DIVISION OF GAMING, DEPARTMENT OF REVENUE, STATE OF COLORADO

Financial Statements
and
Independent Auditors' Report
June 30, 2006 and 2005

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Cindi Radke
Legislative Auditor

Ehrhardt Keefe Steiner & Hottman PC
Contract Auditors

August 3, 2006

Members of the Legislative Audit Committee

We have completed the financial and compliance audits of the Division of Gaming, Department of Revenue, State of Colorado as of and for the years ended June 30, 2006 and 2005. Our audits were conducted 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.

We were engaged to conduct our audit pursuant to Section 12-47.1-702(1), C.R.S., which requires the State Auditor to audit the Limited Gaming Fund. The reports we have issued as a result of this engagement are set forth in the table of contents.

Sincerely,

Ehrhardt Keefe Steiner & Hottman PC

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

Table of Contents

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

REPORT SUMMARY
YEAR ENDED JUNE 30, 2006

AUTHORITY AND PURPOSE/SCOPE OF AUDIT

The authority for this audit comes from Colorado Revised Statutes, Section 12-47.1-702(1), which requires the State Auditor to conduct an annual audit of the Limited Gaming Fund. A contract exists by and between the State of Colorado, through the State Auditor and the Legislative Audit Committee, and Ehrhardt Keefe Steiner & Hottman PC ("EKS&H" or the "Contract Auditors"), whereby the audit of the Division of Gaming, Department of Revenue, State of Colorado (the "Division") for the year ended June 30, 2006, is to be performed by EKS&H.

The audit was conducted in accordance with auditing standards generally accepted in the United States of America, as promulgated by the American Institute of Certified Public Accounts in *Statements on Auditing Standards,* and the standards for financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

The primary purpose of the engagement was to conduct a financial and compliance audit of the Division as of and for the year ended June 30, 2006, in accordance with standards described above. These standards require that the Contract Auditors plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, tests of the Division's compliance with certain provisions of laws, regulations, and contracts were performed, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

SUMMARY OF MAJOR AUDIT FINDINGS

An independent auditors' report on the financial statements of the Division, dated August 3, 2006, has been issued, which states that the financial statements present fairly, in all material respects, the financial position of the Division as of June 30, 2006 and 2005, and the change in financial position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

A report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards*, dated August 3, 2006, has also been issued, which states that the results of the Contract Auditors' tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

RECOMMENDATION LOCATOR

We noted no matters of recommendation for the Division in the current year audit.

SUMMARY OF PROGRESS IN IMPLEMENTING PRIOR AUDIT RECOMMENDATIONS

There were no audit recommendations in the prior year audit report.

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

DESCRIPTION OF THE COLORADO DIVISION OF GAMING
JUNE 30, 2006

Effective October 1, 1991, Article XVIII, Section 9 of the Colorado Constitution was amended to allow limited stakes gaming in three Colorado cities. The Amendment, along with the Limited Gaming Act of 1991 (the "Act"), established the framework for regulating limited gaming in Colorado. The Act created the Division of Gaming within the Department of Revenue, established the Limited Gaming Fund, and gave the Limited Gaming Control Commission (the "Commission") the authority and responsibility for regulating limited gaming in Colorado.

The Division operates with a staff of about 66 full-time employees and a budget of approximately $9.7 million. The Commission is made up of a five-member board appointed by the Governor and approved by the Colorado Senate. Gaming revenues deposited in the Limited Gaming Fund are used to pay operating expenses for the Division and the Commission during the year. After setting aside a reserve for two months' operating expenses at the end of each fiscal year, the remaining fund balance in the Limited Gaming Fund is distributed to state and local governments according to the provisions in the Colorado Constitution and the Act.

INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee

We have audited the accompanying financial statements of the special revenue fund of the Division of Gaming, Department of Revenue, State of Colorado (the "Division") as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the special revenue fund of the Division are intended to present the financial position and changes in financial position of only that portion of the special revenue fund of the State of Colorado that is attributable to the transactions of the Division. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2006 and 2005, and the changes in its financial position and budgetary comparisons for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the special revenue fund of the Division as of June 30, 2006 and 2005, and the changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated August 3, 2006, on our consideration of the Division'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and budgetary comparison information on Pages 5 through 15 and 18 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Ehrhardt Keefe Steiner & Hottman PC

August 3, 2006
Denver, Colorado

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

This discussion and analysis of the financial performance of the Division of Gaming, Department of Revenue, State of Colorado (the "Division") provides an overview of financial activities for the year ended June 30, 2006. Please read it in conjunction with the Division's financial statements, which begin on Page 16.

FINANCIAL HIGHLIGHTS

- Gaming Tax revenues were $106,142,555 for the fiscal year ended June 30, 2006, which is an increase of $7,062,050 or 7.1%, over revenues of $99,080,505 for the prior fiscal year ending June 30, 2005.

- The growth in the Division's net income increased the Gaming Distribution to $100,147,466 compared to last fiscal year's distribution of $92,930,205. This distribution amount represents an increase of $7,217,261 over last fiscal year, or 7.8%.

USING THIS REPORT

This financial report consists of financial statements for the fiscal years ended June 30, 2006 and 2005. The tax comparison shows the tax rates and compares current and previous fiscal years' adjusted gross proceeds (similar to net income of the casinos) and taxes paid, broken down by tax bracket. It also lists how many casinos were in which tax bracket at the end of the fiscal year. The Balance Sheets provide comparative information on the Division's assets, liabilities, and fund balance as of the end of the current and previous fiscal years. The Statement of Revenues, Expenditures, and Changes in Fund Balance is the Division's income statement. The Statement of Revenues, Expenditures, and Changes in Fund Balance provides information on the current and previous fiscal years' revenues, expenditures, excess of revenues over expenditures, the Gaming Distribution, the beginning fund balances at July 1, 2004 and July 1, 2005, respectively, and the ending fund balances as of June 30, 2005 and 2006, respectively. The Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget to Actual reflects the initial budget amounts, the cumulative changes made throughout the course of the year, the revised budget amounts, and the actual amounts received or expended. Finally, the notes to the financial statements contain a summary of significant accounting policies and more specific information about items in the financial statements.

REVENUES

The excess of revenues over expenditures of the Division for fiscal year 2006 was $99,316,141. This represents an increase of $7,123,870 or 7.7% compared to fiscal year 2005 excess of revenues over expenditures of $92,192,271.

