

COLORADO LOTTERY
FINANCIAL AND COMPLIANCE AUDIT
June 30, 2024 and 2023

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Members of the Legislative Audit Committee:

We have completed the financial statement audit of the Colorado Department of Revenue – Division of Lottery (the Lottery) as of and for the year ended June 30, 2024. 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 44-40-112, C.R.S., which requires the State Auditor to annually audit the Lottery. The reports we have issued as a result of this engagement are set forth in the table of contents which follows.

Forvis Mazars, LLP

**Denver, Colorado
September 27, 2024**

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COLORADO LOTTERY
Report Summary
Years Ended June 30, 2024 and 2023

Purposes and Scope of Audit

Authority, Purpose and Scope

The Office of the State Auditor, State of Colorado, engaged Forvis Mazars, LLP to conduct the financial audit of the Colorado Department of Revenue – Division of Lottery (the Lottery) for the Fiscal Year ended June 30, 2024. The audit of the Lottery was performed under authority of Section 44-40-112 C.R.S., which requires the State Auditor to conduct an annual audit of the Lottery. The purpose of the audit was to express an opinion on the financial statements of the Lottery for the years ended June 30, 2024 and 2023.

Forvis Mazars, 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 was:

- To express an opinion on the financial statements of the Lottery as of and for the years ended June 30, 2024 and 2023, 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, 2024.
- 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. However, material weaknesses or significant deficiencies may exist that were not identified.

COLORADO LOTTERY
Report Summary
Years Ended June 30, 2024 and 2023

Significant Audit Adjustments

There were no significant audit adjustments proposed for the year ended June 30, 2024. There was one adjustment resulting from the prior year passed adjustment and representing the reversing impact of the second chance prize liability and expense that was passed on by management from Fiscal Year 2023 of \$250,000. See schedule of passed adjustments attached to the Auditor's Communication of Legislative Audit Committee and Lottery Commission located on page 107.

Auditor's Communication to Legislative Audit Committee and Lottery Commission

The auditor's communication to the Legislative Audit Committee and Lottery Commission 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 107.

COLORADO LOTTERY

Background

Years Ended June 30, 2024 and 2023

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 April 30, 1982.

During Fiscal Year 2024, the Lottery employed 103 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 44-40-111(9), requires that no less than 50 percent 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 \$81.8 million for the year ended June 30, 2024.

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 2020, the spillover funds were required to be transferred to the State Public School Capital Construction Assistance Fund pursuant to Section 22-43.7-104, C.R.S. On June 21, 2021, House Bill 21-1318 concerning the creation and funding of the Outdoor Equity Grant Program was approved by Governor Jared Polis and established the distribution of the amounts exceeding the GOCO cap for Fiscal Year 2021 and beyond. The bill added Part 2 to article 9 of title 33, specifically Sections 33-9-201 through 33-9-206, C.R.S and Subsection (12) to Section 44-40-111, C.R.S., changing the distribution of any excess amounts over the statutory limit for Fiscal Year 2021 and beyond. According to Sections 33-9-201(1)(a) and 33-9-203, the Outdoor Equity Program will be governed by the newly created Outdoor Equity Board in the Division of Parks and Wildlife. The purpose of the program is to increase access and opportunity for underserved youth and their families to experience Colorado’s open spaces, state parks, public lands, and other outdoor areas through programs with a focus on conservation, the environment, outdoor education, or outdoor recreation. The spillover amount for Fiscal Year 2024 shall be transferred as follows: the first \$3.0 million to the Outdoor Equity Fund, the next \$3.0 million to the State Public School Capital Construction Assistance Fund, and any remaining amounts divided as: 25 percent to the Wildlife Cash Fund, 25 percent to the Parks and Outdoor Recreation Cash Fund, and 50 percent to the State Public School Capital Construction Assistance Fund.

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Independent Auditor's Report

Legislative Audit Committee and Lottery Commission
State of Colorado, Department of Revenue, Lottery Division
Denver, Colorado

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Colorado Lottery, an enterprise fund of the State of Colorado, as of and for the years ended June 30, 2024 and 2023, 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Colorado Lottery as of June 30, 2024 and 2023, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Colorado Lottery, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

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, 2024, and 2023, and the changes in its financial position, or, where applicable, its cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Colorado Lottery's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Colorado Lottery's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Colorado Lottery's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension, and other postemployment benefit information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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 an opinion 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 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Schedule of Revenues and Costs for Scratch and Jackpot Games, Schedule of Percent of Prize Expense to Gross Ticket Sales and Budgetary Comparison is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2024, 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 Colorado Lottery's internal control over financial reporting and compliance.

Forvis Mazars, LLP

**Denver, Colorado
September 27, 2024**

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COLORADO LOTTERY
Management's Discussion and Analysis
(Unaudited)
June 30, 2024 and 2023

This discussion and analysis of the Colorado Lottery's financial performance provides an overview of financial activities for the Fiscal Years ended June 30, 2024 and 2023. Please read it in conjunction with the Lottery's financial statements, which begin on page 30. These financial statements reflect only activities of the Colorado Lottery.

Games Offered by the Colorado Lottery

The Lottery offers a variety of ways to play with two different game types: scratch games and jackpot (draw) games. Scratch games consist of pre-printed tickets that may be purchased at various price points with multiple play styles at any Lottery retailer. When scratched, they provide instant knowledge if the ticket is a winner and can be cashed immediately at a retailer location if the amount of the winnings is \$599 or less or at Lottery offices if over \$599. Jackpot or draw games require a longer playing time with winners determined by the selection of a combination of numbers during each game's associated drawing. The Lottery currently offers six different jackpot games, with drawings held every day of the week. Like scratch, winning jackpot tickets may 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. The Lottery also offers an instant add-on game to one of its jackpot games. The purchase gives players the opportunity to win a randomly assigned instant prize, providing the player the instant winning experience of scratch with the purchase of a jackpot 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 achieved another record-breaking year with overall ticket sales for Fiscal Year 2024 reaching nearly \$900.8 million, the highest in the Lottery's history and the first time breaking the \$900 million mark. In comparison to the previous highest sales record of nearly \$889.8 million set in the previous fiscal year, sales increased by nearly \$11.0 million or 1.2 percent. Jackpot sales contributed to this achievement, hitting an all-time record-breaking mark of \$312.1 million, or 6.5 percent higher than the previous jackpot sales record set in Fiscal Year 2023. Scratch sales dropped off from the record set in the previous year, reaching \$588.6 million, or 1.7 percent lower than the previous record of \$596.7 million set in Fiscal Year 2023.

COLORADO LOTTERY
Management's Discussion and Analysis
(Unaudited)
June 30, 2024 and 2023

Funds distributed or available for distribution from Fiscal Year 2024 sales were nearly \$196.4 million, another record-breaking mark in the Lottery's history. The previous record of nearly \$195.3 million set in Fiscal Year 2023 dropped to the second highest mark. With a modest 0.6 percent increase in distributions from Fiscal Year 2023 to Fiscal Year 2024, distributions reached the Great Outdoors Colorado (GOCO) proceeds cap of \$81.8 million and included an over \$16.4 million spill-over of funds. With a legislative change made to the distribution calculation of spill-over funds starting in Fiscal Year 2021; \$8.2 million went to the State Public School Capital Construction Assistance Fund; \$3.0 million to the Outdoor Equity Fund; and \$2.6 million each to both the Wildlife Cash Fund and to the Parks and Outdoor Recreation Fund. This was the twenty-third year in a row the Lottery successfully reached the GOCO cap, ranging from \$46.5 million in Fiscal Year 2002 to the \$81.8 million in the current fiscal year.

Gross profit (Lottery product sales minus costs tied directly to those sales) as a percentage of sales increased by approximately 0.3 percent from 25.1 percent to 25.4 percent in Fiscal Years 2023 and 2024, respectively. Costs tied directly to sales include prize expense, retailer commissions and bonuses, scratch ticket costs and scratch ticket vendor fee costs charged by third-party vendor Scientific Games (SG) and vendor fees charged for the use of the jackpot gaming systems provided by the third-party vendor International Game Technology (IGT). A decrease of over 0.5 percent as a percentage of sales in prize expense combined with a slight percentage of sales decrease in retailer commissions was offset by an increase of scratch ticket and scratch ticket vendor fees costs and retailer bonuses totaling 0.2 percent. This overall decrease was the chief reason for the increase in the gross profit percentage. Total prize expense as a percentage of sales for all Lottery products decreased from 64.7 percent to nearly 64.2 percent, while scratch ticket costs and scratch vendor fee costs as a percentage of sales increased from 1.1 percent to 1.2 percent in Fiscal Years 2023 and 2024, respectively.

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 of resources and outflows of resources and reflect the Lottery's financial position as of June 30, 2024 and 2023. 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, 2024 and 2023. 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, 2024 and 2023.

COLORADO LOTTERY
Management's Discussion and Analysis
(Unaudited)
June 30, 2024 and 2023

Statements of Net Position

The Statements of Net Position present a financial snapshot of the Lottery at June 30, 2024 and 2023. It presents the fiscal resources (assets) of the Lottery, 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 of resources are reported in a separate section following assets, with deferred inflows of resources reported in a separate section following liabilities. Net position is classified by the ways in which these assets may be used for future operations.

COLORADO LOTTERY
Management's Discussion and Analysis
(Unaudited)
June 30, 2024 and 2023

Condensed Statements of Net Position

June 30, 2024, 2023, and 2022

	2024	2023	2022
Assets			
Current assets	\$ 116,718,027	\$ 108,560,487	\$ 112,711,549
Restricted assets	8,495,893	8,430,964	7,903,109
Capital assets	9,052,579	3,625,957	4,420,463
	<u>134,266,499</u>	<u>120,617,408</u>	<u>125,035,121</u>
Deferred Outflows of Resources			
Pensions	\$ 2,341,315	\$ 3,302,371	\$ 1,218,978
Other postemployment benefits	53,406	75,164	50,239
	<u>2,394,721</u>	<u>3,377,535</u>	<u>1,269,217</u>
Liabilities			
Current liabilities	\$ 128,400,337	\$ 119,341,245	\$ 122,164,320
Long-term liabilities	3,314,531	3,187,096	4,048,404
Net pension liability	18,215,578	20,433,052	14,118,170
Net other postemployment benefits liability	442,670	519,451	567,129
	<u>150,373,116</u>	<u>143,480,844</u>	<u>140,898,023</u>
Deferred Inflows of Resources			
Pensions	\$ 626,837	\$ 579,041	\$ 5,686,351
Other postemployment benefits	229,087	297,881	327,542
	<u>855,924</u>	<u>876,922</u>	<u>6,013,893</u>
Net Position			
Net Investment in Capital Assets	\$ 5,313,955	\$ 387,492	\$ 246,710
Restricted – Licensed Agent			
Recovery Reserve	1,042,449	968,398	917,360
Restricted – Operating Reserve	2,200,000	2,200,000	1,900,000
Unrestricted - Unrealized Gain			
(Loss) on Investments	(6,004,773)	(5,466,823)	(4,241,673)
Unrestricted - Net Pension Liability	(16,501,100)	(17,709,723)	(19,522,130)
Unrestricted - Net Other Postemployment Benefits Asset (Liability)	(618,351)	(742,167)	92,155
	<u>(14,567,820)</u>	<u>(20,362,823)</u>	<u>(20,607,578)</u>
Total net position	<u>\$ (14,567,820)</u>	<u>\$ (20,362,823)</u>	<u>\$ (20,607,578)</u>

COLORADO LOTTERY
Management's Discussion and Analysis
(Unaudited)
June 30, 2024 and 2023

The Lottery's total assets at June 30, 2024 were nearly \$134.3 million. Assets consisted primarily of cash and investments of \$80.4 million, including restricted balances of over \$3.2 million, receivables from Lottery retailers for the sales of Lottery products of \$39.2 million, prepaid prize expense with Multi-State Lottery Association (MUSL) of nearly \$5.3 million, scratch ticket inventory of nearly \$0.3 million, and net capital assets, which includes equipment, software, leasehold improvements, right-to-use lease assets and right-to-use subscription assets, of approximately \$9.1 million.

Comparable figures for total assets at June 30, 2023 were \$120.6 million. This consisted primarily of cash and investments of \$72.9 million, including restricted balances of nearly \$3.2 million, receivables from Lottery retailers for the sales of Lottery products of \$38.2 million, prepaid prize expense with Multi-State Lottery Association (MUSL) of nearly \$5.3 million, scratch ticket inventory of over \$0.5 million, and net capital assets of \$3.6 million.

The Lottery's total assets increased by over \$13.6 million from Fiscal Year 2023 to Fiscal Year 2024. The increase in total assets was primarily made up of increases in cash and investments of \$7.4 million, in receivables from Lottery retailers of \$1.0 million, and in net capital assets of \$5.4 million, including the purchase of 225 new ticket vending terminals of over \$5.0 million, offset by decreases in scratch ticket inventory of over \$0.2 million. The increase in cash of \$7.4 million can chiefly be attributed to the increase in the estimated prize liability due to players offset by the decrease in the accounts payable amount due to vendors from Fiscal Year 2023 to Fiscal Year 2024.

The Lottery's total assets decreased by \$4.4 million from Fiscal Year 2022 to Fiscal Year 2023. The decrease in total assets was primarily made up of the decreases in cash and investments of \$6.5 million, scratch ticket inventory of over \$1.2 million, right-to-use lease assets of \$0.9 million and right-to-use subscription assets of \$0.1 million, offset by increases in receivables from Lottery retailers of over \$3.9 million, prepaid prize expense with MUSL of nearly \$0.2 million, and capital assets of over \$0.1 million. The decrease in cash of nearly \$6.5 million can chiefly be attributed to the cash distribution payments made in Fiscal Year 2023 over and above the cash provided by operating activities and earned investment interest in the same fiscal year.

The Lottery's total liabilities at June 30, 2024 totaled \$150.4 million, which consisted primarily of prize liability on all Lottery products of over \$77.8 million, proceeds distributions due to recipients of \$39.2 million, net pension liability of \$18.2 million recorded in accordance with GASB Statement No. 68, \$5.2 million due to Lottery vendors, lease and subscription liabilities of over \$3.7 million recorded in accordance with GASB Statement No. 87 and 96, nearly \$3.1 million due to retailers for bonuses, wages and benefits due to Lottery employees of nearly \$1.1 million, over \$0.9 million due to Lottery employees for annual and sick leave, \$0.7 million due to MUSL and net other postemployment benefits (OPEB) liability of nearly \$0.5 million recorded in accordance with GASB Statement No. 75.

COLORADO LOTTERY
Management's Discussion and Analysis
(Unaudited)
June 30, 2024 and 2023

Comparable figures at June 30, 2023, totaled \$143.5 million in total liabilities, which consisted primarily of prize liability on all Lottery products of \$68.9 million, proceeds distributions due to recipients of over \$38.7 million, net pension liability of \$20.4 million recorded in accordance with GASB Statement No. 68, nearly \$6.5 million due to Lottery vendors, lease and subscription liabilities of over \$3.2 million recorded in accordance with GASB Statement No. 87 and 96, \$2.4 million due to retailers for bonuses, nearly \$1.0 million due to MUSL, wages and benefits and annual and sick leave due to Lottery employees of both nearly \$0.9 million, and net other postemployment benefits (OPEB) liability of \$0.5 million recorded in accordance with GASB Statement No. 75.

The Lottery's total liabilities at June 30, 2024 increased by \$6.9 million from June 30, 2023 chiefly due to increases of prize liability on all Lottery products of \$8.9 million, over \$0.6 million in retailer bonus liability, \$0.5 million each in lease and subscription liabilities and funds available for distribution and nearly \$0.2 million in wages and benefits, offset by decreases of \$2.2 million in net pension liability, \$1.3 million due to Lottery vendors, and \$0.3 million due to MUSL, with smaller decreases in all other liability categories. The increase in prize liability in the current fiscal year was mainly due to a \$5.6 million increase in scratch prize liability for scratch prizes accrued not yet claimed, a \$2.8 million increase in the Lotto prize liability for chiefly Lotto jackpot annuities won but not yet claimed/purchased at Fiscal Year ends 2023 versus 2024 and a \$0.6 million increase in the Powerball prize liability over the previous fiscal year.

The Lottery's total liabilities at June 30, 2023 increased by nearly \$2.6 million from the previous fiscal year chiefly due to the increases of \$6.3 million in net pension liability, \$5.8 million due to Lottery vendors, and nearly \$0.6 million due to MUSL, offset by decreases of \$4.5 million in prize liability, over \$4.3 million in proceed distributions due to recipients, over \$0.8 million in lease liability and \$0.1 million in subscription liability, and nearly \$0.3 million due to retailers for bonuses. The increase in net pension liability was due to the liability adjustment recorded in accordance with GASB Statement No. 68. The decrease in prize liability at June 30, 2023 compared to June 30, 2022 was due to the purchase in Fiscal Year 2023 of the \$12.5 million Lotto jackpot annuity won in Fiscal Year 2022, partially offset by an increase in the scratch prize liability for prizes not yet claimed.

Comparable figures at June 30, 2022 totaled nearly \$140.9 million in total liabilities. Liabilities consisted primarily of prize liability on all Lottery products of \$73.4 million, proceeds distributions due to recipients of nearly \$43.1 million, net pension liability of \$14.1 million recorded in accordance with GASB Statement No. 68, lease and subscription liabilities of nearly \$4.2 million recorded in accordance with GASB Statements No. 87 and 96, \$2.7 million due to retailers for bonuses, wages and benefits due to Lottery employees of \$0.9 million, nearly \$0.8 million due to Lottery employees for annual and sick leave, nearly \$0.7 million due to Lottery vendors, net other postemployment benefits (OPEB) liability of nearly \$0.6 million recorded in accordance with GASB Statement No. 75, and \$0.4 million due to MUSL.

