956	$38,401,894	$12,247,661	$15,686,288	$ 611,993,333	$555,333,490
PRIZE EXPENSE	(280,699,778)	(15,298,252)	(41,966,627)	(9,550,117)	(2,293,935)	(18,667,694)	(5,923,621)	(9,087,701)	(383,487,725)	(341,518,549)
NET REVENUE AFTER PRIZES	126,789,557	13,164,693	46,189,694	8,116,816	1,588,021	19,734,200	6,324,040	6,598,587	228,505,608	213,814,941
COMMISSIONS, BONUSES, TICKET COSTS & VENDOR FEES (Note 1)										
Retailer Commission	(28,457,468)	(1,704,108)	(5,280,544)	(1,057,551)	(232,244)	(2,299,246)	(732,178)	(938,353)	(40,701,692)	(37,031,098)
Retailer Bonus	(4,104,319)	(197,406)	(499,874)	(165,062)	(38,149)	(197,415)	(100,778)	(121,868)	(5,424,871)	(3,694,336)
Cost of Tickets Sold	(2,624,629)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(2,624,629)	(2,950,426)
Telecomm Reimbursements	509,287	35,574	110,179	22,081	4,852	47,995	15,307	19,605	764,880	772,205
On-Line Vendor Fees	(7,768,760)	(489,938)	(1,494,075)	(301,329)	(63,272)	(659,849)	(205,125)	(272,757)	(11,255,105)	(10,029,041)
TOTAL	(42,445,889)	(2,355,878)	(7,164,314)	(1,501,861)	(328,813)	(3,108,515)	(1,022,774)	(1,313,373)	(59,241,417)	(52,932,696)
GROSS PROFIT ON SALE OF TICKETS	$ 84,343,668	$ 10,808,815	$ 39,025,380	$ 6,614,955	$ 1,259,208	$ 16,625,685	$ 5,301,266	$ 5,285,214	$ 169,264,191	$ 160,882,245
AVERAGE DAILY TICKET SALES	$ 1,116,409	$ 77,981	$ 241,524	$ 48,403	$ 10,635	$ 105,211	$ 33,555	$ 42,976	$ 1,676,694	$ 1,624,076

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, 2018

		Jackpot Games							FY 2018	FY 2017
	Scratch	Lotto	Powerball	Cash 5	Cash 5	Mega Millions	Pick 3	Pick 3	Total	Total
Prize Expense	$ 280,699,778	$ 15,298,252	$ 41,966,627	$ 9,550,117	$ 2,293,935	$ 18,667,694	$ 5,923,621	$ 9,087,701	$ 383,487,725	$ 341,518,549
(/)Ticket Sales	$ 407,489,335	$ 28,462,945	$ 88,156,321	$ 17,666,933	$ 3,881,956	$ 38,401,894	$ 12,247,661	$ 15,686,288	$ 611,993,333	$ 555,333,490
Prize %	68.89%	53.75%	47.60%	54.06%	59.09%	48.61%	48.37%	57.93%	62.66%	61.50%

COLORADO LOTTERY
Budgetary Comparison
For the Fiscal Year Ended June 30, 2018

	Fiscal Year 2018 Original Budget	Supplemental Allocations & Internal Transfers	Fiscal Year 2018 Final Budget	Fiscal Year 2018 Actual Expenditures	Under Expended	Percent Under Expended
Personal Services	$ 11,473,454		$ 11,473,454	$ 10,549,154	$ 924,300	8.06%
Workmen's Compensation	84,744		84,744	84,722	22	0.03%
Operating	1,203,156		1,203,156	1,019,324	183,832	15.28%
Variable Vehicle	170,381	(15,150)	155,231	154,350	881	0.57%
Leased Space	905,968	3,071	909,039	879,506	29,533	3.25%
Leased Space-Grand Junctior	7,103		7,103	7,103	-	0.00%
Risk Management	33,004		33,004	33,004	-	0.00%
Vehicle Lease Payments	162,350	(1,700)	160,650	156,544	4,106	2.56%
Travel	113,498	-	113,498	82,057	31,441	27.70%
Marketing, Communications & Sales	14,700,000	-	14,700,000	13,539,964	1,160,036	7.89%
Payments to Other Agencies	239,410	-	239,410	84,324	155,086	64.78%
Legal Services	60,739	-	60,739	60,739	-	0.00%
Indirect Costs	754,590	-	754,590	718,738	35,852	4.75%
Ticket Costs-Scratch	6,578,000	-	6,578,000	3,701,311	2,876,689	43.73%
Research	250,000	-	250,000	57,904	192,096	76.84%
Vendor Fees	12,571,504	-	12,571,504	11,392,105	1,179,399	9.38%
Prize Payments	400,000,000	-	400,000,000	383,487,725	16,512,275	4.13%
Retailer Compensation	52,241,350	-	52,241,350	46,126,563	6,114,787	11.70%
Multi-State Lottery Fund	177,433	-	177,433	127,308	50,125	28.25%
CORE Conversion	61,771	-	61,771	61,771	-	0.00%
OIT Payments	584,342	-	584,342	584,342	-	0.00%
TOTAL	$ 502,372,797	$ (13,779)	$ 502,359,018	$ 472,908,558	$ 29,450,460	5.86%