The net decrease in fair value of investments of ($980,529) and ($703,666) represents the change in fair value of the Division's investments during the fiscal years ended June 30, 2006 and June 30, 2005, respectively.

REVENUES (continued)

The largest source of revenue for the Division is from gaming taxes paid by casinos. The gaming tax revenues earned for the fiscal years ending June 30, 2006 and 2005, were $106,142,555 and $99,080,505, respectively. The taxes are paid on a graduated scale ranging from 0.25% to 20% of adjusted gross proceeds. The tax rates remained constant for fiscal years 2006 and 2005. The adjusted gross proceeds of casinos increased 3.0% in fiscal year 2006. The tax increase was 7.1%. Taxes increased at a higher rate than adjusted gross proceeds as there were no changes of ownership in fiscal year 2006. In fiscal year 2005 there were five changes of ownership, which resulted in those casinos starting over in the graduated tax schedule.

Below is a chart of the changes in revenues from last fiscal year to this fiscal year.

	Increase (Decrease) Amount	Percent Change	Explanation
Gaming taxes	$ 7,062,050	7.13%	Gaming tax revenues have historically increased over the prior fiscal year.
License and application fees	(31,303)	(5.28)%	There were 837 more individual licensee applications in fiscal year 2005 than in fiscal year 2006.
Background investigations	(5,095)	(2.14)%	There was a decrease in the background investigation activity during fiscal year 2006.
Fines and other	278,054	2,299.49%	The fines revenues vary from year to year and are dependent upon audit and investigative findings. The current period fines revenue increased significantly over the prior year due to 3 significant fines assessed to one casino operator for a total of $270,000.
Interest income	419,117	31.01%	Interest rates increased 0.8% on average during fiscal year 2006.
Change in fair value of investments	(276,863)	(39.35)%	This represents the net change in the fair market value of the Division's investments during fiscal year 2006 versus fiscal year 2005.
Total revenues	$ 7,445,960	7.40%	This number includes the change in fair value of investments. Revenues excluding the change in fair value of investments increased 7.6%

EXPENDITURES

Total expenditures for the Division were $8,701,433. This is a increase of $322,090 or a 3.8% increase over fiscal year 2005 expenditures of $8,379,343. The information below shows the changes in expenditures from last fiscal year to the current fiscal year with explanations provided for large variances.

	Increase (Decrease) Amount	Percent Change	Explanation
Expenditures			
Salaries and benefits	$ 70,355	1.57 %	Salaries increased slightly in fiscal year 2006.
State agency services	267,755	8.93 %	In fiscal year 2006, there was an increase in all state agency costs billed to the Division.
Materials, supplies and services	34,145	11.14 %	In fiscal year 2006, building maintenance, due to the historic Central City building, increased $25,940. The Division also purchased software for replacement PCs.
Travel and automobiles	(5,726)	3.39 %	In fiscal year 2006, the Division made a concerted effort to reduce travel costs. The Division's leased vehicle costs declined due to an aging fleet.
Computer services	(28,295)	23.62 %	Less checks were performed in fiscal year 2006: there were 799 fewer non-background individual applications received in fiscal year 2006 than in fiscal year 2005.
Professional services	11,328	12.89 %	In fiscal year 2006, there was an increase in architectural services needed for the preservation of the historic Central City building.
Other	(6,216)	10.95 %	In fiscal year 2006, risk management decreased $5,800.
Telephone	4,954	15.14 %	In fiscal year 2006, cellular phones and other mobile communications costs increased.
Background investigation	3,699	9.17 %	There were more background investigations conducted in fiscal year 2006.
Capital outlay	(29,909)	(100)%	In fiscal year 2005, the Division paid $24,666 for two fingerprint machines and $5,243 for a server. There were no capital purchases in 2006.
Total expenditures	$ 322,090	3.80 %	

ASSETS, LIABILITIES AND FUND BALANCE

The year-end fund balance reflects the overall financial position of the Division, which was $289,849 at June 30, 2006 compared to $1,121,174 at June 30, 2005. Total assets of $101,395,667 at June 30, 2006, are $6,507,296 or 6.9% higher than the prior year balance of $94,888,371. The increase in total assets is primarily due to the increase in cash and temporary cash investments.

The Division's total liabilities increased between years, to $101,105,818 at June 30, 2006 from $93,767,197 at June 30, 2005. The $7,338,621 net increase is primarily due to the $7,217,261 increase in the fiscal year 2006 gaming distribution.

The following compares current and prior fiscal year assets, liabilities and fund balances.

	Fiscal Year 2006	Fiscal Year 2005	Increase (Decrease) Dollars	Percent
Cash and temporary cash investments	$ 90,229,565	$ 84,270,214	$ 5,959,351	7.1 %
Accounts receivable	11,133,763	10,585,502	548,261	5.2 %
Prepaid expenses	32,339	32,655	(316)	(1.0)%
Total assets	$ 101,395,667	$ 94,888,371	$ 6,507,296	6.9 %
Accounts payable, wages and accrued payroll payable	$ 432,527	$ 379,896	$ 52,631	13.9 %
Due to other State agencies, other governments, and the State General Fund	100,378,339	93,058,319	7,320,020	7.9 %
Other liabilities	294,952	328,982	(34,030)	(10.3)%
Total liabilities	101,105,818	93,767,197	7,338,621	7.8 %
Fund balance	289,849	1,121,174	(831,325)	(74.1)%
Total liabilities and fund balance	$ 101,395,667	$ 94,888,371	$ 6,507,296	6.9 %

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

The following compares current and prior fiscal year revenues, expenditures and changes in fund balance.