COLORADO LOTTERY
Management's Discussion and Analysis
(Unaudited)
June 30, 2024 and 2023

Components of the Lottery's net position are: 1) an amount to represent the Lottery's investment in depreciable capital assets, lease assets, and subscription assets net of related liabilities as required by the reporting model under GASB Statement No. 34 (see "depreciable capital assets" on the Statements of Net Position); 2) a Licensed Agent Recovery Reserve (bonding reserve) funded by retailers in accordance with Section 44-40-121, 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 44-40-111 (5)(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, net pension liability, which represents the Lottery's share of the State's net pension liability as calculated by PERA; and 6) unrestricted, net OPEB liability, which represents the Lottery's share of the State's net liability for the Health Care Trust Fund as calculated by PERA.

The \$5.8 million change in net position from June 30, 2023 to June 30, 2024 consisted primarily of an increase in investment in depreciable capital assets of over \$4.9 million due the addition of \$5.0 million of new vending terminals mentioned earlier and \$66 thousand of other equipment offset by depreciation expense of \$174 thousand. The disposal of \$0.5 million of fully depreciated equipment had no effect on the change in capital assets. This increase was combined with a small increase in the bonding reserve from \$968 thousand to nearly \$1.1 million, a decrease in net pension liability and related deferrals of \$1.2 million, and a decrease in the net OPEB liability of \$0.1 million from a previous year, offset by an unrealized loss on investments of \$0.5 million resulting from a net increase in the unrealized loss on State Treasury investments year over year.

Following is a schedule of net position for Fiscal Years 2024 and 2023:

	2024	2023	Change
Net Investment in Capital Assets	\$ 5,313,955	\$ 387,492	\$ 4,926,463
Restricted - Licensed Agent			
Recovery Reserve	1,042,449	968,398	74,051
Restricted - Operating Reserve	2,200,000	2,200,000	-
Unrestricted - Unrealized Gain			
(Loss) on Investments	(6,004,773)	(5,466,823)	(537,950)
Unrestricted - Net Pension			
Liability	(16,501,100)	(17,709,723)	1,208,623
Unrestricted - Net Other Postemployment			
Benefits Asset (Liability)	(618,351)	(742,167)	123,816
Total net position (deficit)	<u>\$ (14,567,820)</u>	<u>\$ (20,362,823)</u>	<u>\$ 5,795,003</u>

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The change in net position from June 30, 2022 to June 30, 2023 consisted of an increase in investment in depreciable capital assets of over \$0.1 million due the addition of depreciable capital assets of \$179 thousand, offset by a total depreciation expense of these assets of \$38 thousand recognized in Fiscal Year 2023, an increase in the bonding reserve from \$917 thousand to \$968 thousand, an increase of \$0.3 million in the operating reserve, an unrealized loss on investments of \$1.2 million resulting from a net increase in the unrealized loss on State Treasury investments year over year, a decrease in net pension liability and related deferrals of \$1.8 million, and an increase in the net OPEB liability of \$0.8 million from a previous year net OPEB asset; all resulting in a total net increase in net position of \$0.2 million.

Following is a schedule of net position for Fiscal Years 2023 and 2022:

	<u>2023</u>	<u>2022</u>	<u>Change</u>
Net Investment in Capital Assets	\$ 387,492	\$ 246,710	\$ 140,782
Restricted - Licensed Agent			
Recovery Reserve	968,398	917,360	51,038
Restricted - Operating Reserve	2,200,000	1,900,000	300,000
Unrestricted - Unrealized Gain			
(Loss) on Investments	(5,466,823)	(4,241,673)	(1,225,150)
Unrestricted - Net Pension			
Liability	(17,709,723)	(19,522,130)	1,812,407
Unrestricted - Net Other Postemployment			
Benefits Asset (Liability)	<u>(742,167)</u>	<u>92,155</u>	<u>(834,322)</u>
Total net position (deficit)	<u>\$ (20,362,823)</u>	<u>\$ (20,607,578)</u>	<u>\$ 244,755</u>

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

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Total Net Position (Deficit)	\$ (14,567,820)	\$ (20,362,823)	\$ (20,607,578)
Add back Unrestricted - Net Pension Liability	16,501,100	17,709,723	19,522,130
Add/Subtract Unrestricted - Net Other Postemployment Benefits (Asset) Liability	<u>618,351</u>	<u>742,167</u>	<u>(92,155)</u>
Net position (deficit) excluding pension and OPEB effect	<u>\$ 2,551,631</u>	<u>\$ (1,910,933)</u>	<u>\$ (1,177,603)</u>

The Lottery's net position excluding the effects of GASB 68 and GASB 75 increased by over \$4.4 million from June 30, 2023 to June 30, 2024 and decreased by \$0.7 million from June 30, 2022 to June 30, 2023. The increase from June 30, 2023 to June 30, 2024 was mainly due to the increases in the investment in capital assets of \$4.9 million and \$74 thousand in bonding reserve, offset by the \$0.5 million increase in the unrealized loss on investments. There was no change in the operating reserve from June 30, 2023 to June 30, 2024. The decrease from June 30, 2022 to June 30, 2023 was mainly due to the \$1.2 million increase in the unrealized loss on investments, offset by increases in the operating reserve of \$0.3 million, of \$0.1 million in capital assets, and over \$50 thousand in the bonding reserve.

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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, 2024, 2023, and 2022

	2024	2023	2022
Operating Revenues	\$ 900,756,363	\$ 889,778,449	\$ 826,879,453
Direct Operating Expenses	671,807,083	666,507,173	618,683,614
Gross Profit on Sale of Tickets	228,949,280	223,271,276	208,195,839
Other Operating Expenses			
Marketing and communications	14,773,730	14,837,054	14,680,192
Wages and benefits	9,082,969	8,966,115	5,933,674
Other operating expenses	6,665,359	5,984,602	4,882,156
Total Other Operating Expenses	30,522,058	29,787,771	25,496,022
Other Operating Revenue	483,330	540,025	206,803
Total Operating Income	198,910,552	194,023,530	182,906,620
Nonoperating Revenue (Expenses)			
Investment Income/Loss	3,272,723	1,507,472	(3,616,685)
Proceeds distributions	(196,388,272)	(195,286,247)	(180,318,037)
Total Nonoperating Revenue (Expenses)	(193,115,549)	(193,778,775)	(183,934,722)
Change in Net Position	5,795,003	244,755	(1,028,102)
Net Position (Deficit), Beginning of Year	\$ (20,362,823)	\$ (20,607,578)	\$ (19,579,476)
Net Change in Net Position	5,795,003	244,755	(1,028,102)
Net Position (Deficit), End of Year	\$ (14,567,820)	\$ (20,362,823)	\$ (20,607,578)

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Sales Activities

Fiscal Year 2024 revenues from the sales of Lottery products were up from the previous fiscal year, setting the all-time record high for total Lottery sales in a fiscal year. Including a record high sales year for jackpot product sales, Fiscal Year 2024 revenues from the sales of all Lottery products ended at nearly \$900.8 million. This was an increase in sales of nearly \$11.0 million or 1.2 percent over the previous fiscal year.

Fiscal Year 2023 revenues from the sales of Lottery products were up from the previous fiscal year, setting the all-time record high for total Lottery sales at that time, including record highs for both scratch and jackpot product sales. Fiscal Year 2023 revenues from the sales of Lottery products ended at nearly \$889.8 million, surpassing the previous fiscal year and previous sales record by nearly \$62.9 million, representing a 7.6 percent increase in overall sales.

Fiscal Year 2024 scratch sales ended at \$588.6 million, a drop from the previous fiscal year's all time high of \$596.7 million. This represented a \$8.1 million or a nearly 1.4 percent decrease and a slight drop of just over \$1.6 million or 0.3 percent from the next highest sales year seen in Fiscal Year 2022. The Colorado Lottery's scratch sales decline was much lower than the 2.4 percent decline reported in the U.S. in Fiscal Year 2024. Due to continued regularly scheduled launches of new scratch games and the efforts of the Lottery sales force to increase the activation of these new games in the first week after their introduction, scratch sales remained at their high levels in the current fiscal year. Sales of the \$20 and \$40 price points saw the only year-over-year increases of \$21.7 million and \$8.3 million, respectively, while the \$10, \$5, and \$50 price points saw the largest year-over-year decline in sales of \$14.3 million, \$11.6 million, and \$7.5 million, respectively, from Fiscal Year 2023.

Fiscal Year 2023 scratch sales hit an all-time high of \$596.7 million, which represented a \$6.4 million or 1.1 percent increase over Fiscal Year 2022 scratch sales of nearly \$590.3 million. With the regularly scheduled launches of new scratch games, the increased availability of the number and variety of games, the enhanced partnership with the Lottery's scratch game vendor, Scientific Games, which provided additional sales tools to optimize the portfolio of games offered, and the efforts of the Lottery's retailer network to provide Lottery products throughout the entire fiscal year, scratch sales remained at its high levels in Fiscal Year 2023. Players continued to shift to the higher priced tickets with an increase in sales of \$13.5 million of \$10, \$20, \$50 and the newly introduced \$40 priced tickets over Fiscal Year 2022, offset by the overall drop in sales of the \$1, \$2, \$3, and \$5 priced tickets of nearly \$7.1 million from the previous fiscal year.

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Fiscal Year 2024 combined jackpot sales ended at \$312.1 million, a new all-time jackpot sales record and the first time the Lottery surpassed the \$300.0 million mark in a fiscal year. The nearly \$19.1 million or 6.5 percent increase in sales over Fiscal Year 2023 can be mainly attributed to the fact that four of the ten largest U.S. Lottery jackpots were reached in Fiscal Year 2024. Powerball sales in the current fiscal year increased by \$25.7 million or 23.4 percent over Fiscal Year 2023 and set an all-time record high in the Lottery's history of selling that game. Although Mega Millions sales were down \$10.1 million from the previous fiscal year, the over \$74.5 million fiscal year mark was the second highest in Colorado Lottery's Mega Millions sales history. Jackpot sales of Lotto+ Plus, Lucky for Life and Pick 3 combined for a \$4.0 million increase in sales of the same products over the previous fiscal year, while Cash 5 and Cash 5 EZ Match sales dropped by \$0.6 million.

Fiscal Year 2023 combined jackpot sales ended at nearly \$293.1 million, a nearly \$56.5 million or impressive 23.9 percent increase over the previous fiscal year's jackpot sales of \$236.6 million. Fiscal Year 2023 sales became the second highest jackpot sale year in the history of the Lottery. The highest jackpot in U.S. history of \$2.04 billion, Powerball, was won in November 2022. This was combined with two Mega Millions jackpots won of \$1.35 billion and nearly \$1.34 billion. Fiscal Year 2023 Powerball jackpot sales ended at \$109.8 million, an increase of nearly \$26.7 or 32.1 percent over Fiscal Year 2022. Mega Millions jackpot sales ended at \$84.6 million, an increase of \$49.5 million or 141.0 percent increase over the previous fiscal year. In addition, Lucky For Life sales, with daily draws, ended at nearly \$23.2 million or a 13.7 percent increase over Fiscal Year 2022. Colorado's Lotto+ Plus game sales dropped by \$22.7 million from Fiscal Year 2022, with jackpot sales of the remaining jackpot products (Cash 5, Cash 5 EZ Match and Pick 3) remaining relatively flat in Fiscal Year 2023.

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The following tables compare Lottery product sales between fiscal years.

Product Sales	2024	2023	Difference	Change
Scratch	\$ 588,644,647	\$ 596,720,571	\$ (8,075,924)	(1.4) %
Powerball	135,513,986	109,806,500	25,707,486	23.4
Lotto +	46,417,154	43,676,778	2,740,376	6.3
Mega Millions	74,550,603	84,610,742	(10,060,139)	(11.9)
Cash 5	13,637,318	14,200,307	(562,989)	(4.0)
Cash 5 EZ Match	2,060,841	2,062,342	(1,501)	(0.1)
Pick 3	16,000,020	15,520,461	479,559	3.1
Lucky For Life	23,931,794	23,180,748	751,046	3.2
Total	<u>\$ 900,756,363</u>	<u>\$ 889,778,449</u>	<u>\$ 10,977,914</u>	1.2
Product Sales	2023	2022	Difference	Change
Scratch	\$ 596,720,571	\$ 590,288,982	\$ 6,431,589	1.1 %
Powerball	109,806,500	83,117,675	26,688,825	32.1
Lotto +	43,676,778	66,403,730	(22,726,952)	(34.2)
Mega Millions	84,610,742	35,103,706	49,507,036	141.0
Cash 5	14,200,307	14,093,529	106,778	0.8
Cash 5 EZ Match	2,062,342	2,163,798	(101,456)	(4.7)
Pick 3	15,520,461	15,315,871	204,590	1.3
Lucky For Life	23,180,748	20,392,162	2,788,586	13.7
Total	<u>\$ 889,778,449</u>	<u>\$ 826,879,453</u>	<u>\$ 62,898,996</u>	7.6

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Other Operating Revenues

Other operating revenues for Fiscal Year 2024 totaled nearly \$0.5 million with a decrease in the current fiscal year of nearly \$57 thousand from the previous one. Other operating revenues for the Fiscal Year ended June 30, 2023 totaled over \$0.5 million with an increase of over \$0.3 million over the previous fiscal year. Other operating revenues mainly represent the net change in the bonding reserve mentioned earlier, amounts collected from Lottery retailers for their annual licensing, retailer fees charged when their accounts become delinquent, MUSL revenue reverted back to member lotteries, 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 restitution collected from individuals charged with crimes against the Lottery. Primarily, decreases in liquidated damages collected of \$252 thousand and of \$43 thousand in collected restitution were mostly offset by increases in over \$218 thousand in reverted MUSL revenue and nearly \$16 thousand of fees collected from delinquent retailers in Fiscal Year 2024 resulted in the nearly \$57 thousand decrease in other operating revenues from Fiscal Year 2023.

Investment Income

Investment income for the years ended June 30, 2024 and June 30, 2023 totaled nearly \$3.3 million and \$1.5 million, respectively. An increase of \$1.1 million in nonoperating interest revenue earned on investments held by the Treasury was combined with an \$687 thousand increase in investment income resulting from the recording of a \$538 thousand loss in Fiscal Year 2024 versus a \$1.2 million loss in Fiscal Year 2023 in the Lottery's share of the unrealized gains/losses on investments held by the Treasury tied to the GASB Statement No. 31 adjustment recording accounted for most of the over \$1.7 million increase in nonoperating revenues.

Total Revenues

Total revenues were \$904.5 million and over \$891.8 million for the years ended June 30, 2024 and June 30, 2023, respectively. The major contributing factor to the \$12.7 million increase in total revenues was primarily due to the \$11.0 million or 1.2 percent increase in Lottery product sales, combined with the over \$1.7 million increase in investment income in Fiscal Year 2024 over Fiscal Year 2023.

Major Expenses

The Lottery incurred \$671.8 million or 95.7 percent of its total expenses of \$702.3 million for Fiscal Year ended June 30, 2024 in direct support of the Lottery games. These game-related expenses include prize expense, retailer compensation, money spent to support scratch ticket sales including ticket costs, and compensation paid to the vendor who maintains and supports the jackpot gaming system. Of the \$671.8 million spent in Fiscal Year 2024 for the direct support of the Lottery games, \$577.8 million was for prize expense associated with those games.

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In comparison, \$666.5 million or 95.7 percent of the Lottery's total expenses of nearly \$696.3 million for the Fiscal Year ended June 30, 2023 were game-related expenses. Of the \$666.5 million spent in Fiscal Year 2023 for direct support of the Lottery games, nearly \$575.5 million was spent for prize expense associated with those games.

Total prize expense in Fiscal Year 2024 increased over \$2.3 million from Fiscal Year 2023. This increase was tied to the overall increase in sales of nearly \$11.0 million recorded in Fiscal Year 2024, but was much less than expected, if all other factors had remained the same. Prize expense as a percentage of sales for all products dropped from 64.7 percent in the prior fiscal year to 64.1 percent in the current fiscal year. Prize expense as a percentage of scratch sales decreased slightly from 71.7 percent to 71.2 percent for Fiscal Year 2023 and Fiscal Year 2024, respectively. This decrease was mainly due to the increase in unclaimed scratch prizes as a percentage of sales written off during the fiscal year, which lowers the prize expense percentage. On the other hand, jackpot prize expense as a percentage of sales increased from 50.4 percent to 50.8 percent for Fiscal Years 2023 and 2024, respectively. This increase was chiefly due to the decrease in unclaimed jackpot prizes written off in Fiscal Year 2024 from Fiscal Year 2023. The overall decrease in the prize expense percentage in Fiscal Year 2024 compared to Fiscal Year 2023 and the resulting lower increase in prize expense dollars, however, was primarily the result of the shift in the overall sales mix from scratch sales to jackpot sales, as the multi-state jackpots continued to reach record levels in Fiscal Year 2024. Jackpot sales were 34.6 percent of total sales in Fiscal Year 2024, with a jump from 32.9 percent in Fiscal Year 2023. With the jackpot prize expense percentage of sales at a much lower 50.4 percent versus scratch prize expense percentage of sales at 71.2 percent; as sales shift to jackpot products, the overall prize expense percentage of sales decreases.

Total prize expense in Fiscal Year 2023 increased nearly \$36.6 million from Fiscal Year 2022. This increase was not only tied to the overall increase in sales of over \$62.9 million recorded in Fiscal Year 2023, but other factors played a role in the final prize expense results. Prize expense as a percentage of sales for all products dropped from 65.2 percent in the prior fiscal year to 64.7 percent in the current fiscal year. Prize expense as a percentage of scratch sales, however, increased from 71.0 percent to 71.7 percent for Fiscal Year 2022 and Fiscal Year 2023, respectively. This increase was chiefly due to the continued shift by Lottery players purchasing scratch games at the higher price points, including the newly introduced \$40 price point ticket. Jackpot prize expense as a percentage of sales remained virtually the same at 50.5 percent and 50.4 percent for Fiscal Years 2022 and 2023, respectively. The overall decrease in the prize expense percentage in Fiscal Year 2023 compared to Fiscal Year 2022 was the result of a shift in the overall sales mix from scratch sales to jackpot sales, as the multi-state jackpots hit record levels in Fiscal Year 2023. Jackpot sales were 28.6 percent of total sales in Fiscal Year 2022, with a jump to 32.9 percent in Fiscal Year 2023. This change in product mix ultimately resulted in a \$5.3 million savings in prize expense in the current fiscal year and an overall drop in the prize expense as a percentage of sales.