FY18 Staffing-FTE-Note 1	117.1	(Appropriated)	116.9	(Actual)

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

Expenses Per Statement of Revenues, Expenses and Changes in Net Position	
Prize Expense	$ 383,487,725
Commissions and Bonuses	46,126,563
Cost of Tickets & Vendor Fees	13,114,854
Operating Expenses	29,450,324
Total Expenses per Statement of Revenues, Expenses and Changes in Net Position	472,179,466
Telecommunications offset classified as revenue	764,880
Less: Non-Appropriated Expenses	
Depreciation	(176,158)
Accrued Annual and Sick Leave	(35,177)
Book Value of Assets Written Off	-
Sub-Total	472,733,011
Plus: Capitalized Purchases	175,547
	$ 472,908,558

Note 1 - The Governor's budget office has informed the departments that the appropriated FTE can be exceeded by 10% for FY 2018

EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Members of the Legislative Audit Committee
State of Colorado, Department of Revenue, Lottery Division
Denver, Colorado

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Colorado Lottery, an enterprise fund of the State of Colorado as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Colorado Lottery's basic financial statements, and have issued our report thereon dated October 23, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Colorado Lottery's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Colorado Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of Colorado Lottery's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Colorado Lottery's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Colorado Lottery's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Fort Collins, Colorado
October 23, 2018

October 23, 2018

To the Members of the Legislative Audit Committee
State of Colorado, Department of Revenue, Lottery Division
Denver, Colorado

We have audited the financial statements of the Colorado Lottery as of and for the year ended June 30, 2018 and 2017, and have issued our report thereon dated October 23, 2018. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards*

As communicated in our letter dated September 13, 2018 our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Colorado Lottery solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding internal controls during our audit in our Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards dated October 23, 2018.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Colorado Lottery is included in Note 1 to the financial statements. As described in Note 2, the Colorado Lottery changed accounting policies related to accounting for OPEB to adopt the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions*. Accordingly, the accounting change has been retrospectively applied to the financial statements beginning July 1, 2017. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

> Management's estimate of the prize expense and the corresponding prize liability is based on anticipated payout percentage approved by the Lottery Commissioners. The prize expense and corresponding liability are incurred as tickets are activated by Lottery approved retailers. We evaluated the key factors and assumptions used to develop the prize expense and corresponding prize liability and determined that it is reasonable in relation to the basic financial statements taken as a whole.
>
> Management's estimates of the net pension liability and net other postemployment benefits liability are based on the actuarial valuations as of December 31, 2017. We evaluated the key factors and assumptions used to develop the net pension and other postemployment benefits liabilities and determined that they are reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Colorado Lottery's financial statements relate to:

> The disclosure of Distributions of Net Proceeds in Note 7, as this disclosure presents information regarding performance of the Lottery's commitment to funding beneficiaries throughout the State of Colorado.
>
> The disclosure of Pension Plans in Note 8, which presents the Colorado Lottery's deferred inflows and outflows of resources related to the defined benefit pension plan, as well as summarizes actuarial assumptions used in determining the Colorado Lottery's estimated total pension liability.

The disclosure of Other Postemployment Benefits and Life Insurance in Note 10, which presents the Colorado Lottery's deferred inflows and outflows of resources related to other postemployment benefits, as well as summarizes actuarial assumptions used in determining the Colorado Lottery's estimated total other postemployment benefits liability.

The disclosure of Contingencies and Commitments in Note 11, which summarize the Colorado Lottery's commitments to pay annuities to prior Lotto jackpot winners, as well as gaming operations and major vendor commitments.

The disclosure of Tax, Spending, and Debt Limitations in Note 12, which discloses that the net proceeds from the Colorado Lottery are excluded from the scope of TABOR.

The disclosure of Related Party Transactions in Note 13, which discloses the nature of the Colorado Lottery's relationship with the State of Colorado and interdepartmental fees paid as a result of this relationship.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. No misstatements were identified as a result of our audit procedures.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management that are included in the management representation letter dated October 23, 2018.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Colorado Lottery, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Colorado Lottery's auditors.

Modification of the Auditor's Report

We have made the following modification to our auditor's report.

> **Change in Accounting Principle**
>
> As discussed in Notes 2 and 14 the Colorado Lottery has adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions*, which has resulted in a restatement of the net position as of July 1, 2017. In accordance with GASB Statement No. 75, the 2017 financial statements have not been restated to reflect this change. Our opinion is not modified with respect to this matter.
>
> **Relationship with the State of Colorado**
>
> As discussed in Note 1 – Nature of Operations and Summary of Significant Accounting Policies, the financial statements of the Colorado Lottery are intended to present the financial position and cash flows for only that portion of the financial reporting entity, the State of Colorado, which is attributable to the transactions of the Colorado Lottery. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2018 and 2017, and the changes in its financial position, or, where applicable, its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

This report is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor, the Lottery Commission, and management of the Colorado Lottery and is not intended to be and should not be used by anyone other than these specified parties. However, upon release by the Legislative Audit Committee, this report is a public document.

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