	Fiscal Year 2006	Fiscal Year 2005	Increase (Decrease) Dollars	Increase (Decrease) Percent
Revenues				
Gaming taxes	$ 106,142,555	$ 99,080,505	$ 7,062,050	7.1 %
License and application fees	561,634	592,937	(31,303)	(5.3)%
Other revenue	1,313,385	898,172	415,213	46.2 %
Total revenues	108,017,574	100,571,614	7,445,960	7.4 %
Expenditures				
Operating expenditures	5,390,642	5,340,006	50,636	0.9 %
Background investigation	44,033	40,334	3,699	9.2 %
State agency services	3,266,758	2,999,003	267,755	8.9 %
Total expenditures	8,701,433	8,379,343	322,090	3.8 %
Excess of revenues over expenditures	99,316,141	92,192,271	7,123,870	7.7 %
Fund balance, beginning of year	1,121,174	1,859,108	(737,934)	(39.7)%
Less: Gaming Fund distribution	100,147,466	92,930,205	7,217,261	7.8 %
Fund balance, end of year	$ 289,849	$ 1,121,174	$ (831,325)	(74.1)%

CONDITIONS AFFECTING FINANCIAL POSITION OR RESULTS OF OPERATIONS

Staffing Changes

In 2002, the Division developed an initiative to keep abreast of emerging technologies that impact the gaming industry. Emerging technologies are continually transforming the gaming industry and the regulatory environment, impacting all aspects of our regulatory responsibilities. In late fiscal year 2006, the Division reorganized the emerging technologies and audit sections, leaving the responsibilities for monitoring emerging technologies related to gaming devices with the emerging technologies section, and placing the responsibilities for monitoring evolving systems-related technologies under the audit umbrella. A dedicated systems group within the audit section was assigned to specifically address these responsibilities along with performing systems audits.

CONDITIONS AFFECTING FINANCIAL POSITION OR RESULTS OF OPERATIONS (continued)

Staffing Changes (continued)

With this reorganization, both units are responsible for continually assessing the impact of emerging technologies on Division policy, rules and regulations, patron protection, casino operations, the Division's ability to provide excellent customer service, and addressing the associated regulatory challenges. It provides the technical and regulatory expertise required to stay abreast of emerging technological issues in a proactive manner. By doing so, new regulations and standards can be developed through a thoughtful process in a more timely manner.

Throughout this fiscal year, the Division continued to experience a high level of employee turnover within its audit section. This directly resulted in a decrease in the number of revenue audits the Division was able to perform. In an effort to improve recruitment and retention, the Division moved the systems audit function to the Lakewood office.

In January 2006, Ron Kammerzell was appointed as Director of the Division of Gaming upon the transfer of the former Director, Mark Wilson, to the Internal Security section of the Department of Revenue's Information Technology Division.

During fiscal year 2005, Ticket In Ticket Out ("TITO") gaming proliferated throughout the industry in all three gaming towns. As a result of the rapid implementation of this new technology, the Audit and Emerging Technologies sections developed a joint plan to address pending approvals of the various TITO systems used throughout the industry. The Division deemed this project a top priority going into fiscal year 2006. Employee turnover inhibited the timely approvals of these systems. The aforementioned reorganization resulted in the implementation of an aggressive plan to address the pending approvals. By early fiscal year 2007, the Division anticipates the backlog of approvals will be eliminated.

DISTRIBUTION

At the end of each fiscal year, the Division distributes the balance remaining in the Limited Gaming Fund after reserving an amount equal to expenditures for the preceding two-month period. The distribution for fiscal year ended June 30, 2006 was $100,147,466.

DISTRIBUTION (continued)

The chart below compares the amounts distributed to the various recipients for fiscal years 2006 and 2005.

Funds Distribution Comparison

	For the Years Ended			Percent
	June 30, 2006	June 30, 2005	Difference	Difference
Colorado State Historical Fund	$ 28,041,290	$ 26,020,457	$ 2,020,833	7.8 %
Colorado Travel and Tourism Promotion Fund	19,000,000	185,861	18,814,139	10,122.7 %
Local Government Limited Gaming Impact Fund	6,509,585	6,040,463	469,122	7.8 %
State Council on the Arts Cash Fund	1,500,000	-	1,500,000	100.0 %
Film Incentives Cash Fund	500,000	-	500,000	100.0 %
New Jobs Incentives Cash Fund	3,000,000	-	3,000,000	100.0 %
Bioscience Discovery Evaluation Grant Program	2,000,000	-	2,000,000	100.0 %
Total payments to other state agencies	60,550,875	32,246,781	28,304,094	87.8 %
City of Black Hawk	7,110,170	6,587,172	522,998	7.9 %
City of Central City	903,931	824,291	79,640	9.7 %
City of Cripple Creek	2,000,646	1,881,558	119,088	6.3 %
Gilpin County	9,616,921	8,893,755	723,166	8.1 %
Teller County	2,400,775	2,257,869	142,906	6.3 %
Total payment due to other governments	22,032,443	20,444,645	1,587,798	7.8 %
Due to the General Fund	17,564,148	40,238,779	(22,674,631)	(56.4)%
Total distribution	$ 100,147,466	$ 92,930,205	$ 7,217,261	7.8 %

DISTRIBUTION (continued)

In accordance with Section 12-47.1-701, and amended by by House Bill 06-1201 and House Bill 06-1360, C.R.S. at the end of each State fiscal year, the balance remaining in the Limited Gaming Fund is to be distributed by the State Treasurer according to the following formula:

- 50% to the State General Fund. The State General fund amount is further distributed as follows: 13% to the Local Government Limited Gaming Impact Fund, $19,000,000 to the Colorado Travel & Tourism Promotion Fund, $1,500,000 to the Colorado Council on the Arts Cash Fund, $500,000 to the Film Incentive Cash Fund, $3,000,000 to the New Jobs Incentive Cash Fund and $2,000,000 to the BioScience Discovery Evaluative Grant Programs.

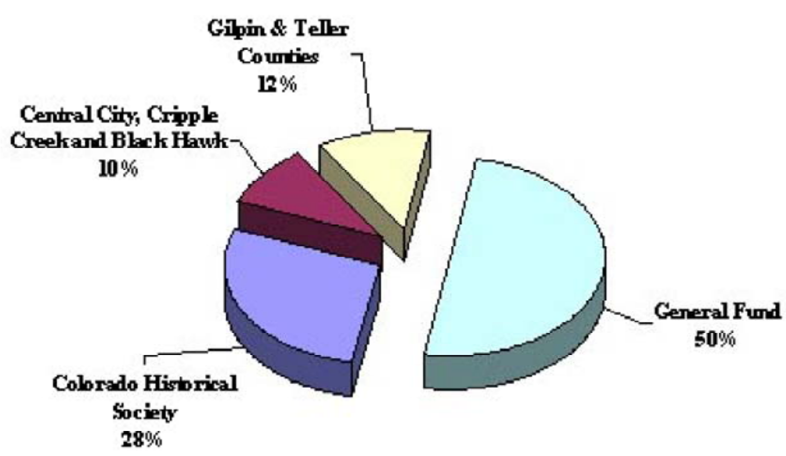
- 28% to the Colorado State Historical Fund;