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As a percentage of sales, the overall game-related expenses other than prize expense increased to 10.4 percent in Fiscal Year 2024 from 10.2 percent in Fiscal Year 2023. This increase was mainly due to the increase in bonuses earned and due to retailers as a result of the increase in sales in Fiscal Year 2024 over Fiscal Year 2023 and the additional charges for the contracted scratch ticket services from Scientific Games, mentioned above.

Following are tables comparing the game-related expenses between Fiscal Years 2024 and 2023:

Game-Related Expenses	2024	% of Sales	2023	% of Sales	Difference	Change in % of Sales
Prize Expense						
Scratch	\$ 419,177,428	71.2 %	\$ 427,887,002	71.7 %	\$ (8,709,574)	(0.5) %
Powerball	65,249,797	48.2	52,211,486	47.5	13,038,311	0.7
Lotto +	26,778,062	57.7	23,657,514	54.2	3,120,548	3.5
Mega Millions	35,825,491	48.1	41,144,313	48.6	(5,318,822)	(0.5)
Cash 5	7,480,053	54.9	7,545,425	53.1	(65,372)	1.8
Cash 5 EZ Match	1,196,010	58.0	1,191,871	57.8	4,139	0.2
Pick 3	8,076,334	50.5	7,686,814	49.5	389,520	1.0
Lucky For Life	14,029,566	58.6	14,148,696	61.0	(119,130)	(2.4)
Total prize expense	577,812,741	64.1	575,473,121	64.7	2,339,620	(0.6)
Retailer compensation						
Commissions	59,857,647	6.7	59,300,570	6.7	557,077	-
Bonuses	7,307,727	0.8	6,540,859	0.7	766,868	0.1
Ticket costs	10,780,383	1.2	9,418,764	1.1	1,361,619	0.1
Vendor fees	16,048,585	1.8	15,773,859	1.8	274,726	-
Total direct op. exp.	<u>\$ 671,807,083</u>	74.6 %	<u>\$ 666,507,173</u>	74.9 %	<u>\$ 5,299,910</u>	(0.3) %

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Following are tables comparing the game-related expenses between Fiscal Years 2023 and 2022:

Game-Related Expenses	2023	% of Sales	2022	% of Sales	Difference	Change in % of Sales
Prize Expense						
Scratch	\$ 427,887,002	71.7 %	\$ 419,363,787	71.0 %	\$ 8,523,215	0.7 %
Powerball	52,211,486	47.5	40,238,228	48.4	11,973,258	(0.9)
Lotto +	23,657,514	54.2	34,586,256	52.1	(10,928,742)	2.1
Mega Millions	41,144,313	48.6	16,740,562	47.7	24,403,751	0.9
Cash 5	7,545,425	53.1	7,373,617	52.3	171,808	0.8
Cash 5 EZ Match	1,191,871	57.8	1,237,397	57.2	(45,526)	0.6
Pick 3	7,686,814	49.5	7,179,580	46.9	507,234	2.6
Lucky For Life	14,148,696	61.0	12,169,903	59.7	1,978,793	1.3
Total prize expense	575,473,121	64.7	538,889,330	65.2	36,583,791	(0.5)
Retailer compensation						
Commissions	59,300,570	6.7	55,488,480	6.7	3,812,090	-
Bonuses	6,540,859	0.7	6,696,090	0.8	(155,231)	(0.1)
Ticket costs	9,418,764	1.1	2,988,167	0.4	6,430,597	0.7
Vendor fees	15,773,859	1.8	14,621,547	1.8	1,152,312	-
Total direct op. exp.	<u>\$ 666,507,173</u>	74.9 %	<u>\$ 618,683,614</u>	74.8 %	<u>\$ 47,823,559</u>	0.1 %

Non game-related expenses totaled \$30.5 million in Fiscal Year 2024 compared to \$29.8 million in Fiscal Year 2023, a \$0.7 million or over 2.4 percent increase. Non game-related expenses chiefly consist of expenses for marketing and communication, wages and benefits, payments made to state agencies including costs allocations paid to the Department of Revenue, office and warehouse lease expense and delivery expense of Lottery scratch tickets. Fiscal Year 2024 marketing and communication expenses were virtually the same at over \$14.7 million compared to \$14.8 million in Fiscal Year 2023. Increases in jackpot advertising, corporate advertising, point of sale costs, and agency fees were offset by decreases in scratch advertising, sponsorships, silent salesmen costs, public relations, special events, promotional costs and website management costs, with costs in other areas remaining the same fiscal year over fiscal year. Fiscal Year 2024 net wages and benefits expense was \$9.1 million compared to over \$8.9 million in Fiscal Year 2023. Wage and benefits expense included a \$1.3 million reduction adjustment of pension and OPEB expenses related to GASB 68 and 75 in Fiscal Year 2024, compared to a nearly \$1.0 million reduction adjustment in Fiscal Year 2023, and a \$0.5 million increase in wages and associated benefits tied to the across-the-board five percent increase in wages employees received on July 1, 2023 and the increase in the number of employees as position vacancies were filled throughout the fiscal year.

Payments made to state agencies including indirect cost allocations paid to the Office of Information Technology (OIT) and Department of Revenue and audit costs paid to the Office of the State Auditor totaled \$1.6 million in Fiscal Year 2024 compared to nearly \$1.1 million in Fiscal Year 2023. Office and warehouse lease costs, including for both the amortization of the right to use lease assets recognized for

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GASB Statement No. 87 and space rental charges excluded from GASB Statement No. 87 recognition were virtually the same at \$1.3 million in both Fiscal Years 2024 and 2023. Scratch ticket delivery expense increased from \$1.2 million to nearly \$1.5 million over the two fiscal years.

Distributions to the Proceeds Recipients

The Lottery's proceeds distribution for Fiscal Year 2024 totaled nearly \$196.4 million. This represented an increase of \$1.1 million or nearly 0.6 percent over the Fiscal Year 2023 proceeds amount of nearly \$195.3 million. The current year's proceeds amount became the highest amount in Lottery history. As a percentage of total revenue, excluding the effects of GASB 31, the Lottery returned nearly 21.7 percent in Fiscal Year 2024, a decrease of nearly 0.2 percent from the nearly 21.9 percent in Fiscal Year 2023. Of these total proceeds, nearly \$81.8 million, the cap amount, was allocated to the Great Outdoors Colorado Trust Fund, nearly \$78.6 million to the Conservation Trust Fund and \$19.6 million to the Division of Parks and Outdoor Recreation per the distribution formula stated in Colorado Revised Statutes (C.R.S.) 44-40-111. According to the distribution changes introduced in House Bill 21-1318 as outlined earlier, the spill-over amount to be distributed is as follows for Fiscal Year 2024: \$3.0 million to the Outdoor Equity Fund, a total of over \$8.2 million to the School Assistance Fund (BEST), a grant fund program administered through the State Public School Capital Construction Assistance Fund, nearly \$2.6 million to the Wildlife Cash Fund, and nearly \$2.6 million to the Parks & Outdoor Recreation Fund.

Capital Assets, Leases and Subscription Assets

The Lottery's total investment in capital assets, including depreciable capital assets, right-to-use leases and right-to-use subscription assets, at June 30, 2024, 2023, and 2022 amounted to over \$9.0 million, \$3.6 million and \$4.4 million, respectively. The investment in depreciable capital assets include computer equipment, servers, drawing equipment, modular furniture, cameras, ticket vending terminals, warehouse equipment and leasehold improvements net of accumulated depreciation. The \$4.4 million net increase in capital assets from Fiscal Year 2023 to Fiscal Year 2024 was due to the \$5.1 million addition of depreciable capital assets, including the 225 new vending terminals mentioned earlier, offset by both the disposal of \$0.5 million of fully depreciated depreciable capital assets and the nearly \$0.2 million in depreciation of the newly added and remaining assets. The Lottery's right-to-use assets include the leases of the Lottery's offices and warehouse space, signage equipment and the claims software used to process and pay winners. Right-to-use assets increased by net \$1.0 million from Fiscal Year 2023 to Fiscal Year 2024 due to the \$1.8 million addition of two leases for office space less the \$0.8 million in amortization of all leases. Capital assets decreased by \$0.8 million from Fiscal Year 2022 to Fiscal Year 2023 chiefly due to the \$0.1 million addition of depreciable capital assets, offset by \$0.9 million in total depreciation and amortization.

COLORADO LOTTERY
Management's Discussion and Analysis
(Unaudited)
June 30, 2024 and 2023

Analysis of changes in capital assets is as follows (Note 3):

**Capital, Lease, and Subscription Assets as of
June 30, 2024, 2023, and 2022**

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Capital Assets, Leases, and Subscription Assets			
Equipment	\$ 6,212,330	\$ 1,632,973	\$ 1,575,068
Right-To-Use Asset - Equipment	2,484,541	2,484,541	2,484,541
Leasehold Improvements	185,939	185,939	64,711
Right-To-Use Asset - Buildings	4,715,074	2,882,851	2,882,851
Right-To-Use Subscription Asset	428,275	428,275	428,275
Less: Accumulated Depreciation and Amortization	<u>(4,973,580)</u>	<u>(3,988,622)</u>	<u>(3,014,983)</u>
Net capital assets, leases, and subscription assets	<u><u>\$ 9,052,579</u></u>	<u><u>\$ 3,625,957</u></u>	<u><u>\$ 4,420,463</u></u>

Budgetary Highlights

The Lottery's budget is determined by a variety of methods. The majority of the budget is set by the annual appropriations bill (the Long Bill), which determines budgets for every agency within the State. 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. No supplemental appropriations were approved in Fiscal Year 2024.

The approved Lottery budget at the beginning of Fiscal Year 2024 was \$751.7 million. Appropriation adjustments increased the overall budget by \$29 thousand, with the Lottery budget at the end of Fiscal Year 2024 at \$751.7 million. Total expenditures and roll-forwards for Fiscal Year 2024 on a budget basis came to \$709.3 million, resulting in under expended appropriations of \$42.4 million (see Budgetary Comparison on page 103).

COLORADO LOTTERY
Management's Discussion and Analysis
(Unaudited)
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Economic Outlook

The Colorado Lottery exists to maximize proceeds for its beneficiaries. It is the only lottery in the world whose proceeds almost exclusively benefit outdoor conservation, with over \$4 billion provided since its founding in 1983. Approximately 22 to 24 cents of every dollar spent on Colorado Lottery games are reinvested in outdoor conservation in the State of Colorado. The focus in Fiscal Year 2025 will be to continue to grow revenue to maximize Lottery proceeds for its beneficiaries and the people of Colorado. The overall sales goal for the Lottery in Fiscal Year 2025 is nearly \$866.8 million, which represents a slight increase in growth over the Fiscal Year 2024 target of \$865.0 million. Our product strategy is straightforward – **To develop, deploy and promote an engaging and entertaining variety of Scratch and Jackpot games that satisfy its core players, encourage less frequent and lapsed players to play and attract new players and keep them engaged with the Colorado Lottery.**

The Lottery's scratch games and multi-state and in-state jackpot games are distinct profit centers and play-types that drive the financial health of the Colorado Lottery. They each allow the Lottery to maximize revenue and proceeds for its beneficiaries. Currently, sales of scratch games account for roughly 70 percent of its total revenue while jackpot games make up approximately 30 percent. Jackpot games, with lower prize payout percentages than scratch games, generally contribute more to proceeds, while scratch games, due to their higher overall sales level, drive higher revenue. Both play types are critical to the ongoing success and growth of the Colorado Lottery, and the portfolios of both game types each receive a high level of support through product development, deployment, advertising, social media, events and promotions.

While terminal-based jackpot game sales grew for many U.S. lotteries, including Colorado's in Fiscal Year 2024, maintaining scratch game sales was very challenging for many lotteries, including the Colorado Lottery. Overall, scratch sales for U.S. lotteries were down \$1.1 billion or 1.1 percent from the previous year. However, due to multiple \$1 billion plus jackpots for both Powerball and Mega Millions in Fiscal Year 2024, the Colorado Lottery's jackpot sales carried the Colorado Lottery to a record sales revenue year of just over \$900.7 million, despite a challenging year for scratch game sales.

The scratch games sales goal for Fiscal Year 2025 is \$601.0 million. Despite the headwinds many U.S. lotteries are experiencing surrounding scratch game sales and potentially challenging economic conditions ahead, the Lottery expects to grow scratch game sales in Fiscal Year 2025. Contributing to the projected growth will be a launch schedule of compelling and engaging scratch games, enhanced recruitment of retailers across the State and deployment of additional state-of-the-art vending machines at high-traffic retailers across the State. Additionally, significant changes to the Lottery's second-chance bonus draws are expected to entice players, particularly those who play lower price-point scratch games, to play more frequently for a chance to win \$100,000 each month.

The jackpot games sales goal for Fiscal Year 2025 is over \$265.7 million. The multi-state games Powerball and Mega Millions both had towering jackpots of over \$1 billion in Fiscal Year 2024, helping the Lottery's jackpot sales reach over the \$300 million mark for the first time in the Lottery's history. Large, \$1 billion plus jackpots tend to drive much higher sales for multi-state games, but they cannot be counted on to help grow jackpot game sales. As such, the Lottery's projected revenue from jackpot game sales in Fiscal Year 2025 is more conservative. The Lottery plans to engage players when the multi-state jackpots grow to certain levels through "trigger" advertising campaigns. The Colorado Lottery is currently going through a gaming system conversion through July 2025 that will limit the Lottery's ability to create

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and launch new games in the jackpot portfolio. The lone exception will be a change to the multi-state game Mega Millions in April 2025. It remains unclear what the growth potential is for Mega Millions, based on the changes the Lottery has been advised of, and the Lottery's forecast remains conservative.

In Fiscal Year 2025, the Lottery will continue to focus on lottery industry best practices, and its partnerships with vendors IGT and Scientific Games will bring continued innovation, discipline, and strategic enhancements to its scratch and jackpot games. This will have a direct impact on sales.

Overall, Fiscal Year 2025 will present significant opportunity for the Lottery to grow but will also present some challenges as well. Continued uncertainty on whether or not the U.S. economy will enter into a recession, a looming Presidential election, and increased competition from other forms of entertainment, including sports betting, could present economic obstacles for many U.S. lotteries, including the Colorado Lottery, and may impact consumer discretionary spending on entertainment, such as the lottery. Barring any unforeseen circumstances, the Lottery is confident in its ability to achieve its sales objectives for Fiscal Year 2025.

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 2024 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, Colorado 81003.

COLORADO LOTTERY
Statements of Net Position
June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Current Assets:		
Cash and Investments	\$ 77,142,082	\$ 69,749,278
Accounts Receivable, net of the allowance for doubtful accounts of \$130,696 in 2024 and \$168,864 in 2023	39,229,306	38,217,100
Consignment Inventory, at Cost	6,009	24,613
Warehouse Inventory, at Cost	273,851	508,756
Prepaid Expenses	66,779	60,740
Total Current Assets	<u>116,718,027</u>	<u>108,560,487</u>
Reserved and Restricted Assets:		
Cash and Investments - Operating Reserve	2,200,000	2,200,000
Cash and Investments - Licensed Agent Recovery Reserve Receipts	1,042,449	968,398
Prepaid Prize Expense with MUSL	5,253,444	5,262,566
Total Reserved and Restricted Assets	<u>8,495,893</u>	<u>8,430,964</u>
Capital Assets:		
Equipment	6,212,330	1,632,973
Right-To-Use Asset - Equipment	2,484,541	2,484,541
Leasehold Improvements	185,939	185,939
Right-To-Use Asset - Buildings	4,715,074	2,882,851
Subscription Asset	428,275	428,275
Less Accumulated Depreciation and Amortization	(4,973,580)	(3,988,622)
Total Capital Assets	<u>9,052,579</u>	<u>3,625,957</u>
TOTAL ASSETS	<u>134,266,499</u>	<u>120,617,408</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pensions	2,341,315	3,302,371
Other Postemployment Benefits	53,406	75,164
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>2,394,721</u>	<u>3,377,535</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 136,661,220</u>	<u>\$ 123,994,943</u>

COLORADO LOTTERY
Statements of Net Position
June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 5,192,126	\$ 6,485,542
Prize Liability	77,844,005	68,908,973
Payable to MUSL	680,648	981,686
Accrued Annual and Sick Leave	-	17,880
Wages and Benefits	1,046,246	866,923
Retailer Bonus Liability	3,066,938	2,419,150
Lease Liability	1,250,647	810,697
Subscription Liability	107,068	107,265
Funds Available for Distribution	39,212,659	38,743,129
Total Current Liabilities	<u>128,400,337</u>	<u>119,341,245</u>
Long-Term Liabilities:		
Accrued Annual and Sick Leave	936,435	861,319
Expired Warrants Liability	29	5,274
Lease Liability	2,378,067	2,213,631
Subscription Liability	-	106,872
Net Pension Liability	18,215,578	20,433,052
Other Postemployment Benefits Liability	442,670	519,451
Total Long-Term Liabilities	<u>21,972,779</u>	<u>24,139,599</u>
TOTAL LIABILITIES	<u>150,373,116</u>	<u>143,480,844</u>
DEFERRED INFLOWS OF RESOURCES		
Pensions	626,837	579,041
Other Postemployment Benefits	229,087	297,881
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>855,924</u>	<u>876,922</u>
NET POSITION (DEFICIT)		
Net Investment in Capital Assets	5,313,955	387,492
Restricted-Licensed Agent Recovery Reserve	1,042,449	968,398
Restricted-Operating Reserve	2,200,000	2,200,000
Unrestricted (deficit)	<u>(23,124,224)</u>	<u>(23,918,713)</u>
TOTAL NET POSITION (DEFICIT)	<u>(14,567,820)</u>	<u>(20,362,823)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 136,661,220</u>	<u>\$ 123,994,943</u>

COLORADO LOTTERY

Statements of Revenues, Expenses, and Changes in Fund Net Position

For the Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
OPERATING REVENUES		
Gross Ticket Sales	\$ 900,756,363	\$ 889,778,449
DIRECT OPERATING EXPENSES		
Prize Expense	577,812,741	575,473,121
Retailer Commissions and Bonuses	67,165,374	65,841,429
Cost of Tickets and Vendor Fees	26,828,968	25,192,623
Total Direct Operating Expenses	<u>671,807,083</u>	<u>666,507,173</u>
GROSS PROFIT ON SALE OF TICKETS	<u>228,949,280</u>	<u>223,271,276</u>
OTHER OPERATING EXPENSES		
Marketing and Communications	14,773,730	14,837,054
Administration Fees Paid to MUSL	42,897	119,620
Wages and Benefits	9,082,969	8,966,115
Professional Services	502,622	633,795
State Agencies Services	883,623	340,506
Department of Revenue Services	734,435	755,162
Travel	221,023	128,199
Equipment	135,920	109,365
Depreciation and Amortization	1,476,392	973,642
Space Rental	53,718	463,936
Lease Interest	64,538	35,121
Subscription Interest	735	1,169
Rents for Equipment	-	21,342
Motor Pool Leasing	340,255	354,999
Materials and Supplies	161,224	184,971
Telephone	67,756	82,019
Equipment Maintenance	58,846	113,532
Printing	69,298	75,500
Delivery Expense	1,489,219	1,214,614
Other	362,858	377,110
Total Other Operating Expenses	<u>30,522,058</u>	<u>29,787,771</u>
OTHER OPERATING REVENUE	<u>483,330</u>	<u>540,025</u>

COLORADO LOTTERY
Statements of Revenues, Expenses, and Changes in Fund Net Position
(Continued)
For the Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
TOTAL OPERATING INCOME	<u>\$ 198,910,552</u>	<u>\$ 194,023,530</u>
NONOPERATING REVENUES (EXPENSES)		
Investment Income	3,272,723	1,507,472
Funds Distributed for Current Year	(157,175,613)	(156,543,118)
Funds Available for Distribution for Current Year	<u>(39,212,659)</u>	<u>(38,743,129)</u>
Total Nonoperating Expenses	<u>(193,115,549)</u>	<u>(193,778,775)</u>
CHANGE IN NET POSITION	<u>5,795,003</u>	<u>244,755</u>
NET POSITION (DEFICIT), BEGINNING OF YEAR	(20,362,823)	(20,607,578)
Change in Net Position	<u>5,795,003</u>	<u>244,755</u>
NET POSITION (DEFICIT), END OF YEAR	<u><u>\$ (14,567,820)</u></u>	<u><u>\$ (20,362,823)</u></u>

COLORADO LOTTERY
Statements of Cash Flows
For the Years Ended June 30, 2024 and 2023

	2024	2023
Cash Flows from Operating Activities		
Cash received from retailers	\$ 900,426,293	\$ 887,019,540
Cash paid in prizes	(569,219,919)	(579,471,989)
Cash paid in retailer commissions	(59,857,647)	(59,300,570)
Cash payments to suppliers	(47,921,775)	(38,729,011)
Cash payments to employees for services	(10,178,846)	(9,924,758)
Cash paid in retailer bonus	(6,661,070)	(6,828,037)
Net cash provided by operating activities	<u>206,587,036</u>	<u>192,765,175</u>
Cash Flows from Noncapital Financing Activities		
Distribution of net proceeds	<u>(195,918,742)</u>	<u>(199,619,079)</u>
Net cash used by noncapital financing activities	<u>(195,918,742)</u>	<u>(199,619,079)</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	(5,103,316)	(179,133)
Principal paid on lease liability	(1,198,502)	(828,219)
Principal paid on subscription liability	(107,069)	(106,791)
Interest paid on lease liability	(64,538)	(35,399)
Interest paid on subscription liability	(735)	(1,169)
Net cash used by capital and related financing activities	<u>(6,474,160)</u>	<u>(1,150,711)</u>
Cash Flows from Investing Activities		
Interest received	3,810,670	2,732,621
Decrease from realized loss on investments	<u>(537,949)</u>	<u>(1,225,150)</u>
Net cash provided by investing activities	<u>3,272,721</u>	<u>1,507,471</u>
Increase (Decrease) in Cash and Investments	7,466,855	(6,497,144)
Cash and Investments, Beginning of Year, (including \$3,168,398 and \$2,817,360 in restricted accounts for 2024 and 2023, respectively)	<u>72,917,676</u>	<u>79,414,820</u>
Cash and Investments, End of Year, (including \$3,242,449 and \$3,168,398 in restricted accounts for 2024 and 2023, respectively)	<u><u>\$ 80,384,531</u></u>	<u><u>\$ 72,917,676</u></u>

COLORADO LOTTERY
Statements of Cash Flows
(Continued)

For the Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 198,910,552	\$ 194,023,530
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and Amortization	1,476,392	973,642
Loss on disposition of equipment	3,189	-
Pension related deferred outflows of resources	961,056	(2,083,393)
Pension related deferred inflows of resources	47,797	(5,107,310)
Net pension liability	(2,217,474)	6,314,882
OPEB related deferred outflows of resources	21,758	(24,925)
OPEB related deferred inflows of resources	(68,793)	(29,661)
Net OPEB liability	(76,781)	(47,678)
Interest expense in operating income	65,273	36,290
Change in:		
Accounts Receivable	(1,012,206)	(3,928,790)
Warehouse and Consignment Inventory	253,509	1,227,909
Prepaid Expenses	(6,039)	3,759
Prepaid Prize Expense with MUSL	9,122	(176,817)
Liabilities (excluding funds available for distribution)	8,219,681	1,583,737
Net cash provided by operating activities	<u>\$ 206,587,036</u>	<u>\$ 192,765,175</u>
Reconciliation of Cash and Investments		
Cash and investments	\$ 77,142,082	\$ 69,749,278
Restricted cash and investments- Licensed Agent		
Recovery Reserve	1,042,449	968,398
Restricted cash and investments- Operating Reserve	<u>2,200,000</u>	<u>2,200,000</u>
Cash and Investments, End of Year	<u>\$ 80,384,531</u>	<u>\$ 72,917,676</u>
Supplementary Information - Noncash Transactions:		
Loss on disposal of capital and other assets	\$ (3,189)	\$ -
Disposal of capital assets	523,959	-
Acquisition of lease assets	1,832,223	-

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COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Colorado Lottery (the Lottery) began operations July 1, 1982 under the provisions of Section 44-40-102. 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 draw games including Lotto+ Plus, Powerball, Cash 5 with 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, 2024 and 2023. 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, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenditures.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

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

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 and amortization on capital assets and leases. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

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 (FNP) and additions to/deductions from the FNP 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.

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 PERA. The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the FNP and additions to/deductions from the FNP 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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

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

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 and prize expense for scratch ticket sales are recognized at the point of ticket pack activation. Revenues from and prize expense for Lotto+ Plus, Powerball, Cash 5, Cash 5 EZ Match, Mega Millions, Pick 3, and Lucky For Life ticket sales are recognized when the tickets are sold. Other operating expenses are recognized when they are incurred.

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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

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

The Lottery uses the specific identification method to determine expected uncollectibles. Under the provisions of Section 44-40-121, 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 \$130,696 and \$168,864 as of June 30, 2024 and 2023, respectively.

Warehouse Inventory

Warehouse inventory represents unsold scratch tickets in possession of the Lottery that were produced and delivered prior to the signing of the new contract with scratch game vendor Scientific Games (SG) on June 29, 2022. Ticket inventory produced and delivered prior to that date is stated at cost, using the specific identification method. Inventory produced and delivered after that date remains the possession of SG.

Consignment Inventory

Inventory on consignment represents non-activated ticket inventory that was produced and delivered prior to June 29, 2022 and 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 these 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. Ownership of consignment inventory produced and delivered to the Lottery after June 29, 2022 and in the possession of retailers remains the possession of SG.

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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

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

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 2024, there were transfers totaling \$318,166 from the Powerball Set Prize Reserve to cover the payment of low-tier prizes. This same amount, however, was replaced by subsequent MUSL transfers from the grand prize pool, resulting in no effect on the game's prize expense. Net transfers of \$27,154 from the Powerball Grand Prize Reserve to the Powerball Set Prize Reserve were made to meet the rebalanced reserve requirements of the Lottery throughout Fiscal Year 2024. At fiscal year-end, a surplus of \$47,136 existed between the total set prize and grand prize reserve requirements of over \$2.8 million and the amount held by MUSL. During Fiscal Year 2023, there were no transfers made from the Powerball Set Prize Reserve to cover the payment of low-tier prizes. Net transfers of \$27,972 from the Powerball Grand Prize Reserve to the Powerball Set Prize Reserve along with a refund of \$48,397 of excess reserves held by MUSL were made to meet the rebalanced reserve requirements of the Lottery.

During Fiscal Year 2024, a total of \$9,122 was transferred from the Mega Millions Prize Reserve to cover the payment of low-tier prizes, increasing the game's prize expense. No amount was paid to or refunded by MUSL during Fiscal Year 2024 to meet the reserve balance requirement as determined by MUSL. At fiscal year-end, a surplus of \$101,137 was held between the total reserve requirement of over \$2.4 million and the amount held by MUSL. During Fiscal Year 2023, a total of \$38,006 was transferred from the Mega Millions Prize Reserve to cover the payment of low-tier prizes. A total of \$263,220 was paid to MUSL during Fiscal Year 2023 to bring the reserve balance up to the reserve requirement as determined by MUSL. At June 30, 2023, there were no excess funds held between the total reserve requirement of over \$2.4 million and the amount held by MUSL.

Capital, Lease, and Subscription Assets

Depreciable 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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

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

The Lottery leases office and warehouse space at multiple locations and jackpot sign equipment. Under Governmental Accounting Standards Board Statement No. 87, *Leases* (GASB 87), the Lottery recognizes that leases are defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction and recognizes a lease liability and intangible right-to-use lease asset. At the time of the adoption of GASB 87, the Lottery's lease assets were measured at the amount of the initial measurement of the lease liabilities, plus any payments made to the lessor at or before the commencement of the lease terms and certain direct costs. As payments are made, the Lottery reduces the lease liabilities and recognizes an expense for interest on the liabilities. It also amortizes the lease assets in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying assets.

At each of its four claims centers the Lottery uses checkwriter software as an integrated jackpot/online/scratch/scratch validation and check writing application provided by its online vendor IGT. Under Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96), the Lottery recognizes that IT subscriptions are financings and recognizes an intangible right to use asset at the commencement of the subscription term. At the time of the adoption of GASB 96, the Lottery measured the subscription asset at the present value of payments expected to be made during the subscription term through the end of the contract. As payments are made, the Lottery reduces the subscription liability, recognizes an expense for interest on the liability and amortizes the subscription asset in a systematic and rational manner over the shorter of the subscription term or the useful life of the underlying asset.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statements of Net Position include a separate section for deferred outflows of resources. This separate element represents a consumption of net assets 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 of resources 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, 2023 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 include a separate section for deferred inflows of resources. This separate element represents an acquisition of net assets 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 of resources 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 payroll accruals, this created a liability for accrued wages and benefits at June 30, 2024 and 2023 of \$1,046,246 and \$866,923, respectively.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

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

Prize Liability and Prize Expense

Under the provisions of Section 44-40-111 (9), C.R.S., the Lottery must pay no less than fifty percent (50%) of total ticket sales as prizes. The Lottery continued to meet this requirement with nearly 64.2% and 64.7% of ticket sales of all Lottery products paid as prizes in Fiscal Years 2024 and 2023, respectively. 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 games 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, 2024 and 2023 was \$77,844,005 and \$68,908,973, 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 \$9,609,808 for Fiscal Year ended June 30, 2024 and \$6,488,603 for Fiscal Year ended June 30, 2023.

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 \$5,751,670 for Fiscal Year ended 2024 and \$6,193,234 for Fiscal Year ended 2023.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

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

Retailer Bonus Liability

As outlined in the Lottery Retailer Application, 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 2024 and 2023 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 44-40-121, 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, 2024, and June 30, 2023, the Lottery had reserved \$1,042,449 and \$968,398, respectively. The Lottery utilizes restricted net position before using unrestricted net position for bad debts.

Lottery Fund Net Position

In accordance with Section 44-40-111 (5)(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 position “equal to the net value of the Lottery’s capital assets.” As of June 30, 2024 and June 30, 2023, the Lottery had reported \$5,313,955 and \$387,492, respectively.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

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

In April 2005, the Lottery set up a separate operating reserve independent of the net operating reserve in the amount of \$1.7 million. The amount held in this operating reserve is reviewed annually and adjusted accordingly. The current annual reviews were completed in January 2024 and January 2023. The reserve had no change from Fiscal Year 2023 and remained at \$2.2 million in Fiscal Year 2024.

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, capital 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. Annual leave is paid out upon any termination of employment, while sick leave is paid out at 25 percent of accrued amount only to employees who are retiring. In addition, for employees who are classified as non-exempt from overtime pay and have accumulated overtime hours, pay must be taken as compensatory time or paid out to the employees.

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 tickets/cash/prizes are distributed/awarded to players through special promotions and drawings and can be redeemed/claimed at any lottery office. Specific promotional tickets/cash/prizes with a total value of \$10,000 and \$112,221 were awarded in Fiscal Years ended June 30, 2024 and June 30, 2023, respectively. These costs were included in Marketing and Communications expense in the statements of revenues, expenses and changes in fund net position.

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, 2024 and June 30, 2023, scratch and jackpot tickets with a total face value of \$112,503 and \$106,665, respectively, were given away.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

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

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+ Plus tickets receive a free Pick 3 ticket. During the Fiscal Year ended June 30, 2024, free promotional tickets from a variety of jackpot games with a total face value of \$202,132 were given away with several different buy x qualifiers. During the Fiscal Year ended June 30, 2023, free promotional tickets from a variety of jackpot games with a total face value of \$232,647 were given away.

Scratch and jackpot game tickets and promotions are valued at cost. For the Fiscal Years ended June 30, 2024 and June 30, 2023, \$182,065 and \$196,418, respectively, were recorded as costs related to 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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 2 – CASH AND INVESTMENTS

Cash

Cash includes petty cash funds, imprest funds held at the Lottery claims centers, an imprest account, a depository account and cash on deposit with the State Treasurer. A detail of cash at June 30, 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
Petty cash	\$ 1,200	\$ 1,200
Imprest account - Front Counters	78,000	78,000
Imprest account	195,000	195,000
Depository accounts	250,000	250,000
Cash on deposit with State Treasurer	<u>76,617,882</u>	<u>69,225,078</u>
 Total unrestricted cash and investments	 <u>77,142,082</u>	 <u>69,749,278</u>
 Restricted cash and investments - Licensed Agent		
Recovery Reserve Receipts on deposit with State Treasurer	1,042,449	968,398
Operating Reserve on deposit with State Treasurer	<u>2,200,000</u>	<u>2,200,000</u>
 Total restricted cash and investments	 <u>3,242,449</u>	 <u>3,168,398</u>
 Total cash and investments	 <u><u>\$ 80,384,531</u></u>	 <u><u>\$ 72,917,676</u></u>

Cash on Deposit with State Treasurer

Under the provisions of Section 44-40-111 (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 2024 and 2023 was 3.71% and 2.79%, respectively.

The Lottery deposits cash with the Colorado State Treasurer. The State Treasurer pools these deposits and invests them in securities approved by Section 24-75-601.1, C.R.S. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2024, the Lottery had cash on deposit with the State Treasurer of \$79,860,331, which represented approximately 0.44 percent of the total \$18,095.0 million fair value of deposits in the State Treasurer's Pool (Pool). As of June 30, 2024, the Pool's resources included \$38.5 million of cash on hand and \$18,056.6 million of investments. As of June 30, 2023, the Pool's resources included nearly \$35.0 million of cash on hand and \$18,775.8 million of investments.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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 Annual Comprehensive Financial Report for the year ended June 30, 2024.