- 12% to Gilpin and Teller Counties, in proportion to the gaming revenues generated in these respective counties; and,

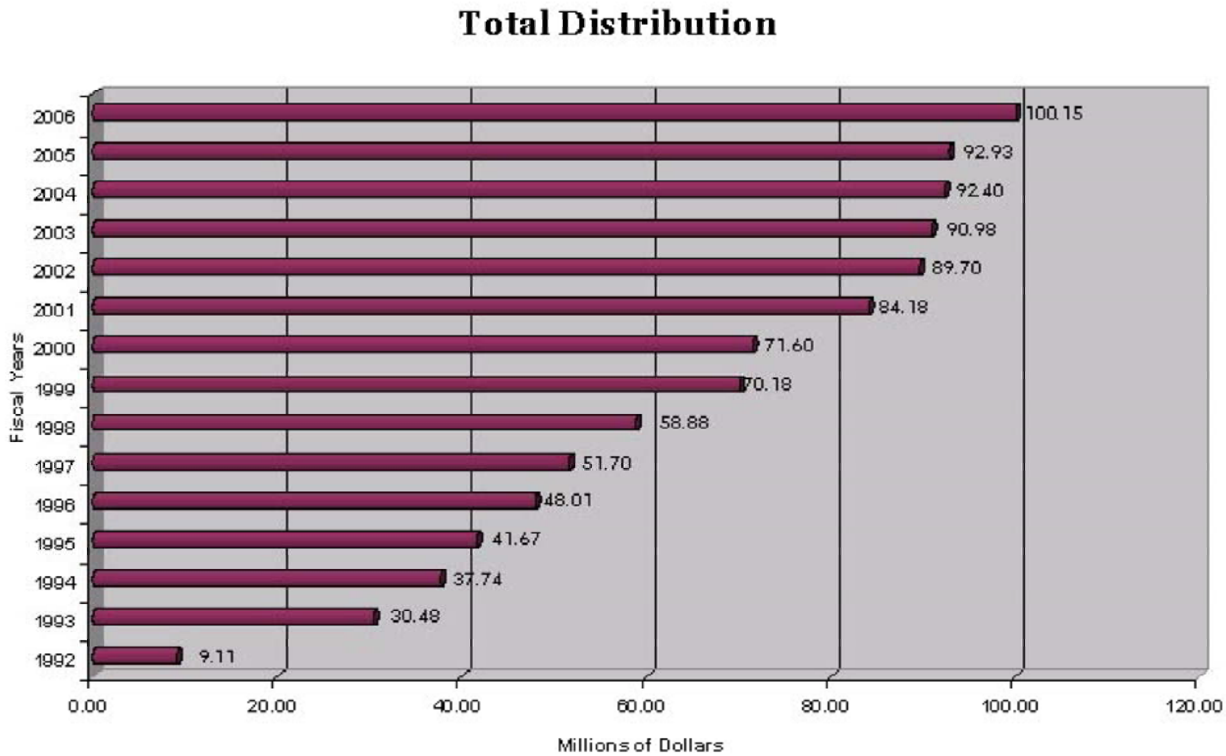
- 10% to the cities of Cripple Creek, Central City, and Black Hawk, in proportion to the gaming revenues generated in these respective cities.

The charts below reflect the distribution formula and the Colorado Limited Gaming Fund distribution from the inception of Colorado gaming in 1991 through 2006.

Colorado Limited Gaming Distribution Formula



DISTRIBUTION (continued)



BUDGET

The Colorado Limited Gaming Control Commission approves the Division's budget. Throughout the year, the budget can be amended if approved by the Colorado Limited Gaming Commission.

Changes approved:

On March 8, 2006, Governor Owens signed HB 06-1231 concerning the supplemental request for the Department of Revenue. In April and May 2006, the Colorado Limited Gaming Control Commission approved these changes in spending authority. The Division's share of the Department of Revenue's Centralized Appropriation in the Executive Director's Office (EDO) has been reduced by ($42,501):

- Payments for the leased vehicle fixed costs have been reduced by ($11,962) due to vehicle leases expiring in fiscal year 2006. Payments for the leased vehicle variable costs have increased by $4,292.

- The payment due to the Department of Personnel and Administration ("DPA") for workman's compensation has decreased ($11,471). All State agencies are assessed their share of the State's workman's compensation costs based on historical claim information by department.

BUDGET (continued)

- Payments due to the Division of Risk Management have decreased by ($8,360). This expense is for the Division's pro rata share of fiscal year 2006 Departmental costs for public liability and property damage insurance. The amount charged to the Division is based on full-time employees.

- Capital Outlay allocation from the Centralized Appropriation in the EDO has been reduced by ($15,000).

- Operating expenditures in the amount of $6,000 were transferred to utility expenditures.

Indirect Costs to the Department of Revenue have increased by $7,163:

- The Division's share of the Multi-Use-Network ("MNT") charges from the DPA has increased by $2,369.

- The Pierce facility charges from DPA Capitol Complex have increased by $5,114.

- Statewide communication services have increased by $78.

- Costs for the Enforcement Business Group have decreased ($398).

In June 2006, the Department of Revenue informed the Division of Gaming that the appropriation for the Pierce Building would be over expended $1,140 due to charges from the DPA. As the Colorado legislative session had ended for the fiscal year, the State Controller's Office and the Colorado Limited Gaming Control Commission approved the overexpenditure for the Pierce Building payment in fiscal year 2006 by $1,140.

The budget approved at the beginning of the year was $9,717,627. The amendments to the budget resulted in a net decrease of ($35,338). Therefore, the final approved budget for fiscal year 2006 was $9,682,289. Total actual expenditures were $8,701,433 resulting in excess appropriations, or a savings of $980,856 for fiscal year 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

ECONOMY AND NEXT YEAR'S BUDGET

The Division considers several factors when determining estimates for the following year's budget. The fiscal year 2007 budget request was prepared according to statewide standards and guidelines issued by the Governor's Office of State Planning and Budgeting ("OSPB"). The Division has also incorporated into the request statewide figure setting policy adopted by the Joint Budget Committee ("JBC") for fiscal year 2007. The Division's request totaled $7,522,188, which represents a 5.8% increase from the fiscal year 2006 appropriation. The largest increase is in the estimate of expenses in the Department of Revenue Centralized Appropriations. The Colorado Limited Gaming Control Commission approved a budget request submitted by the Department of Public Safety for $2,556,908 and a budget request submitted by the Department of Local Affairs for $131,410. These funds are used for gaming related purposes.