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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 3 – SCHEDULE OF CHANGES IN CAPITAL, LEASE, AND SUBSCRIPTION ASSETS

	<u>July 1, 2023</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2024</u>
Capital assets being depreciated:				
Equipment and software	\$ 1,632,973	\$ 5,103,316	\$ (523,959)	\$ 6,212,330
Right-To-Use Equipment	2,484,541	-	-	2,484,541
Right-To-Use Buildings	2,882,851	1,832,223	-	4,715,074
Right-To-Use subscription asset	428,275	-	-	428,275
Leasehold improvements	185,939	-	-	185,939
Total historical costs	<u>7,614,579</u>	<u>6,935,539</u>	<u>(523,959)</u>	<u>14,026,159</u>
Less accumulated depreciation for equipment and software	(1,366,707)	(149,387)	520,770	(995,324)
Less accumulated depreciation for leasehold improvements	(64,711)	(24,279)	-	(88,990)
Less accumulated amortization for Right-To-Use Equipment	(1,490,724)	(496,909)	-	(1,987,633)
Less accumulated amortization for Right-To-Use Buildings	(852,342)	(698,749)	(29,336)	(1,580,427)
Less accumulated amortization for Right-To-Use subscription asset	<u>(214,138)</u>	<u>(107,068)</u>	<u>-</u>	<u>(321,206)</u>
Total accumulated depreciation and amortization	<u>(3,988,622)</u>	<u>(1,476,392)</u>	<u>491,434</u>	<u>(4,973,580)</u>
Total capital assets, lease and subscription assets	<u>\$ 3,625,957</u>	<u>\$ 5,459,147</u>	<u>\$ (32,525)</u>	<u>\$ 9,052,579</u>

	<u>July 1, 2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2023</u>
Capital assets being depreciated:				
Equipment and software	\$ 1,575,068	\$ 57,905	\$ -	\$ 1,632,973
Right-To-Use Equipment	2,484,541	-	-	2,484,541
Right-To-Use Buildings	2,882,851	-	-	2,882,851
Right-To-Use subscription asset	428,275	-	-	428,275
Leasehold improvements	64,711	121,228	-	185,939
Total historical costs	<u>7,435,446</u>	<u>179,133</u>	<u>-</u>	<u>7,614,579</u>
Less accumulated depreciation for equipment and software	(1,328,358)	(38,349)	-	(1,366,707)
Less accumulated depreciation for leasehold improvements	(64,711)	-	-	(64,711)
Less accumulated amortization for Right-To-Use Equipment	(993,816)	(496,908)	-	(1,490,724)
Less accumulated amortization for Right-To-Use Buildings	(521,029)	(331,313)	-	(852,342)
Less accumulated amortization for Right-To-Use subscription asset	<u>(107,069)</u>	<u>(107,069)</u>	<u>-</u>	<u>(214,138)</u>
Total accumulated depreciation and amortization	<u>(3,014,983)</u>	<u>(973,639)</u>	<u>-</u>	<u>(3,988,622)</u>
Total capital assets, lease and subscription assets	<u>\$ 4,420,463</u>	<u>\$ (794,506)</u>	<u>\$ -</u>	<u>\$ 3,625,957</u>

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 4 – LONG-TERM DEBT

A schedule of Long-Term Debt (including the current portion) for the Fiscal Years ended June 30, 2024 and 2023 follows:

	<u>July 1, 2023</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2024</u>	<u>Current Portion</u>
Accrued Annual and Sick Leave	\$ 879,199	\$ 695,100	\$ (637,864)	\$ 936,435	\$ -
Expired Warrants	5,274	-	(5,245)	29	-
Lease liability	3,024,328	1,802,888	(1,198,502)	3,628,714	1,250,647
Subscription liability	214,137	-	(107,069)	107,068	107,068
Total Long-Term Debt	<u>\$ 4,122,938</u>	<u>\$ 2,497,988</u>	<u>\$ (1,948,680)</u>	<u>\$ 4,672,246</u>	<u>\$ 1,357,715</u>

	<u>July 1, 2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2023</u>	<u>June 30, 2023 Current Portion</u>
Accrued Annual and Sick Leave	\$ 783,862	\$ 693,419	\$ (598,082)	\$ 879,199	\$ 17,880
Expired Warrants	10,150	-	(4,876)	5,274	-
Lease liability	3,852,547	-	(828,219)	3,024,328	810,697
Subscription liability	321,206	-	(107,069)	214,137	107,265
Total Long-Term Debt	<u>\$ 4,967,765</u>	<u>\$ 693,419</u>	<u>\$ (1,538,246)</u>	<u>\$ 4,122,938</u>	<u>\$ 935,842</u>

The short-term portion of the above long-term debt appears in the final column. This represents the amount to be paid out in the next twelve months.

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. The total lease liability for buildings at June 30, 2024 and 2023 is approximately \$3.1 million and \$2.0 million, respectively. The total lease liability for equipment is approximately \$0.5 million and \$1.0 million for the years ended June 30, 2024 and 2023, respectively. There are no significant residual payments excluded from the measurement of the lease liability. There are no outflows of resources for the payment of variable payments not included in the measurement of the lease liability. Specific lease information follows:

Pueblo

Office – The Lottery entered into an amended lease agreement with Midtown RLLLP establishing the commencement date of July 1, 2023 and the lease expiration date of June 30, 2026. The lease rent table was updated to correspond with the lease term and otherwise amend and clarify the lease.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 4 – LONG-TERM DEBT (CONTINUED)

Warehouse – The Lottery leases primary warehouse space from Santa Fe 250 LLC. Signed on October 27, 2023 by the State Controller's Office, the Lottery executed the Second Amendment to the lease with Santa Fe 250, LLC. Becoming effective March 1, 2024, the amendment extended the term of the lease through June 30, 2026, expanded the occupied space by nearly seven thousand square feet, and established the modified monthly rent for the term of the lease.

Denver

Warehouse – The Lottery entered into a new lease agreement with BKM Valley BC 243 LLC (formerly, Valley Business Corp) effective on July 19, 2021 and expiring on June 30, 2026. The lease 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 monthly payments for the first three (3) months increasing to 125% of rate paid as of the date of expiration or sooner termination thereafter. The lease contains an option to renew for two additional five-year terms each, commencing on July 1, 2026.

Fort Collins

The Lottery shares space with the Department of Revenue for a claims center and pays their portion of the lease to Rockstone Leasing, LLC, 3842 Mason, LLC, and Midtown Associates, LLC as Tenants in Common, proportionate to the space they occupy. The lease term expires on June 30, 2026.

Denver

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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 4 – LONG-TERM DEBT (CONTINUED)

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 Lottery executed Option Letter #3 on June 7, 2019 and extended the IGT contract through July 12, 2025. Contract Amendment #7 was executed on June 7, 2019 to establish new prices and rates of the original IGT contract, which also includes the amount of the lease for in-store jackpot signage.

FISCAL YEAR	Pueblo Warehouse	
	Principal	Interest
2025	\$ 238,984	\$ 10,781
2026	246,022	3,743

FISCAL YEAR	Denver Warehouse	
	Principal	Interest
2025	\$ 124,182	\$ 26,428
2026	131,104	24,666
2027	137,631	22,810
2028	144,336	20,919
2029	151,392	18,821
2030-2034	870,866	59,926
2035-2039	288,707	5,938

FISCAL YEAR	Pueblo Office	
	Principal	Interest
2025	\$ 332,714	\$ 15,428
2026	353,613	5,494

FISCAL YEAR	Ft. Collins Office	
	Principal	Interest
2025	\$ 52,341	\$ 479
2026	54,396	167

FISCAL YEAR	Wireless Jackpot Signage	
	Principal	Interest
2025	\$ 502,426	\$ 1,574
TOTAL LEASES	\$ 3,628,714	\$ 217,174

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 4 – LONG-TERM DEBT (CONTINUED)

Subscription Based Information Technology Arrangements (SBITAs)

Effective January 17, 2014, the Lottery executed a contract with IGT to provide checkwriter software as an integrated jackpot/online/scratch validation and check writing application for use by the Lottery at claim centers for \$9,000 per month. The initial period of the contract terminated on June 30, 2021 unless sooner terminated or further extended. On June 7, 2019, the Lottery executed Option Letter #3 extending the IGT contract through July 12, 2025, including the use of the claims and payments software. The total subscription liability at June 30, 2024 and 2023 is \$0.1 million and \$0.2 million, respectively. There are no significant residual payments excluded from the measurement of the subscription liability. There are no outflows of resources for the payment of variable payments not included in the measurement of the liability.

Schedule of Future Subscription Payments

LOCATION	FY 2025	
	Principal	Interest
Claims & Payments Software	\$ 107,069	\$ 259

NOTE 5 – OTHER REVENUE

A schedule of other revenue for the Fiscal Years ended June 30, 2024 and 2023 follows:

	2024	2023
License fees	\$ 59,010	\$ 58,726
Fines and penalties	79,950	332,100
Assignment fees	300	-
Net licensed agent recovery reserve receipts	101,209	91,038
MUSL revenue reversion	218,558	-
Other	24,303	58,161
Total	\$ 483,330	\$ 540,025

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 6 – DISTRIBUTION OF NET PROCEEDS

The net proceeds amount is equal to the Lottery's change in net position plus or minus the changes in the components of net position as described earlier. 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 nearly \$81.8 million for the year ended June 30, 2024. On June 21, 2021, House Bill 21-1318 concerning the creation and funding of the Outdoor Equity Grant Program was approved by Governor Jared Polis and established the distribution of the amounts exceeding the GOCO cap for Fiscal Year 2021 and beyond. The bill added Part 2 to article 9 of title 33, specifically Sections 33-9-201 through 33-9-206, C.R.S and Subsection (12) to Section 44-40-111, C.R.S, changing the distribution of any excess amounts over the statutory limit for Fiscal Year 2021 and beyond. Any excess over the limit to the extent available shall be transferred as follows for Fiscal Year 2024: the first \$3 million to the Outdoor Equity Fund, the next \$3 million to the State Public School Capital Construction Assistance Fund and any remaining as twenty-five percent (25%) to the Wildlife Cash Fund, twenty-five percent (25%) to the Parks and Outdoor Recreation Cash Fund, and fifty percent (50%) to the State Public School Capital Construction Assistance Fund.

Income available for distribution at June 30:

	<u>2024</u>	<u>2023</u>
Income before distributions	\$ 202,183,275	\$ 195,531,002
Changes in Net Position:		
Change in licensed agent recovery reserve	(74,051)	(51,038)
Change in fair market value of investments	537,950	1,225,150
Change in operating reserve	-	(300,000)
Change in investment in capital assets	(4,926,463)	(140,782)
Change in unfunded pension and OPEB revenue/expense	<u>(1,332,439)</u>	<u>(978,085)</u>
Income available for distribution	196,388,272	195,286,247
Less distributions prior to year-end	<u>(157,175,613)</u>	<u>(156,543,118)</u>
Income available for distribution	<u><u>\$ 39,212,659</u></u>	<u><u>\$ 38,743,129</u></u>

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 6 – DISTRIBUTION OF NET PROCEEDS (CONTINUED)

	Accrued at June 30, 2023	Proceed Distribution Expenses	Distributions Paid	Accrued at June 30, 2024
Great Outdoors Colorado	\$ -	\$ 81,771,604	\$ (78,587,807)	\$ 3,183,797
Public School Capital				
Construction Assistance Fund	11,028,323	8,211,266	(11,028,323)	8,211,266
Conservation Trust Fund	15,497,251	78,555,309	(78,367,496)	15,685,064
Division of Parks and				
Outdoor Recreation	3,874,313	19,638,827	(19,591,874)	3,921,266
Outdoor Equity Fund	-	3,000,000	-	3,000,000
Wildlife Cash Fund	4,171,621	2,605,633	(4,171,621)	2,605,633
Parks & Outdoor Recreation Cash Fund	4,171,621	2,605,633	(4,171,621)	2,605,633
	<u>\$ 38,743,129</u>	<u>\$ 196,388,272</u>	<u>\$ (195,918,742)</u>	<u>\$ 39,212,659</u>
	Accrued at June 30, 2022	Proceed Distribution Expenses	Distributions Paid	Accrued at June 30, 2023
Great Outdoors Colorado	\$ 4,496,728	\$ 75,706,639	\$ (80,203,367)	\$ -
Public School Capital				
Construction Assistance Fund	9,270,625	11,343,243	(9,585,545)	11,028,323
Conservation Trust Fund	17,230,384	78,114,498	(79,847,631)	15,497,251
Division of Parks and				
Outdoor Recreation	4,307,596	19,528,625	(19,961,908)	3,874,313
Outdoor Equity Fund	1,500,000	2,250,000	(3,750,000)	-
Wildlife Cash Fund	3,135,314	4,171,621	(3,135,314)	4,171,621
Parks & Outdoor Recreation Cash Fund	3,135,314	4,171,621	(3,135,314)	4,171,621
	<u>\$ 43,075,961</u>	<u>\$ 195,286,247</u>	<u>\$ (199,619,079)</u>	<u>\$ 38,743,129</u>

NOTE 7 – 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 (ACFR) that can be obtained at www.copera.org/investments/pera-financial-reports.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 7 – PENSION PLANS (CONTINUED)

Benefits Provided as of December 31, 2023

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.

Upon meeting certain criteria, 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. Subject to the automatic adjustment provision (AAP) under C.R.S. § 24-51-413, eligible benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 will receive the maximum annual increase (AI) or AI cap of 1.00 percent unless adjusted by the AAP. Eligible benefit recipients under the PERA benefit structure who began membership on or after January 1, 2007, will receive the lesser of an annual increase of the 1.00 percent AI cap or the average increase of the Consumer Price Index for Urban Wage Earners and Clerical Workers for the prior calendar year, not to exceed a determined increase that would exhaust 10 percent of PERA's Annual Increase Reserve (AIR) for the SDTF. The AAP may raise or lower the aforementioned AI cap by up to 0.25 percent based on the parameters specified in C.R.S. § 24-51-413.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 7 – PENSION PLANS (CONTINUED)

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. The disability benefit amount is based on the lifetime retirement benefit formula(s) shown above 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.

Contributions Provisions as of June 30, 2024

Eligible employees of the Lottery and the State are required to contribute to the SDTF at a rate set by Colorado statute. The contribution requirements for the SDTF are established under C.R.S. § 24-51-401, et seq. and § 24-51-413. Employer contribution rates for the period of July 1, 2023 through June 30, 2024 are summarized in the table below:

	Fiscal Year 2023		Fiscal Year 2024	
	CY2022	CY2023	CY2023	CY2024
	7/1/22 - 12/31/22	1/1/23 - 6/30/23	7/1/23 - 12/31/23	1/1/24 - 6/30/24
Employer Contribution Rate	11.40%	11.40%	11.40%	11.40%
Amount of Employer Contribution Apportioned to the Health Care Trust Fund as specified in C.R.S. Section 24-51-208(1)(f)	-1.02%	-1.02%	-1.02%	-1.02%
Amount Apportioned to the SDTF	10.38%	10.38%	10.38%	10.38%
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411*	5.00%	5.00%	5.00%	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411	5.00%	5.00%	5.00%	5.00%
Defined Contribution Supplement as specified in C.R.S. § 24-51-415	0.10%	0.17%	0.17%	0.21%
Total Employer Contribution Rate to the SDTF	20.48%	20.55%	20.55%	20.59%

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 7 – PENSION PLANS (CONTINUED)

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 \$1,464,641 and \$1,756,456 for the Fiscal Years ended June 30, 2024 and 2023, respectively.

As specified in C.R.S. § 24-51-414, the State is required to contribute \$225 million direct distribution each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SDTF based on the proportionate amount of annual payroll of the SDTF to the total annual payroll of the SDTF, School Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund. The direct distribution from the State was suspended in 2020. To compensate PERA for the suspension, C.R.S. §§ 24-51-414(6-8) required restorative payment by providing an accelerated payment in 2022. In 2022, the State Treasurer issued payment for the direct distribution of \$225 million plus an additional amount of \$380 million. Due to the advanced payment made in 2022, the State reduced the distribution in 2023 to \$35 million. Additionally, the newly added C.R.S. § 24-51-414(9) provided compensatory payment of \$14.561 million for 2023 only.

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

The net pension liability for the SDTF was measured as of December 31, 2023 and 2022, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2022 and 2021. Standard update procedures were used to roll-forward the total pension liability to December 31, 2023 and 2022. The Lottery's proportion of the net pension liability was based on the Lottery's contributions to the SDTF for the calendar year 2023 and 2022 relative to the total contributions of participating employers and the State as a non-employer contributing entity.

At June 30, 2024 and 2023, the Lottery reported a liability of \$18,215,578 and \$20,433,052, respectively, for its proportionate share of the net pension liability.

At December 31, 2023, the Lottery proportion was 0.1801187639 percent, which was a decrease of 0.0078132577 percent from its proportion of 0.1801187639 percent measured as of December 31, 2022.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 7 – PENSION PLANS (CONTINUED)

For the Fiscal Year ended June 30, 2024, the Lottery recognized pension expense of \$1,208,621 and for Fiscal Year ended June 30, 2023, the Lottery recognized pension expense of \$880,636. At June 30, 2024 and 2023, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Year ended June 30, 2024		Year ended June 30, 2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 297,753	\$ 96,724	\$ -	\$ 273,954
Changes of assumptions or other inputs	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	1,322,997	-	2,597,726	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	-	530,113	-	305,087
Contributions subsequent to the measurement date	\$ 720,566	-	704,645	-
Total	<u>\$ 2,341,315</u>	<u>\$ 626,837</u>	<u>\$ 3,302,371</u>	<u>\$ 579,041</u>

The amount of \$720,566 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, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30:</u>	
2025	\$ (273,600)
2026	514,611
2027	1,112,204
2028	(359,303)
2029	-
Thereafter	-
Total	<u>\$ 993,912</u>

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 7 – PENSION PLANS (CONTINUED)

Actuarial Assumptions

The TPL in the December 31, 2022 and 2021, actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.30%
Real wage growth	0.70%
Wage inflation	3.00%
Salary increases, including wage inflation	3.30 – 10.90%
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25%
Discount rate	7.25%
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07; and DPS benefit structure (compounded annually)	1.00%
PERA benefit structure hired after 12/31/06 ¹	Financed by the AIR

¹ Post-retirement benefit increases are provided by the AIR, accounted separately within each Division Trust Fund, and subject to moneys being available; therefore, liabilities related to increases for members of these benefit tiers can never exceed available assets.

The mortality tables described below are generational mortality tables developed on a benefit-weighted basis.

Pre-retirement mortality assumptions for members other than Safety Officers were based upon the PubG-2010 Employee Table with generational projection using scale MP-2019.

Post-retirement non-disabled mortality assumptions for members other than Safety Officers were based on the PubG-2010 Healthy Retiree Table, adjusted as follows:

- **Males:** 94% of the rates prior to age 80 and 90% of the rates for ages 80 and older, with generational projection using scale MP-2019.
- **Females:** 87% of the rates prior to age 80 and 107% of the rates for ages 80 and older, with generational projection using scale MP-2019.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 7 – PENSION PLANS (CONTINUED)

Post-retirement non-disabled beneficiary mortality assumptions were based upon the Pub-2010 Contingent Survivor Table, adjusted as follows:

- **Males:** 97% of the rates for all ages, with generational projection using scale MP-2019.
- **Females:** 105% of the rates for all ages, with generational projection using scale MP-2019.

Disabled mortality assumptions for members other than Safety Officers were based upon the PubNS-2010 Disabled Retiree Table using 99% of the rates for all ages with generational projection using scale MP-2019.