Assumptions that were made when preparing the revenue projection for fiscal year 2007 included the continuation of the current tax structure, tax rates, license and application fees in effect, and continuation of the current interest rate being paid to the fund. Fiscal year 2007 revenue estimates total $111.6 million, a $3.6 million increase over fiscal year 2006 actual revenue.

During the almost 15 years of gaming in Colorado we have seen the market change. Initially there were many small casinos, now there are fewer casino properties, many of which are owned by large publicly traded companies. Gaming in Colorado continues to thrive. The Division continually positions itself to respond effectively to new technology, regulations and growth of the industry.

CONTACTING THE DIVISION OF GAMING'S FINANCIAL MANAGEMENT

This financial report is designed to provide Colorado citizens, Colorado government officials, the casino industry, and other interested parties with a general overview of the Division's finances. It is also designed to show the Division's accountability of the funds it receives from the gaming industry. If you have questions about this report or need additional financial information, contact the Division's accounting section at: Colorado Division of Gaming, 1881 Pierce Street Suite 112, Lakewood, CO 80214-1496, or visit our website: www.revenue.state.co.us/Gaming/home.asp.

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

Balance Sheets - Special Revenue Fund

	June 30, 2006	June 30, 2005
Assets		
Cash and temporary cash investments	$ 90,229,565	$ 84,270,214
Gaming taxes receivable	11,130,728	10,583,124
Other receivables	3,035	2,378
Prepaid expenses	32,339	32,655
Total assets	$ 101,395,667	$ 94,888,371
Liabilities and Fund Balance		
Liabilities		
Accounts payable	$ 41,169	$ 35,159
Accrued payroll	391,358	344,737
Due to State General Fund	17,564,148	40,238,779
Due to other State agencies	60,781,748	32,374,895
Due to other governments	22,032,443	20,444,645
Other liabilities	294,952	328,982
Total liabilities	101,105,818	93,767,197
Fund balance		
Reserved for statutory purposes	1,482,364	1,333,160
Unreserved		
Undesignated	(1,192,515)	(211,986)
Total fund balance	289,849	1,121,174
Total liabilities and fund balance	$ 101,395,667	$ 94,888,371

See notes to financial statements.

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

Statements of Revenues, Expenditures and Changes in Fund Balance

	For the Years Ended June 30, 2006	2005
Revenues		
Gaming taxes	$ 106,142,555	$ 99,080,505
License and application fees	561,634	592,937
Background investigations	233,306	238,401
Fines and other	290,146	12,092
Interest income	1,770,462	1,351,345
Net decrease in fair value of investments	(980,529)	(703,666)
Total revenues	108,017,574	100,571,614
Expenditures		
Current		
Salaries and benefits	4,553,534	4,483,179
State agency services	3,266,758	2,999,003
Materials, supplies, and services	340,719	306,574
Travel and automobiles	163,058	168,784
Computer services	91,491	119,786
Professional services	99,230	87,902
Other	50,540	56,756
Telephone	37,686	32,732
Background investigation	44,033	40,334
Leased space	54,384	54,384
Capital outlay	-	29,909
Total expenditures	8,701,433	8,379,343
Excess of revenues over expenditures	99,316,141	92,192,271
Other financing uses		
Gaming distribution	(100,147,466)	(92,930,205)
Net change in fund balance	(831,325)	(737,934)
Fund balance, beginning of year	1,121,174	1,859,108
Fund balance, end of year	$ 289,849	$ 1,121,174

See notes to financial statements.

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
Year Ended June 30, 2006

	Commission Approved Budget	Supplemental Changes	Final Budget*	Actual Amounts	Variance with Final Budget Over (Under)	Percent Earned Percent Expended
Revenues						
Gaming taxes	$ 106,742,452	$ -	$ 106,742,452	$ 106,142,555	$ (599,897)	99.44 %
License and application fees	566,786	-	566,786	561,634	(5,152)	99.09 %
Background investigations	222,995	-	222,995	233,306	10,311	104.62 %
Fines and other	-	-	-	290,146	290,146	- %
Interest income	1,311,461	-	1,311,461	1,770,462	459,001	135.00 %
Net decrease in fair value of investments	-	-	-	(980,529)	(980,529)	- %
Total revenues	108,843,694	-	108,843,694	108,017,574	(826,120)	99.24 %
Expenditures						
Personal services	5,129,325	-	5,129,325	4,641,636	(487,689)	90.49 %
Operating expenditures	584,151	(6,000)	578,151	464,338	(113,813)	80.31 %
Workers' compensation	53,107	(11,471)	41,636	41,636	-	100.00 %
Risk management	12,438	(8,360)	4,078	4,078	-	100.00 %
Licensure activities	181,497	-	181,497	88,827	(92,670)	48.94 %
Pierce building	196,261	-	196,261	197,401	1,140	100.58 %
Leased space	54,384	-	54,384	54,384	-	100.00 %
Vehicle lease payments	118,982	(7,670)	111,312	106,714	(4,598)	95.87 %
Utilities	15,048	6,000	21,048	19,539	(1,509)	92.83 %
Capital outlay	15,000	(15,000)	-	-	-	- %
Department of Revenue indirect costs	518,144	7,163	525,307	525,307	-	100.00 %
State agency services	2,575,326	-	2,575,326	2,513,540	(61,786)	97.60 %
Total expenditures	9,453,663	(35,338)	9,418,325	8,657,400	(760,925)	91.92 %
Background expenditures	263,964	-	263,964	44,033	(219,931)	16.68 %
Total expenditures	9,717,627	(35,338)	9,682,289	8,701,433	(980,856)	89.87 %
Excess of revenues over expenditures	$ 99,126,067	$ 35,338	$ 99,161,405	99,316,141	$ 154,736	
Other financing uses						
Gaming distribution				(100,147,466)		
Net change in fund balance				(831,325)		
Fund balance, beginning of year				1,121,174		
Fund balance, end of year				$ 289,849		

* Amount includes Long Bill items and Supplemental Appropriations by Gaming Commission.