The actuarial assumptions used in the December 31, 2022 and 2021, valuations were based on the 2020 experience analysis, dated October 28, 2020, for the period January 1, 2016 through December 31, 2019. Revised economic and demographic assumptions were adopted by the PERA Board on November 20, 2020.

The long-term expected return on plan assets is reviewed as part of regular experience studies performed at least every five years and asset/liability studies performed every three to five years for PERA. The most recent analyses were outlined in the Experience Study report dated October 28, 2020.

Several factors are considered in evaluating the long-term rate of return assumption, 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 percentages and then adding expected inflation.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 7 – PENSION PLANS (CONTINUED)

The PERA Board first adopted the 7.25 percent long-term expected rate of return as of November 18, 2016. Following an asset/liability study, the Board reaffirmed the assumed rate of return at the Board's November 15, 2019 meeting to be effective January 1, 2020. As of the most recent reaffirmation of the long-term rate of return, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the table as follows:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
Global Equity	54.00%	5.60%
Fixed Income	23.00%	1.30%
Private Equity	8.50%	7.10%
Real Estate	8.50%	4.40%
Alternatives	6.00%	4.70%
Total	100.00%	

Note: 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 nominal rate of return assumption of 7.25%

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent for both the measurement periods of December 31, 2023 and 2022. 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 3.00%.
- Employee contributions were assumed to be made at the member contribution rates in effect for each year, including the scheduled increases in SB 18-200, requiring adjustments resulting from the 2018 and 2020 AAP assessments. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 7 – PENSION PLANS (CONTINUED)

- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law for each year, including the scheduled increase in SB 18-200 and required adjustments resulting from the 2018 and 2020 AAP assessments. Employer contributions also include 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 reflect 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.
- As specified in law, the State, as a non-employer contributing entity, will provide an annual direct distribution of \$225 million, commencing July 1, 2018, that is proportioned between the State, School, Judicial, and DPS Division Trust Funds based upon the covered payroll of each Division. The annual direct distribution ceases when all Division Trust Funds are fully funded.
- Employer contributions and the amount of total service costs for future plan members were based upon a process to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial FNP, 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. AIR transfers to the FNP and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the middle of the year.
- Beginning with the December 31, 2023, measurement date and thereafter, the FNP as of the current measurement date is used as a starting point for the GASB 67 projection test.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 7 – PENSION PLANS (CONTINUED)

Based on the above assumptions and methods, the SDTF's FNP was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent. There was no change in the discount rate from the prior 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 for the measurement periods of December 31, 2023 and 2022 calculated using the discount rate of 7.25 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 one percentage-point lower (6.25 percent) or one percentage-point higher (8.25 percent) than the current rate:

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability - December 31, 2023	<u>\$ 23,807,743</u>	<u>\$ 18,215,578</u>	<u>\$ 13,513,329</u>
Proportionate share of the net pension liability - December 31, 2022	<u>\$ 26,121,279</u>	<u>\$ 20,433,052</u>	<u>\$ 15,648,175</u>

Pension Plan Fiduciary Net Position

Detailed information about the SDTF's FNP is available in PERA's ACFR which can be obtained at www.copera.org/investments/pera-financial-reports.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 8 – OTHER RETIREMENT PLANS

Defined Contribution Plan (PERA 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, and certain classified employees of State Colleges and Universities hired on or after January 1, 2019, have the option to participate in the SDTF, a cost-sharing multiple-employer defined benefit pension plan, or the Defined Contribution Retirement Plan (PERA DC Plan).

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. PERA issues a publicly available ACFR which includes additional information on the PERAPlus 457 Plan. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy

All participating employees in the PERA DC Plan and the Lottery are required to contribute a percentage of the participating employees' PERA-includable salary to the PERA DC Plan. The employee and employer contribution rates for the period July 1, 2023 through June 30, 2024 are summarized in the tables below:

	Fiscal Year 2023		Fiscal Year 2024	
	CY2022	CY2023	CY2023	CY2024
	7/1/22 - 12/31/22	1/1/23 - 6/30/23	7/1/23 - 12/31/23	1/1/24 - 6/30/24
Employee Contribution Rates	11.00%	11.00%	11.00%	11.00%
Employer Contribution Rates	10.15%	10.15%	10.15%	10.15%

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 8 – OTHER RETIREMENT PLANS (CONTINUED)

Additionally, the employers are required to contribute AED, SAED, and other statutory amounts, as follows:

	Fiscal Year 2023		Fiscal Year 2024	
	CY2022	CY2023	CY2023	CY2024
	7/1/22 - 12/31/22	1/1/23 - 6/30/23	7/1/23 - 12/31/23	1/1/24 - 6/30/24
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411	5.00%	5.00%	5.00%	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411*	5.00%	5.00%	5.00%	5.00%
Automatic Adjustment Provision (AAP), as specified in C.R.S. § 24-51-413*	1.00%	1.00%	1.00%	1.00%
Defined Contribution statutory contribution as specified in C.R.S. § 24-51-1505*	0.25%	0.25%	0.25%	0.25%
Defined Contribution Supplement as specified in C.R.S. § 24-51-415	0.10%	0.17%	0.17%	0.21%
Total employer contribution rate to the SDTF*	11.35%	11.42%	11.42%	11.46%

*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 16.80 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. Participating employees in the PERA DC Plan contributed \$15,021 and \$11,539, and the Lottery recognized pension expense of \$13,860 and \$10,165 for the PERA DC Plan for the Fiscal Years ended June 30, 2024 and 2023, respectively.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 8 – OTHER RETIREMENT PLANS (CONTINUED)

Voluntary Investment Program

Plan Description

Employees of the Lottery that are also members of the SDTF may voluntarily contribute to the Voluntary Investment Program (PERAPlus 401(k) Plan), 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 Annual Report which includes additional information on the Voluntary Investment Program. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy

The PERAPlus 401(k) Plan 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 and investment earnings. For the years ended June 30, 2024 and 2023, program members contributed \$49,713 and \$61,489, respectively.

Deferred Compensation Plan (PERAPlus 457 Plan)

Plan Description

Employees of the Lottery may voluntarily contribute to the Deferred Compensation Plan (PERAPlus 457 Plan), an Internal Revenue Code Section 457 deferred compensation plan administered by PERA. Title 24, Article 51, Part 16 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 ACFR which includes additional information on the PERAPlus 457 Plan. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy

The PERAPlus 457 Plan 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 1603 of the C.R.S., as amended. Members are immediately vested in their own contributions, employer contributions and investment earnings. For the years ended June 30, 2024 and 2023, program members contributed \$93,165 and \$9,818, respectively.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 9 – 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, and 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 by the Colorado General Assembly. PERA issues a publicly available annual comprehensive financial report (ACFR) 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 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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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 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 ended June 30, 2024 and 2023 were \$67,439 and \$65,649, respectively.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

At June 30, 2024, the Lottery reported a liability of \$442,670 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2023, and the total OPEB liability (TOL) used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2022. Standard update procedures were used to roll-forward the TOL to December 31, 2023. The Lottery's proportion of the net OPEB liability was based on the Lottery's contributions to the HCTF for the calendar year 2023 relative to the total contributions of participating employers to the HCTF.

At June 30, 2023, the Lottery reported a liability of \$519,451 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2022, and the total OPEB liability (TOL) used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2021. Standard update procedures were used to roll-forward the TOL to December 31, 2022. The Lottery's proportion of the net OPEB liability was based on the Lottery's contributions to the HCTF for the calendar year 2022 relative to the total contributions of participating employers to the HCTF.

At December 31, 2023, the Lottery proportion was 0.0620223741 percent, which was a decrease of 0.0015984279 percent from its proportion of 0.0636208020 percent measured as of December 31, 2022.

For the Fiscal Years ended June 30, 2024 and June 30, 2023, the Lottery recognized OPEB credit of \$56,376 and \$36,616, respectively. At June 30, 2024 and June 30, 2023, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Year ended June 30, 2024		Year ended June 30, 2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 90,729	\$ 67	\$ 125,621
Changes of assumptions or other inputs	5,206	46,937	8,349	57,331
Net difference between projected and actual earnings on OPEB plan investments	13,691	-	31,727	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	702	91,420	1,899	114,929
Contributions subsequent to the measurement date	33,808	-	33,122	-
Total	<u>\$ 53,406</u>	<u>\$ 229,087</u>	<u>\$ 75,164</u>	<u>\$ 297,881</u>

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The amount of \$33,808 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, 2025. 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:

2025	\$ (90,332)
2026	(54,414)
2027	(23,922)
2028	(28,227)
2029	(9,752)
Thereafter	<u>(2,842)</u>
Total	<u><u>\$ (209,489)</u></u>

Actuarial Assumptions

The TOL in the December 31, 2022 and December 31, 2021 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.30%
Real wage growth	0.70%
Wage inflation	3.00%
Salary increases, including wage inflation	3.30%-10.90%
Long-term investment rate of return, net of OPEB	
plan investment expenses, including price inflation	7.25%
Discount rate	7.25%

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Health care cost trend rates

PERA benefit structure:

Service-based premium subsidy	0.00%
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PERACare Medicare plans	7.00% in 2023 gradually decreasing to 4.50% in 2033
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	6.50% in 2022, gradually decreasing to 4.50% in 2030
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Medicare Part A premiums	3.50% in 2023, gradually increasing to 4.50% in 2035
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	3.75% in 2022, gradually increasing to 4.50% in 2029
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COLORADO LOTTERY

Notes to Financial Statements

Years Ended June 30, 2024 and 2023

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Each year the per capita health care costs are developed by plan option; currently based on 2023 premium rates for the UnitedHealthcare Medicare Advantage Prescription Drug (MAPD) PPO plan #1, the UnitedHealthcare MAPD PPO plan #2, and the Kaiser Permanente MAPD HMO plan. Actuarial morbidity factors are then applied to estimate individual retiree and spouse costs by age, gender, and health care cost trend. This approach applies for all members and is adjusted accordingly for those not eligible for premium-free Medicare Part A for the PERA benefit structure.

Age-Related Morbidity Assumptions

Participant Age	Annual Increase (Male)	Annual Increase (Female)
65-68	2.2%	2.3%
69	2.8%	2.2%
70	2.7%	1.6%
71	3.1%	0.5%
72	2.3%	0.7%
73	1.2%	0.8%
74	0.9%	1.5%
75-85	0.9%	1.3%
86 and older	0.0%	0.0%

The 2023 Medicare Part A premium is \$506 per month.

Sample Age	MAPD PPO #1 with Medicare Part A		MAPD PPO #2 with Medicare Part A		MAPD HMO (Kaiser) with Medicare Part A	
	Retiree/Spouse		Retiree/Spouse		Retiree/Spouse	
	Male	Female	Male	Female	Male	Female
65	\$1,692	\$1,406	\$579	\$481	\$1,913	\$1,589
70	\$1,901	\$1,573	\$650	\$538	\$2,149	\$1,778
75	\$2,100	\$1,653	\$718	\$566	\$2,374	\$1,869

Sample Age	MAPD PPO #1 without Medicare Part A		MAPD PPO #2 without Medicare Part A		MAPD HMO (Kaiser) without Medicare Part A	
	Retiree/Spouse		Retiree/Spouse		Retiree/Spouse	
	Male	Female	Male	Female	Male	Female
65	\$6,469	\$5,373	\$4,198	\$3,487	\$6,719	\$5,581
70	\$7,266	\$6,011	\$4,715	\$3,900	\$7,546	\$6,243
75	\$8,026	\$6,319	\$5,208	\$4,101	\$8,336	\$6,563

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

All costs are subject to the health care cost trend rates, as discussed below.

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 industry methods developed by health plan actuaries and administrators. In addition, projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services are referenced in the development of these rates. Effective December 31, 2022, 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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

Year	PERACare Medicare Plans	Medicare Part A Premiums
2023	7.00%	3.50%
2024	6.75%	3.50%
2025	6.50%	3.75%
2026	6.25%	3.75%
2027	6.00%	4.00%
2028	5.75%	4.00%
2029	5.50%	4.00%
2030	5.25%	4.25%
2031	5.00%	4.25%
2032	4.75%	4.25%
2033	4.50%	4.25%
2034	4.50%	4.25%
2035+	4.50%	4.50%

Mortality assumptions used in the December 31, 2022 and 2021 valuation for the determination of the total pension liability for each of the Division Trust Funds as shown below, reflect generational mortality and were applied, as applicable, in the determination of the TOL for the HCTF, but developed using a headcount-weighted basis. Affiliated employers of the State, School, Local Government, and Judicial Divisions participate in the HCTF.

Pre-retirement mortality assumptions for the State and Local Government Divisions (members other than Safety Officers) were based upon the PubG-2010 Employee Table with generational projection using scale MP-2019.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Post-retirement non-disabled mortality assumptions for the State and Local Government Divisions (members other than Safety Officers) were based on the PubG-2010 Healthy Retiree Table, adjusted as follows:

- **Males:** 94% of the rates prior to age 80 and 90% of the rates for ages 80 and older, with generational projection using scale MP-2019.
- **Females:** 87% of the rates prior to age 80 and 107% of the rates for ages 80 and older, with generational projection using scale MP-2019.

Post-retirement non-disabled beneficiary mortality assumptions were based upon the Pub-2010 Contingent Survivor Table, adjusted as follows:

- **Males:** 97% of the rates for all ages, with generational projection using scale MP-2019.
- **Females:** 105% of the rates for all ages, with generational projection using scale MP-2019.

Disabled mortality assumptions for members other than Safety Officers were based upon the PubNS-2010 Disabled Retiree Table using 99% of the rates for all ages with generational projection using scale MP-2019.

The following health care costs assumptions were updated and used in the roll-forward calculation for the HCTF:

- Per capita health care costs in effect as of the December 31, 2022 valuation date for those PERACare enrollees under the PERA benefit structure who are expected to be age 65 and older and are not eligible for premium-free Medicare Part A benefits have been updated to reflect costs for the 2023 plan year.
- The morbidity rates used to estimate individual retiree and spouse costs by age and by gender were updated effective for the December 31, 2022, actuarial valuation. The revised morbidity rate factors are based on a review of historical claims experience by age, gender, and status (active versus retired) from actuary's claims data warehouse.
- The health care cost trend rates applicable to health care premiums were revised to reflect the then-current expectation of future increases in those premiums.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial assumptions pertaining to per capita health care costs and their related trend rates are analyzed and updated annually by PERA Board's actuary, as discussed above.

The actuarial assumptions used in the December 31, 2022 and 2021 valuations were based on the 2020 experience analysis, dated October 28, 2020, and November 4, 2020, for the period January 1, 2016 through December 31, 2019. Revised economic and demographic assumptions were adopted by the PERA Board on November 20, 2020.

The long-term expected return on plan assets is reviewed as part of regularly scheduled experience studies performed at least every five years, and asset/liability studies, performed every three to five years for PERA. The most recent analyses were outlined in Experience Study report dated October 28, 2020.

Several factors were considered in evaluating the long-term rate of return assumption, 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.

The PERA Board first adopted the 7.25% long-term expected rate of return as of November 18, 2016. Following an asset/liability study, the Board reaffirmed the assumed rate of return at the Board's November 15, 2019, meeting, to be effective January 1, 2020. As of the most recent reaffirmation of the long-term rate of return, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the table as follows:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
Global Equity	54.00%	5.60%
Fixed Income	23.00%	1.30%
Private Equity	8.50%	7.10%
Real Estate	8.50%	4.40%
Alternatives	6.00%	4.70%
Total	100.00%	

Note: 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%.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (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
Initial PERACare Medicare trend rate	5.75%	6.75%	7.75%
Ultimate PERACare Medicare trend rate	3.50%	4.50%	5.50%
Initial Medicare Part A trend rate	2.50%	3.50%	4.50%
Ultimate Medicare Part A trend rate	3.50%	4.50%	5.50%
Net OPEB Liability	\$492,965	\$442,670	\$456,490

Discount Rate

The discount rate used to measure the TOL 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, 2023 and 2022 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 3.00%.
- 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.
- 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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

- Estimated transfers of dollars into the HCTF representing a portion of purchase service agreements intended to cover the costs associated with OPEB benefits.
- Benefit payments and contributions were assumed to be made at the middle of the year.
- Beginning with the December 31, 2023, measurement date and thereafter, the FNP as of the current measurement date is used as a starting point for the GASB 74 projection test.
- As of the December 31, 2023, measurement date, the FNP and related disclosure components for the HCTF reflect payments related to the disaffiliation of Tri-County Health Department as a PERA-affiliated employer, effective December 31, 2022. As of the December 31, 2023, year-end, PERA recognized two additions for accounting and financial reporting purposes: a \$24 million payment received on December 4, 2023, and a \$2 million receivable. The employer disaffiliation payment and receivable allocations to the HCTF and Local Government Division Trust Fund were \$1.033 million and \$24.967 million, respectively.

Based on the above assumptions and methods, the FNP for the HCTF was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25% on OPEB plan investments was applied to all periods of projected benefit payments to determine the TOL. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25%. There was no change in the discount rate from the prior measurement date.

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 for the measurement periods of December 31, 2023 and 2022, 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 in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
Net OPEB Liability - December 31, 2023	<u>\$ 429,965</u>	<u>\$ 442,670</u>	<u>\$ 456,490</u>
Net OPEB Liability - December 31, 2022	<u>\$ 504,748</u>	<u>\$ 519,451</u>	<u>\$ 535,449</u>

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Plan Fiduciary Net Position

Detailed information about the HCTF's FNP is available in PERA's ACFR which can be obtained at www.copera.org/investments/pera-financial-reports.

NOTE 10 – CONTINGENCIES AND COMMITMENTS

Prize Annuities – The Lottery purchases annuity contracts in the name of individual jackpot prize winners. Although the annuity contracts are in the name of the individual winners, the Lottery retains title to the annuity contracts.

The Lottery remains liable for the payment of the guaranteed 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, 2078 based on updated life expectancy tables.