See notes to financial statements.

Note 1 - Summary of Significant Accounting Policies

The Colorado Division of Gaming (the "Division") is an agency of the State of Colorado and was created June 4, 1991, under the provision of Section 12-47.1-201, Colorado Revised Statutes ("C.R.S".). The Division operates under the Colorado Limited Gaming Control Commission (the "Commission"). The Division implements, regulates and supervises the conduct of limited gaming in the State, as authorized by statute.

The State of Colorado is the primary reporting entity for State financial reporting purposes.

The Division's financial statements are intended to present only those transactions attributable to the Division. The financial statements of the Division are not intended to present financial information of the State in conformity with generally accepted accounting principles. The Division's accounts are presented in a manner consistent with presentation of statewide financial activities, which are reported in accordance with accounting principles generally accepted in the United States of America for governmental units.

Fund Structure and Basis of Accounting

The financial activities of the Division are accounted for and reported on the basis of an individual fund, which is considered to be a separate entity for accounting purposes. The operations of the Division are recorded in a Special Revenue Fund, which consists of a discrete set of self-balancing accounts that comprise the assets, liabilities, fund balance, revenues, and expenditures of the entity. Throughout the year, encumbrances are recorded. However, at fiscal year-end all encumbrances lapse and no reserve for encumbrances is reported. The accounts used for fixed assets and long-term liabilities are not recorded in the Special Revenue Fund, but in a separate fund that is maintained on a statewide basis, and are not reflected in these statements. Information on fixed assets and long-term liabilities is included in Note 4 and Note 6, respectively.

Governmental Fund

Special Revenue Fund

Transactions related to resources obtained from specific sources, which are restricted to specific purposes, are accounted for in the Special Revenue Fund. The Division's resources are obtained from specific gaming related activities such as license fees, application fees and gaming taxes. These sources are restricted for specific uses as outlined in Section 12-47.1-701, C.R.S.

Basis of Accounting

The Division uses the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when both measurable and available. Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, if measurable.

Note 1 - Summary of Significant Accounting Policies (continued)

Budget

The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual, compares actual revenues and expenditures to those which are legally authorized by State statute. The fiscal year 2006 revenue estimates were provided by the Division, based on the tax rate structure established by the Commission.

Each year, the Division Director submits to the Commission a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Public hearings are conducted by the Commission to obtain comments and approval. During the fiscal year, the approved budget may be modified due to roll-forward authorization or supplemental budget approval. The Commission must approve all modifications. Appropriations lapse at fiscal year-end unless the Commission approves a rollforward of the unexpended budget.

Total appropriations for the fiscal years are as follows:

	Year Ended June 30, 2006	Year Ended June 30, 2005
Appropriations	$ 9,717,627	$ 9,616,874
Supplemental appropriations	(35,338)	(10,056)
Total appropriations	$ 9,682,289	$ 9,606,818

Accrued Payroll

In accordance with Senate Bill 03-197, monthly salaries are to be paid as of the last working day of the month except the salaries for the month of June. These are to be paid on the first working day of July.

Note 2 - Cash and Temporary Cash Investments

The State Treasury acts as a bank for all state agencies. Monies deposited in the Treasury are invested until the cash is needed. The Division deposits cash with the Colorado State Treasurer as required by Colorado Revised Statutes (C.R.S.). Interest earnings on these investments are credited to the General Fund unless a specific statute directs otherwise. Cash held by the State Treasurer for the Division as of June 30, 2006 and 2005, was approximately $90.2 and $84.3 million, respectively.

Note 2 - Cash and Temporary Cash Investments (continued)

The State Treasurer pools these deposits and invests them in securities approved by C.R.S. 24-75-601.1. The Division reports its share of the State Treasury's unrealized gains and losses based on its participation in the State Treasurer's pool. During the years ended June 30, 2006 and 2005, the Division's share of unrealized losses was $980,529 and $703,666, respectively. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the pool. All of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at year-end. The unrealized losses are included in net decrease in fair value of investments in the Statements of Revenues, Expenditures and Changes in Fund Balance, and reflect only the change in fair value during the fiscal year.

Additional information on the State Treasurer's pool may be obtained from the State of Colorado's Comprehensive Annual Financial Report.

Unreserved Undesignated Fund Balance of $(1,192,515) and $(211,986) at June 30, 2006 and 2005, respectively, represents the cumulative unrealized net loss on cash and temporary cash investments and is not available for use in the gaming distribution calculation.

The Division receives interest payments from the State Treasurer's Office on cash held on behalf of the Division. During the years ended June 30, 2006 and 2005, $1,770,462 and $1,351,345, respectively, was earned on the average daily cash and temporary cash investments balances. During fiscal years 2006 and 2005, the State Treasurer paid interest at 3.91% and 3.13%, respectively, based on average annualized monthly interest rates.

Note 3 - Accounts Receivable

As of June 30, 2006 and 2005, the Division had accounts receivable balances of $11,133,763 and $10,585,502, respectively. The Division had $11,130,728 and $10,583,124 of gaming taxes receivable from 46 and 47 Colorado casinos at June 30, 2006 and 2005, respectively. These receivables primarily represent June 2006 and 2005 gaming taxes, which were due on July 17, 2006, and July 15, 2005, respectively, and were subsequently collected by the Department of Revenue in July 2006 and 2005 on behalf of the Division. Based on past collection history with similar accounts, no allowance for doubtful accounts is deemed necessary by management.

Note 4 - Changes in Fixed Assets and Accumulated Depreciation

Pursuant to the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, the Division's fixed assets are reported only in the statewide financial statements. In addition, these fixed assets are depreciated over their estimated useful lives, but depreciation expense is also reported only in the statewide financial statements.

Note 4 - Changes in Fixed Assets and Accumulated Depreciation (continued)

All fixed assets are stated at historical cost, or estimated historical cost if actual historical cost is not available. Donated fixed assets are stated at their estimated fair values on the date donated. The capitalization criteria for fixed assets are $50,000 for buildings and leasehold improvements, $5,000 for furniture and equipment, and all land is capitalized regardless of cost. No stand-alone software is capitalized except the Division's licensing system. Fixed assets are depreciated using the straight-line method over the estimated useful lives of the related assets, which is 30 years for the building, 5 to 10 years for leasehold improvements, furniture, equipment, and 10 years for licensing software.