Specified prize payments	\$ 40,251,698
Lifetime prize payments	<u>33,980,000</u>
Total guaranteed prize payments	<u><u>\$ 74,231,698</u></u>

Prize Commitment – The Lottery also acts as a transfer agent for the single Powerball Jackpot Winner on October 10, 2007. These funds are held in trust at the MUSL in securities deemed appropriate by the Grand Prize Trust Agreement. The future value of this prize was \$11,549,000 as of June 30, 2024.

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 LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 10 – CONTINGENCIES AND COMMITMENTS (CONTINUED)

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 Broadspire Services, Inc. to administer its plan. The State reimburses Broadspire Services, 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 re-evaluated 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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 10 – CONTINGENCIES AND COMMITMENTS (CONTINUED)

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.

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 for jackpot data processing services, effective November 9, 2014 through June 30, 2021. On June 7, 2019, upon approval of the State Controller, the Lottery exercised its option to extend the contract beginning July 11, 2021 and ending July 12, 2025 and its option to increase the quantity of the services provided by IGT. Effective June 7, 2019, Amendment #7 was also signed modifying the maximum amount payable under the contract, which includes a fixed amount plus the percentage of sales covering the contract period through July 12, 2025. Effective June 4, 2024, upon approval by the State Controller's authorized delegate, the Lottery entered into a new contract with IGT. The initial term of the contract is from the effective date through July 13, 2025, considered the implementation period. Following the implementation period, the contract term for production operations will be from July 13, 2025 through July 12, 2032, with the option to extend for periods of one year or less. Payments for the jackpot data processing contract were \$17,267,104 for Fiscal Year ended June 30, 2024 and \$15,400,664 for Fiscal Year ended June 30, 2023.

For scratch ticket production, the Lottery entered into new contracts with its three scratch ticket vendors beginning July 1, 2017 and ending June 30, 2024. The contracts each contain an option to extend for continued performance for up to a maximum of two (2) two-year extensions. On June 29, 2022, the Lottery exercised its option with Scientific Games, one of the three scratch ticket vendors, to utilize the Scientific Games Enhanced Partnership (SGEP), modifying the business entity assignment, extending the contract expiration date to June 30, 2027, and increasing the contract maximum amount by \$67,800,000. Payments under these contracts were \$10,147,048 for the Fiscal Year ended June 30, 2024.

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. MUSL is an American non-profit, government-benefit association created to facilitate the operation of multi-jurisdictional lottery 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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 10 – CONTINGENCIES AND COMMITMENTS (CONTINUED)

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, 2024 was \$2,821,629 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, 2024, there were no excess funds held by MUSL over and above Colorado's required reserves balance of \$2,774,493, and the allowed 10% surplus of \$277,449.

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.

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 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 two percent of sales effective beginning with the drawing of October 31, 2017. Additional contributions continued until maximum balance amounts were reached. On March 31, 2024 MUSL calculated a new required reserve balance for the Lottery of \$2,330,675. The Lottery's balance in the reserve held by MUSL as of June 30, 2024 and 2023 was \$2,431,812 and \$2,440,934, respectively, with no excess funds held by MUSL over and above Colorado's required reserves balance and the allowed 10% surplus.

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, 2024.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 10 – CONTINGENCIES AND COMMITMENTS (CONTINUED)

Other Major Vendor Commitments – The Lottery entered into a contract with an advertising agency to provide advertising services to promote the Lottery’s products beginning on August 5, 2022 and expiring on June 30, 2023, the initial term. The Lottery has the option to extend the performance beyond the initial term for a period, or for successive periods, of one year or less through June 30, 2030. The initial term was for not to exceed \$14,187,250, with each successive fiscal year not to exceed \$15,477,000 for a total of \$122,526,250. On October 21, 2022, Amendment #1 was executed reducing the initial term amount from that point forward to \$11,232,619, with each successive fiscal year not to exceed \$13,700,000 for a total of \$107,132,620. Option Letter 1 was executed on May 4, 2023 extending the contract for an additional term beginning July 1, 2023 with an expiration date of June 30, 2024. In Fiscal Year 2024, the current year’s contract maximum amount was increased to \$13,875,000. Payments totaling \$13,873,753 were made for the Fiscal Year ended June 30, 2024. Option Letter 2 was executed on March 26, 2024 extending the contract for an additional term beginning July 1, 2024 with an expiration date of June 30, 2025 for a maximum amount of \$13,700,000.

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 first individual’s plea agreement and resulting court order, a total restitution of \$2,222,864, 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 second 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 first 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 second individual pays the entire \$568,990 due Colorado, all of the first individual’s restitution payments will go to the other states until they have been fully paid. Only after all states are paid, would the first 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 \$978 in Fiscal Year 2024 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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2024 and 2023

NOTE 11 – TAX, SPENDING AND DEBT LIMITATIONS

In November 1992, the Colorado voters passed Section 20, Article X of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and all local governments. In the same general election, Article XXVII was passed creating the State Board of the Great Outdoors Colorado Trust Fund. The simultaneous passage of these two constitutional amendments raised questions as to whether there are irreconcilable conflicts between the two amendments.

The General Assembly determined in Section 24-77-102 (17) (b) (IX), C.R.S., that the net proceeds from the Lottery are excluded from the scope of "state fiscal year spending" for purposes of TABOR. The Colorado Supreme Court, in response to an interrogatory from the General Assembly, approved that determination.

TABOR is complex and subject to further legislative and judicial interpretation. The Lottery believes it is in compliance with both of these constitutional amendments.

NOTE 12 – RELATED PARTY TRANSACTIONS

The Lottery, as an agency of the State of Colorado, paid fees to other agencies of the State for auditing, legal and other services, and vehicle and office rent. The Lottery also pays fees to the Department of Revenue for indirect costs and the Governor's Office of Information Technology for information and communications technology (ICT) services. Interagency charges were \$2,042,327 and \$1,771,001 for the Fiscal Years ended June 30, 2024 and 2023, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

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COLORADO LOTTERY

Schedule of the Colorado Lottery's Proportionate Share of the Net Pension Liability

Colorado Public Employees' Retirement Association

	Last 10 Calendar Years									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Lottery's proportion of the net pension liability	0.1801187639%	0.1879320216%	0.1914317953%	0.1945221248%	0.2121807562%	0.2234220529%	0.2290545580%	0.2238160821%	0.2398382458%	0.2511816995%
Lottery's proportionate share of the net pension liability	\$ 18,215,578	\$ 20,433,052	\$ 14,118,170	\$ 18,450,021	\$ 20,589,605	\$ 25,422,465	\$ 45,852,060	\$ 41,110,831	\$ 25,257,445	\$ 23,627,442
Lottery's covered payroll	\$ 6,940,740	\$ 6,425,900	\$ 6,218,822	\$ 6,494,631	\$ 6,867,065	\$ 6,862,079	\$ 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	262.44%	317.98%	227.02%	284.08%	299.83%	370.48%	676.81%	638.37%	383.22%	354.03%
Plan fiduciary net position as a percentage of the total pension liability	64.37%	60.63%	73.05%	65.34%	62.24%	55.11%	43.20%	42.60%	56.10%	59.80%

COLORADO LOTTERY

Schedule of the Colorado Lottery's Contributions

Colorado Public Employees' Retirement Association

	Last 10 Fiscal Years									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 1,464,641	\$ 1,756,456	\$ 1,277,013	\$ 1,252,131	\$ 1,394,068	\$ 1,414,350	\$ 1,290,829	\$ 1,159,077	\$ 1,142,872	\$ 1,150,328
Contributions in relation to the contractually required contribution	<u>(1,464,641)</u>	<u>(1,756,456)</u>	<u>(1,277,013)</u>	<u>(1,252,131)</u>	<u>(1,394,068)</u>	<u>(1,414,350)</u>	<u>(1,290,829)</u>	<u>(1,159,077)</u>	<u>(1,142,872)</u>	<u>(1,150,328)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Lottery's covered payroll	\$ 7,177,540	\$ 6,779,600	\$ 6,203,739	\$ 6,344,872	\$ 6,444,337	\$ 7,191,084	\$ 6,821,281	\$ 6,594,985	\$ 6,520,365	\$ 6,917,645
Contributions as a percentage of covered payroll	20.41%	25.91%	20.58%	19.73%	21.63%	19.67%	18.92%	17.58%	17.53%	16.63%

* The amounts presented for each fiscal year were determined as of 6/30.

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*						
	2023	2022	2021	2020	2019	2018	2017
Lottery's proportion of the net OPEB liability	0.0620223741%	0.0636208020%	0.0657689945%	0.0684116693%	0.0738222796%	0.0790674504%	0.0820966264%
Lottery's proportionate share of the net OPEB liability	\$ 442,670	\$ 519,450	\$ 567,129	\$ 650,065	\$ 829,761	\$ 1,075,746	\$ 1,066,928
Lottery's covered payroll	\$ 6,940,740	\$ 6,425,900	\$ 6,218,822	\$ 6,494,631	\$ 6,867,065	\$ 6,862,079	\$ 6,774,739
Lottery's proportionate share of the net OPEB liability as a percentage of its covered payroll	6.38%	8.08%	9.12%	10.01%	12.08%	15.68%	15.75%
Plan fiduciary net position as a percentage of the total OPEB liability	46.16%	38.57%	39.40%	32.78%	24.49%	17.03%	17.53%

* Calendar Year 2017 was the 1st year of implementation, therefore only seven years are shown.

COLORADO LOTTERY

Schedule of the Colorado Lottery's Contributions

Colorado Public Employees' Retirement Association – Healthcare Trust Fund

	Last 10 Fiscal Years*						
	2024	2023	2022	2021	2020	2019	2018
Contractually required contribution	\$ 67,439	\$ 65,649	\$ 61,367	\$ 62,119	\$ 65,251	\$ 75,412	\$ 68,826
Contributions in relation to the contractually required contribution	(67,439)	(65,649)	(61,367)	(62,119)	(65,251)	(75,412)	(68,826)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Lottery's covered payroll	\$ 7,177,540	\$ 6,779,600	\$ 6,203,739	\$ 6,344,872	\$ 6,444,337	\$ 7,191,084	\$ 6,821,281
Contributions as a percentage of covered payroll	0.94%	0.97%	0.99%	0.98%	1.01%	1.05%	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 seven years are shown.

COLORADO LOTTERY
Notes to Required Supplementary Information
Years Ended June 30, 2024 and 2023

Changes of pension benefit terms and actuarial assumptions:

Change in assumptions or other input effective for the December 31, 2023 measurement period are as follows:

- Senate Bill (SB) 23-056, enacted and effective June 2, 2023, intended to recompense PERA for the remaining portion of the \$225 million direct distribution originally scheduled for receipt July 1, 2020, suspended due to the enactment of House Bill (HB) 20-1379, but not fully repaid through the provisions within HB 22-1029. Pursuant to SB 23-056, the State Treasurer issued a warrant consisting of the balance of the PERA Payment Cash Fund, created in §24-51-416, plus \$10 million from the General Fund, totaling \$14.561 million.
- SB 23-163, enacted and effective June 6, 2023, states beginning July 1, 2023, a wildlife officer and a parks and recreation officer employed by the Division of Parks and Wildlife in the Department of Natural Resources, is classified as a "State Trooper" for the purpose of determining their service retirement eligibility.
- As of the December 31, 2023, measurement date, the total pension liability (TPL) recognizes the change in the default method applied for granting service accruals for certain members, from a "12-pay" method to a "non-12-pay" method. The default service accrual method for positions with an employment pattern of at least eight months but fewer than 12 months (including, but not limited to positions in the School and DPS Divisions) receive a higher ratio of service credit for each month worked, up to a maximum of 12 months of service credit per year.
- There were no changes made to the actuarial methods or assumptions.

Change in assumptions or other input effective for the December 31, 2022 measurement period are as follows:

- House Bill (HB) 22-1029, effective upon enactment in 2022, required the State Treasurer to issue, in addition to the regularly schedule \$225 million (actual dollars) direct distribution, a warrant to PERA in the amount of \$380 million (actual dollars) with reductions to future direct distributions. The July 1, 2023 direct distribution will be reduced by \$190 million (actual dollars) to \$35 million (actual dollars). The July 1, 2024 direct distribution will not be reduced from \$225 million (actual dollars) due to a negative investment return in 2022.
- There were no changes made to the actuarial methods or assumptions.

COLORADO LOTTERY
Notes to Required Supplementary Information
Years Ended June 30, 2024 and 2023

Changes in assumptions or other input effective for the December 31, 2021 measurement period are as follows:

- The assumption used to value the automatic increase cap benefit provision was changed from 1.25 percent to 1.00 percent.

Changes in assumptions or other input effective for the December 31, 2020 measurement period are as follows:

- The price inflation assumption was lowered from 2.40 percent to 2.30 percent, and the wage inflation assumption was lowered from 3.50 percent to 3.00 percent.
- The real rate of investment return assumption was increased to 4.95 percent per year, net of investment expenses from 4.85 percent per year, net of investment expenses.
- Salary scale assumptions were revised to align with the revised economic assumptions and to more closely reflect actual experience.
- Rates of termination/withdrawal, retirement, and disability were revised to more closely reflect actual experience.
- The pre-retirement mortality assumption for the State Division (members other than State Troopers) was changed to the PubG-2010 Employee Table with generational projection using scale MP-2019.
- The pre-retirement mortality assumption for the Judicial Division was changed to the PubG-2010(A) Above Median Employee Table with generational projection using scale MP-2019.
- The post-retirement non-disabled mortality assumption for the State Division (Members other than State Troopers) was changed to the PubG-2010 Health Retiree Table, adjusted as follows:
 - **Males:** 94 percent of the rates prior to age 80 and 90 percent of the rates for ages 80 and older, with generational projection using scale MP-2019.
 - **Females:** 87 percent of the rates prior to age 80 and 107 percent of the rates for ages 80 and older, with generational projection using scale MP-2019.

COLORADO LOTTERY
Notes to Required Supplementary Information
Years Ended June 30, 2024 and 2023

- The post-retirement non-disabled mortality assumption for State Troopers was changed to the unadjusted PubS-2010 Healthy Retiree Table, with generational projection using scale MP-2019.
- The disabled mortality assumption for the Division Trust Funds (Members other than State Troopers) was changed to the PubNS-2010 Disabled Retiree Table with generational projection using scale MP-2019.
- The disability mortality assumption for State Troopers was changed to the unadjusted PubS-2010 Disabled Retiree Table with generational projection using scale MP-2019.
- The mortality tables described above are generational mortality tables on a benefit-weighted basis.

Changes in assumptions or other input effective for the December 31, 2019 measurement period are as follows:

- The assumption used to value the annual increase (AI) cap benefit provision was changed from 1.50% to 1.25%.

Changes in assumptions or other inputs effective for the December 31, 2018 measurement period are as follows:

- The assumed investment rate of return of 7.25% was used as the discount rate, rather than using the blended rate of 4.72%.

Changes in assumptions or other inputs effective for the December 31, 2017 measurement period are as follows:

- The discount rate was lowered from 5.26% to 4.72%.

Changes in assumptions or other inputs effective for the December 31, 2016 measurement period are as follows:

- The investment return assumption was lowered from 7.50% to 7.25%.
- The price inflation assumption was lowered from 2.80% to 2.40%.
- The real rate of investment return assumption increased from 4.70% per year, net of investment expenses, to 4.85% per year, net of investment expenses.
- The wage inflation assumption was lowered from 3.90% to 3.50%.

COLORADO LOTTERY
Notes to Required Supplementary Information
Years Ended June 30, 2024 and 2023

- The mortality tables were changed from RP-2000 Combined Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on a projection scale of Scale AA to 2020 to RP-2014 White Collar Employee Mortality for active employees, RP2014 Healthy Annuitant Mortality tables projected to 2020 using the MP-2015 projection scale for retirees, or RP-2014 Disabled Retiree Mortality Table for disabled retirees.
- The discount rate was lowered from 7.50% to 5.26%.

There were no changes in terms or assumptions for the December 31, 2015 measurement period for pension compared to the prior year.

There were no changes in terms or assumptions for the December 31, 2014 measurement period for pension compared to the prior year.

Changes in assumptions or other input effective for the December 31, 2013 measurement period are as follows:

- The investment return assumption was lowered from 8.00% to 7.50%.
- The price inflation assumption was lowered from 3.50% to 2.80%.
- The wage inflation assumption was lowered from 4.25% to 3.90%.

Changes of OPEB benefit terms and actuarial assumptions:

Changes in assumptions or other input effective for the December 31, 2023 measurement period are as follows:

- As of the December 31, 2023, measurement date, the fiduciary net position (FNP) and related disclosure components for the Health Care Trust Fund (HCTF) reflect payments related to the disaffiliation of Tri-County Health Department (Tri-County Health) as a PERA-affiliated employer, effective December 31, 2022. As of the December 31, 2023 year-end, PERA recognized two additions for accounting and financial reporting purposes: a \$24 million payment received on December 4, 2023, and a \$2 million receivable. The employer disaffiliation payment and receivable allocations to the HCTF and Local Government Division Trust Fund were \$1.033 million and \$24.967 million, respectively.
- There were no changes made to the actuarial methods or assumptions.

There were no changes in assumptions or other inputs effective for the December 31, 2022 measurement period for OPEB.

COLORADO LOTTERY
Notes to Required Supplementary Information
Years Ended June 30, 2024 and 2023

There were no changes in assumptions or other inputs effective for the December 31, 2021 measurement period for OPEB.