The following is a summary of changes in the Division's fixed assets to be included with governmental activities in the statewide financial statements:

	Vehicles and Equipment	Land	Building	Total
Cost				
Balances, June 30, 2004	$ 608,581	$ 421,000	$ 331,118	$ 1,360,699
Additions	29,909	-	-	29,909
Disposals	(56,860)	-	-	(56,860)
Balances, June 30, 2005	581,630	421,000	331,118	1,333,748
Additions	-	-	-	-
Disposals	(17,727)	-	-	(17,727)
Balances, June 30, 2006	563,903	421,000	331,118	1,316,021
Accumulated depreciation				
Balances, June 30, 2004	(334,633)	-	(22,470)	(357,103)
Additions	(71,653)	-	(7,704)	(79,357)
Disposals	56,859	-	-	56,859
Balances, June 30, 2005	(349,427)	-	(30,174)	(379,601)
Additions	(53,695)	-	(7,704)	(61,399)
Disposals	17,727	-	-	17,727
Balances, June 30, 2006	(385,395)	-	(37,878)	(423,273)
Total fixed assets, net	$ 178,508	$ 421,000	$ 293,240	$ 892,748

Note 5 - Other Liabilities

Included in other liabilities are deposits and deferred revenue. Applicants applying for gaming licenses are required to remit deposits to the Division, which are used to perform background investigations of these applicants. These deposits are recorded as liabilities until the Division incurs expenditures to perform the background investigations, or until any remaining balance is refunded to the applicant. Deposits of $159,487 and $164,402 at June 30, 2006 and 2005, respectively, primarily represent background investigation deposits, as well as $13,405 and $10,180 of funds at June 30, 2006 and 2005, respectively, seized during criminal investigations or from gaming patrons, and are pending court order releases or adjudication.

The Division issues a two-year license to individuals who are subject to an investigative review on an annual basis. The fees for the second year of the license period are recorded as deferred revenue until the Division incurs the expense during the review period. As of June 30, 2006 and 2005, deferred license fees are $122,060 and $154,400, respectively.

Note 6 - Accrued Compensated Absences

Pursuant to the provisions of GASB No. 34, accrued compensated absences are only reported in the statewide financial statements.

All permanent employees of the Division may accrue annual and sick leave based on length of service. The accrued amount will be paid upon termination, subject to certain limitations. Annual leave and sick leave benefits consist of the following and are all considered long term as of June 30, 2006:

	Annual Leave	Sick Leave	Total
Balances, June 30, 2004	$ 319,086	$ 55,960	$ 375,046
Increases	228,603	36,099	264,702
Decreases	(261,012)	(44,017)	(305,029)
Balances, June 30, 2005	286,677	48,042	334,719
Increases	229,417	36,620	266,037
Decreases	(215,469)	(46,530)	(261,999)
Balances, June 30, 2006	$ 300,625	$ 38,132	$ 338,757

Note 7 - Gaming Distribution

In accordance with Section 12-47.1-701, C.R.S. and amended by House Bill 06-1201 and House Bill 06-1360, at the end of each State fiscal year, the balance remaining in the Limited Gaming Fund is to be distributed by the State Treasurer according to the following formula:

- 50% to the State General Fund, of which 13% is to be distributed to the Local Government limited Gaming Impact Fund. In addition, of the 50%, $19,000,000 is to be distributed to the Colorado Travel and Tourism Promotion Fund, $1,500,000 is to be distributed to the Colorado Council on the Arts Cash Fund, $500,000 is to be distributed to the Film Incentives Cash Fund, $3,000,000 is to be distributed to the New Jobs Incentives Cash Fund, and $2,000,000 is to be distributed to the Bioscience Discovery Evaluation Grant Program;

- 28% to the Colorado State Historical Fund;

- 12% to Gilpin and Teller Counties, in proportion to the gaming revenues generated in these respective counties; and

- 10% to the cities of Cripple Creek, Central City, and Black Hawk, in proportion to the gaming revenues generated in these respective cities.

The amount to be distributed is derived from revenues collected by the Division during the fiscal year after payment of operating expenditures of the Division and other regulatory expenditures, except for an amount equal to expenditures for the last two-month period of the fiscal year. As of June 30, 2006 and 2005, the amount calculated as reserved fund balance by the Division based on expenditures for the preceding two-month period was $1,482,364 and $1,333,160, respectively.

Note 7 - Gaming Distribution (continued)

On August 17, 2006, the Commission approved the distribution of $100,147,466 for the fiscal year ended June 30, 2006, in accordance with Section 12-47.1-701 C.R.S. In August 2005, $92,930,205 was approved as the 2005 distribution. The distributions are summarized as follows:

	Years Ended June 30,	
	2006	2005
State General Fund Restricted	$ 17,564,148	$ 40,238,779
Distributions to other state agencies		
Colorado State Historical Fund	28,041,290	26,020,457
Local Government Limited Gaming Impact Fund	6,509,585	6,040,463
Colorado Travel and Tourism Promotion Fund	19,000,000	185,861
Colorado Council on the Arts Cash Fund	1,500,000	-
Film Incentives Cash Fund	500,000	-
New Jobs Incentives Cash Fund	3,000,000	-
Bioscience Discovery Evaluation Grant Program	2,000,000	-
Total distributions to other state agencies	60,550,875	32,246,781
Distributions to other governments		
Gilpin and Teller Counties	12,017,696	11,151,624
Cities of Cripple Creek, Central City and Black Hawk	10,014,747	9,293,021
Total distributions to other governments	22,032,443	20,444,645
Total distributions	$ 100,147,466	$ 92,930,205

Note 8 - Commitments and Contingencies

Cripple Creek Lease

In April 2002, the Division renewed a lease agreement with a third party to lease office space in Cripple Creek, Colorado. The lease expires June 2007. Cripple Creek lease expenditures were approximately $54,000 in 2006. Future minimum annual rentals are approximately $54,000 for the year ending June 30, 2007.