Changes in assumptions or other input effective for the December 31, 2020 measurement period are as follows:

- The price inflation assumption was lowered from 2.40 percent to 2.30 percent, and the wage inflation assumption was lowered from 3.50 percent to 3.00 percent.
- The real rate of investment return assumption was increased to 4.95 percent per year, net of investment expenses from 4.85 percent per year, net of investment expenses.
- Salary scale assumptions were revised to align with the revised economic assumptions and to more closely reflect actual experience.
- Rates of termination/withdrawal, retirement, and disability were revised to more closely reflect actual experience.
- The pre-retirement mortality assumption for the State Division (members other than State Troopers) was changed to the PubG-2010 Employee Table with generational projection using scale MP-2019.
- The pre-retirement mortality assumption for the Judicial Division was changed to the PubG-2010(A) Above Median Employee Table with generational projection using scale MP-2019.
- The post-retirement non-disabled mortality assumption for the State Division (Members other than State Troopers) was changed to the PubG-2010 Health Retiree Table, adjusted as follows:
 - **Males:** 94 percent of the rates prior to age 80 and 90 percent of the rates for ages 80 and older, with generational projection using scale MP-2019.
 - **Females:** 87 percent of the rates prior to age 80 and 107 percent of the rates for ages 80 and older, with generational projection using scale MP-2019.
- The post-retirement non-disabled mortality assumption for State Troopers was changed to the unadjusted PubS-2010 Healthy Retiree Table, with generational projection using scale MP-2019.

COLORADO LOTTERY
Notes to Required Supplementary Information
Years Ended June 30, 2024 and 2023

- The post-retirement non-disabled mortality assumption for the Judicial Division was changed to the unadjusted PubG-2010(A) Above-Median Healthy Retiree Table with generational projection using scale MP-2019. The post-retirement non-disability beneficiary mortality assumption for the Division Trust Funds was changed to the Pub-2010 Contingent Survivor Table, adjusted as follows:
 - **Males:** 97 percent of the rates for all ages, with generational projection using scale MP-2019.
 - **Females:** 105 percent of the rates for all ages, with generational projection using scale MP-2019.
- The disabled mortality assumption for the Division Trust Funds (Members other than State Troopers) was changed to the PubNS-2010 Disabled Retiree Table with generational projection using scale MP-2019.
- The disability mortality assumption for State Troopers was changed to the unadjusted PubS-2010 Disabled Retiree Table with generational projection using scale MP-2019.
- The mortality tables described above are generational mortality tables on a benefit-weighted basis.

There were no changes in assumptions or other inputs effective for the December 31, 2019 measurement period for OPEB.

There were no changes in assumptions or other inputs effective for the December 31, 2018 measurement period for OPEB compared to the prior year.

There were no changes in assumptions or other inputs effective for the December 31, 2017 measurement period for OPEB.

SUPPLEMENTARY INFORMATION

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COLORADO LOTTERY

Schedule of Revenue and Costs for Scratch and Jackpot Games

For the Fiscal Years Ended June 30, 2024 and 2023

COLORADO LOTTERY
SCHEDULE OF REVENUE AND COSTS FOR SCRATCH AND JACKPOT GAMES
FOR THE FISCAL YEAR ENDED JUNE 30, 2024
(With Comparative Totals for the Fiscal Year Ended June 30, 2023)

										FY 2024	FY 2023
	Scratch	Scratch \$50	Lotto +	Powerball	Cash 5	Jackpot Games		Pick 3	Lucky For Life	Total	Scratch and Jackpot Games
						Cash 5 EZ Match	Mega Millions				
TICKET SALES	\$472,115,597	\$116,529,050	\$46,417,154	\$135,513,986	\$13,637,318	\$2,060,841	\$74,550,603	\$16,000,020	\$23,931,794	\$900,756,363	\$889,778,449
PRIZE EXPENSE	(\$326,033,389)	(\$93,144,039)	(\$26,778,062)	(\$65,249,797)	(\$7,480,053)	(\$1,196,010)	(\$35,825,491)	(\$8,076,334)	(\$14,029,566)	(577,812,741)	(575,473,121)
NET REVENUE AFTER PRIZES	146,082,208	23,385,011	19,639,092	70,264,189	6,157,265	864,831	38,725,112	7,923,686	9,902,228	322,943,622	314,305,328
COMMISSIONS, BONUSES, TICKET COSTS & VENDOR FEES (Note 1)											
Retailer Commission	(\$33,005,654)	(\$8,137,008)	(\$2,782,286)	(\$8,126,687)	(\$817,694)	(\$123,523)	(\$4,470,500)	(\$959,505)	(\$1,434,790)	(59,857,647)	(59,300,570)
Retailer Bonus	(\$4,555,582)	(\$1,162,549)	(\$310,671)	(\$579,824)	(\$113,491)	(\$17,896)	(\$289,923)	(\$118,453)	(\$159,338)	(7,307,727)	(6,540,859)
Cost of Tickets Sold	(\$8,797,292)	(\$1,983,091)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(10,780,383)	(9,418,764)
Telecomm Reimbursements	\$407,590	\$100,602	\$40,073	\$116,993	\$11,773	\$1,779	\$64,361	\$13,813	\$20,661	777,645	764,540
Vendor Fees	(8,817,981)	(2,176,460)	(870,267)	(2,530,376)	(254,980)	(38,477)	(1,392,043)	(298,742)	(446,904)	(16,826,230)	(16,538,399)
TOTAL	(54,768,919)	(13,358,506)	(3,923,151)	(11,119,894)	(1,174,392)	(178,117)	(6,088,105)	(1,362,887)	(2,020,371)	(93,994,342)	(91,034,052)
GROSS PROFIT ON SALE OF TICKETS	<u>\$91,313,289</u>	<u>\$10,026,505</u>	<u>\$15,715,941</u>	<u>\$59,144,295</u>	<u>\$4,982,873</u>	<u>\$686,714</u>	<u>\$32,637,007</u>	<u>\$6,560,799</u>	<u>\$7,881,857</u>	<u>\$228,949,280</u>	<u>\$223,271,276</u>
AVERAGE DAILY TICKET SALES	<u>\$1,289,933</u>	<u>\$318,385</u>	<u>\$126,823</u>	<u>\$370,257</u>	<u>\$37,260</u>	<u>\$5,631</u>	<u>\$203,690</u>	<u>\$43,716</u>	<u>\$65,387</u>	<u>\$2,461,083</u>	<u>\$2,437,749</u>

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 Years Ended June 30, 2024 and 2023

COLORADO LOTTERY
SCHEDULE OF PERCENTAGE OF PRIZE EXPENSE TO GROSS TICKET SALES
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

(With Comparative Totals for the Fiscal Year Ended June 30, 2023)

	Scratch	Scratch \$50	Lotto	Powerball	Cash 5	Cash 5 EZ Match	Mega Millions	Pick 3	Lucky For Life	FY 2024 Total	FY 2023 Total
Prize Expense	\$326,033,389	\$93,144,039	\$26,778,062	\$65,249,797	\$7,480,053	\$1,196,010	\$35,825,491	\$8,076,334	\$14,029,566	\$577,812,741	\$575,473,121
(/)Ticket Sales	472,115,597	116,529,050	46,417,154	135,513,986	13,637,318	2,060,841	74,550,603	16,000,020	23,931,794	900,756,363	889,778,449
Prize %	<u>69.06%</u>	<u>79.93%</u>	<u>57.69%</u>	<u>48.15%</u>	<u>54.85%</u>	<u>58.04%</u>	<u>48.06%</u>	<u>50.48%</u>	<u>58.62%</u>	<u>64.15%</u>	<u>64.68%</u>

COLORADO LOTTERY
Budgetary Comparison
For the Fiscal Year Ended June 30, 2024

COLORADO LOTTERY
BUDGETARY COMPARISON
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

	Fiscal Year 2024 Original Budget	Supplementals Allocations & Internal Transfers	Fiscal Year 2024 Final Budget	Fiscal Year 2024 Actual Expenditures	Under Expended	Percent Under Expended
Prize Payments	\$ 600,000,000	\$ -	\$ 600,000,000	\$ 577,812,741	\$ 22,187,259	3.70%
Retailer Compensation	85,000,000	-	85,000,000	67,165,374	17,834,626	20.98%
Vendor Fees & Ticket Costs-Scratch	35,254,852	-	35,254,852	34,845,315	409,537	1.16%
Multi-State Lottery Fund	177,433	-	177,433	42,897	134,536	75.82%
Personal Services (Includes AED, SAED, Health & LIFE, STD)	11,507,235	-	11,507,235	10,932,985	574,250	4.99%
Marketing, Communications & Sales	14,900,000	-	14,900,000	14,773,730	126,270	0.85%
Operating (Includes Travel)	1,540,533	-	1,540,533	1,094,763	445,770	28.94%
Payments to Other Agencies	239,410	-	239,410	112,929	126,481	52.83%
Indirect Costs Assessments	734,435	-	734,435	734,435	-	0.00%
Worker's Compensation	29,759	-	29,759	29,759	-	0.00%
Vehicle Lease Payments	207,752	-	207,752	155,095	52,657	25.35%
Variable Vehicle	141,000	29,000	170,000	168,562	1,438	0.85%
EDO - Operating Expenses	18,369	-	18,369	13,387	4,982	27.12%
EDO - Personal Services	19,834	-	19,834	-	19,834	100.00%
Leased Space - Grand Junction & Ft. Collins	51,482	-	51,482	51,482	-	0.00%
Leased Space	1,048,065	-	1,048,065	759,303	288,762	27.55%
OIT Payments	592,860	-	592,860	419,591	173,269	29.23%
CORE Operations	49,130	-	49,130	49,130	-	0.00%
Risk Management	44,618	-	44,618	44,618	-	0.00%
Legal Services	92,809	-	92,809	92,809	-	0.00%
PERA Direct Distribution	18,741	-	18,741	18,741	-	0.00%
TOTAL	\$ 751,668,317	\$ 29,000	\$ 751,697,317	\$ 709,317,646	\$ 42,379,671	5.64%

FY24 Staffing - FTE 102.1 (Appropriated) 103.0 (Actual)

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

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

Prize Expense	\$ 577,812,741
Commissions and Bonuses	67,165,374
Cost of Tickets & Vendor Fees	26,828,968
Operating Expenses	<u>30,522,058</u>

Total Expenses per Statement of Revenues, Expenses and Changes in Net Position 702,329,141

Plus: Telecommunications offset classified as revenue 777,645

Less: Non-appropriated expenses	
Depreciation	(173,663)
Accrued Annual and Sick Leave	(54,418)
Loss on Disposal of Equipment classified as revenue	3,189
PERA Pension Revenue	1,208,621
PERA OPEB Revenue	<u>123,815</u>

Sub-Total 704,214,330

Plus: Capitalized purchases 5,103,316

\$ 709,317,646

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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*

Independent Auditor's Report

Legislative Audit Committee and Lottery Commission
State of Colorado, Department of Revenue, Lottery Division
Denver, Colorado

We have audited, in accordance with the 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 (*Government Auditing Standards*), the financial statements of the Colorado Lottery, an enterprise fund of the State of Colorado, as of June 30, 2024 and the related notes to the financial statements and have issued our report thereon dated September 27, 2024, which contains an emphasis of matter paragraph regarding the financial statements of the Colorado Lottery, not representing the State as a whole.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 the 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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 entity'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.

Forvis Mazars, LLP

**Denver, Colorado
September 27, 2024**

Forvis Mazars Report to the Legislative Audit Committee and Lottery Commission

State of Colorado, Department of Revenue, Lottery Division
Results of the 2024 Financial Statement Audit, Including Required Communications
June 30, 2024

Required Communications Regarding Our Audit Strategy & Approach

The following matters are required communications we must make to you, including these responsibilities:

Scope of Our Audit

This report covers audit results related to your financial statements and our audit of internal control over financial reporting of the Colorado Lottery and supplementary information:

- As of and for the year ended June 30, 2024
- Conducted in accordance with our contract dated May 20, 2024

Our Responsibilities

Forvis Mazars is responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management, with the oversight of those charged with governance, are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and whether effective internal control was maintained in all material respects (that is whether material weaknesses exist as of the date specified in management's assessment).

Audit Scope & Inherent Limitations to Reasonable Assurance

An audit performed in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards* issued by the Comptroller General of the United States (GAGAS) is designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects. We established scopes of our audit tests in relation to the financial statements and internal control over reporting and did not include a detailed audit of all transactions.

Extent of Our Communication

In addition to areas of interest and noting prior communications made during other phases of the engagement, this report includes communications required in accordance with GAAS that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process, including audit approach, results, and internal control. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

Independence

The engagement team, others in our firm, as appropriate, and our firm, have complied with all relevant ethical requirements regarding independence.

Your Responsibilities

Our audit does not relieve management or those charged with governance of your responsibilities. Your responsibilities and ours are further referenced in our contract.

Distribution Restriction

This communication is intended solely for the information and use of the following and is not intended to be, and should not be, used by anyone other than these specified parties:

- Legislative Audit Committee and Lottery Commission
- The State of Colorado Office of the State Auditor
- Colorado Lottery Management

Government Auditing Standards

Additional GAGAS Reporting

We also provided reports as of June 30, 2024, on the following as required by GAGAS:

- Compliance and other matters based on an audit of the financial statements performed in accordance with GAGAS

Reporting Limitations

Our consideration of our tests of compliance were not designed with an objective of forming an opinion on the effectiveness of compliance, and accordingly, we do not express such an opinion.

Significant Accounting Policies

Significant accounting policies are described in Note 1 of the audited financial statements. With respect to new accounting standards adopted during the year:

- No matters are reportable

Unusual Policies or Methods

With respect to significant unusual accounting policies or accounting methods used for significant unusual transactions (significant transactions outside the normal course of business or that otherwise appear to be unusual due to their timing, size, or nature):

- No matters are reportable

Alternative Accounting Treatments

We had discussions with management regarding alternative accounting treatments within GAAP for policies and practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, as follows.

- No matters are reportable

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. Significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates include:

- Management's estimate of prize expense and the corresponding prize liability is based on the anticipated payout percentage approved by the Lottery Commissioners. The prize expense and corresponding liability are incurred as tickets are activated by Lottery approved retailers.
- Defined benefit pension plan and post-employment benefit plan assumptions and related net pension liability and postemployment benefits liability, including deferred inflows and deferred outflows of resources.

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Distributions of net proceeds
- Pension plans
- Other postemployment benefits
- Contingencies and commitments
- Related party transactions

Our Judgment About the Quality of the Colorado Lottery's Accounting Principles

During the course of the audit, we made the following observations regarding the Colorado Lottery's application of accounting principles:

- No matters are reportable

Adjustments Identified by Audit

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments that, in its judgment, are required to prevent the financial statements from being materially misstated.

A misstatement is a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and that which is required for the item to be presented fairly in accordance with the applicable financial reporting framework.

Proposed & Recorded Adjustments

Auditor-proposed and management-recorded entries include the following:

- No matters are reportable

Uncorrected Misstatements

Some adjustments proposed were **not recorded** because their effect is not currently considered material. We request that all identified misstatements be corrected.

Uncorrected misstatements that were determined by management to be immaterial, both individually and in the aggregate, but more than trivial to the financial statements as a whole are listed below.

While these uncorrected misstatements were deemed to be immaterial to the current-period financial statements, it is possible that the impact of these uncorrected misstatements, or matters underlying these uncorrected misstatements, could potentially cause future-period financial statements to be materially misstated.

Current Period Uncorrected Misstatements

- Reversing impact of second chance prize liability and expense passed adjustment from Fiscal Year 2023 of \$250,000

Prior-Period Uncorrected Misstatements

- No prior-period uncorrected misstatements to report

Other Required Communications

Disagreements with Management

The following matters involved disagreements which if not satisfactorily resolved would have caused a modified auditor's opinion on the financial statements or internal control over financial reporting:

- No matters are reportable

Consultation with Individuals Outside of the Engagement Team

During our audit, we encountered the following matters, for which we consulted the views of individuals outside of the engagement team:

- No matters are reportable

Consultation with Other Accountants

During our audit, we became aware that management had consulted with other accountants about the following auditing or accounting matters:

- No matters are reportable

Significant Issues Discussed with Management

Prior to Retention

During our discussion with management prior to our engagement, the following issues regarding application of accounting principles or auditing standards were discussed:

- No matters are reportable

During the Audit Process

During the audit process, the following issues were discussed or were the subject of correspondence with management:

- No matters are reportable

Difficulties Encountered in Performing the Audit

Our audit requires cooperative effort between management and the audit team. During our audit, we found significant difficulties in working effectively on the following matters:

- No matters are reportable

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letter

Forvis Mazars, LLP

**Denver, Colorado
September 27, 2024**

Colorado Lottery

Period Ending: 6.30.2024

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflect the effects on the financial statements if the uncorrected misstatements identified were corrected.

Lottery

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	116,718,027		116,718,027	
Non-Current Assets & Deferred Outflows	19,943,193		19,943,193	
Current Liabilities	(150,373,116)		(150,373,116)	
Non-Current Liabilities & Deferred Inflows	(855,924)		(855,924)	
Current Ratio	0.776		0.776	
Total Assets & Deferred Outflows	136,661,220		136,661,220	
Total Liabilities & Deferred Inflows	(151,229,040)		(151,229,040)	
Total Net Position	14,567,820		14,567,820	
Operating Revenues	(900,756,363)		(900,756,363)	
Direct Operating Expenses	671,807,083	(250,000)	671,557,083	-0.04%
Nonoperating (Revenues) Exp	193,115,549		193,115,549	
Change in Net Position	(5,795,003)	(250,000)	(6,045,003)	4.31%

Lottery

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

		Assets & Deferred Outflows				Liabilities & Deferred Inflows				Net Effect on Following Year												
Description	Financial Statement Line Item	Factual (F), Judgmental (J) or Projected (P)	Current		Noncurrent		Current		Noncurrent		Operating Revenues	Direct Operating Expenses	Nonoperating (Revenues) Exp	Net Position	Change in Net							
			DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	Position	Net Position				
			DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)				
Reversing impact of second chance prize liability for Fiscal Year 2023 game # 252, that was not recorded by Colordo Lottery.		F	0		0		0		0		0	(250,000)		0	250,000	0						
	Net Position											(250,000)			250,000							
	Prize Expense																					
Total passed adjustments			0		0		0		0		0		(250,000)		0		250,000		0		0	
Impact on Change in Net Position															(250,000)							
Impact on Net Position															0							