Note 8 - Commitments and Contingencies (continued)

Sunset Review

Under Section 12-47.1-206 C.R.S., the Division is subject to a "sunset" law, which provides that the Division's existence is to terminate on a specified date. Sunset laws require the General Assembly to periodically review, and update as necessary, the laws that create entities such as the Division. The original sunset date for the Division was July 1, 2003. During fiscal year 2003, a sunset review was completed, the law was amended and the sunset date was extended to July 1, 2013. The Division's existence will continue after July 1, 2013, only through the passage of a bill by the General Assembly. The General Assembly is expected to conduct a sunset review prior to the sunset date. A sunset review report is anticipated to be available after October 15, 2012, after which time the General Assembly will determine whether or not the Division will continue.

Licensing System

In December 2004, the Division entered into a three-year contract with a third party for maintenance and service of the Division's regulatory licensing and document imaging computer system. This contract requires the Division to pay approximately $51,500 to $55,000 per year through November 30, 2007. During fiscal years 2006 and 2005, the Division expended $52,401 and $50,000, respectively, under this contract.

Note 9 - Pension Plan

Plan Description

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

Note 9 - Pension Plan (continued)

Plan Description (continued)

Prior to January 1, 2006, State employees and employees of local school districts were members of the combined State and School Division of PERA. On January 1, 2006, that combined division was segregated into a State Division and a separate School Division. PERA's financial statements at December 31, 2005, presented the State and School portions of the trust as a single division.

Employees hired by the State after January 1, 2006, are allowed 60 days to elect to participate in a defined contribution retirement plan administered by the State's Deferred Compensation Committee rather than becoming a member of PERA. If that election is not made, the employee becomes a member of PERA, and the member is allowed another 60 days from commencing employment to elect to participate in a defined contribution plan administered by PERA rather than the defined benefit plan. PERA members electing the defined contribution plan are allowed an irrevocable election between the second and fifth year to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. Employer contributions to both defined contribution plans are the same as the contributions to the PERA defined benefit plan.

Defined benefit plan members vest after five years of service, and if they were hired before July 1, 2005, most are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with 5 years of service. Persons hired on or after July 1, 2005, (except state troopers, plan members, inactive plan members, and retirees) are eligible for retirement benefits at any age with 35 years of service, at age 55 with 30 years of service, at age 60 with 20 years of service, or at age 65 with 5 years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 5 years of service credit, and their age plus years of service equals 80 or more. State troopers and judges comprise a small percentage of plan members but have higher contribution rates, and state troopers are eligible for retirement benefits at different ages and years of service. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

Members disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, their eligible children under the age of 18 (23 if a full time student) or their spouse may be entitled to a single payment or monthly benefit payments. If there is no eligible child or spouse then financially dependent parents will receive a survivor's benefit.

Note 9 - Pension Plan (continued)

Funding Policy

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

Most employees contribute 8.0 percent (10.0 percent for state troopers) of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2005, to December 31, 2005, the state contributed 10.15 percent (12.85 percent for state troopers and 13.66 percent for the Judicial Branch) of the employee's salary. From January 1, 2006, through June 30, 2006, the state contributed these same percentage amounts plus an additional .5 percent for the Amortization Equalization Disbursement discussed below. During all of Fiscal Year 2005-06, 1.02 percent of the employees total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2005, the State and School Division of PERA was underfunded with an infinite amortization period, which means that the unfunded actuarially accrued liability would never be fully funded at the current contribution rate.

In the 2004 legislative session, the general assembly authorized an Amortization Equalization Disbursement ("AED") to address a pension-funding shortfall. The AED requires PERA employers to pay an additional .5 percent of salary beginning January 1, 2006, another .5 percent of salary in 2007, and subsequent year increases of .4 percent of salary until the additional payment reaches 3.0 percent in 2012.

In the 2006 legislative session, along with other significant provisions affecting the plan, the general assembly authorized a Supplemental Amortization Equalization Disbursement ("SAED") that requires PERA employers to pay an additional one half percentage point of total salaries paid beginning January 1, 2008. The SAED is scheduled to increase by one half percentage point through 2013 resulting in a cumulative increase of three percentage points. The SAED will be terminated when each division's trust fund reaches 100 percent funding. For state employers, each year's one half percentage point increase in the SAED will be deducted from the amount of changes to state employees’ salaries and used by the employer to pay the SAED.

The Division's contributions to the Defined Benefit Plan and the Health Care Trust Fund for the fiscal years ending June 30, 2006, 2005, and 2004 were $388,799, $372,887, and $373,702, respectively. These contributions met the contribution requirement for each year.

Note 10 - Voluntary Tax-Deferred Retirement Plans

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The State offers a Section 457 deferred compensation plan, and certain agencies and institutions of the state offer 403(b) or 401(a) plans.

Note 11 - Post Retirement Health Care and Life Insurance Benefits

Health Care Program

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the program was converted to a trust fund in 1999. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During Fiscal Year 2006, the premium subsidy was $115 for those with 20 years of service credit ($230 for members under age 65 and not eligible for Medicare), and it was reduced by 5 percent for each year of service fewer than 20.

The Health Care Trust Fund is maintained by an employer's contribution as discussed above in Note 9.

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured medical and prescription benefit plans, and with several health maintenance organizations providing services within Colorado. As of December 31, 2005, there were 41,080 enrollees in the plan.

Life Insurance Program

PERA provides its members access to a group decreasing term life insurance plan offered by UnumProvident in which 41,180 members participated. Active members may join the Unum Provident Plan and continue coverage into retirement. Premiums are collected by monthly payroll deductions or other means. In addition, PERA maintained coverage for 13,375 members under closed group plans underwritten by Anthem Life, Prudential, and New York Life.

Note 12 - Risk Management

The Division participates in the Risk Management Fund. Agency premiums are based on an assessment of risk exposure and historical experience. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, change in legal doctrines and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount. Claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

There were no significant reductions or changes in insurance coverage from the prior year. Settlements did not exceed insurance coverage in any of the past three fiscal years.

Note 13 - Related Party Transactions

On May 23, 1996, Senate Bill 96-216 was signed, authorizing the Department of Personnel to execute a ten-year lease purchase agreement on behalf of the Department of Revenue for the acquisition of a building located at 1881 Pierce Street, Lakewood, Colorado. The lease purchase occurred on October 31, 1996. The Division estimates that its share of the purchase price, including both principal and interest will be approximately $2,000,000. The Division transfers funds annually to the Department of Revenue for its share of the building purchase. The future obligations to be paid to the Department of Revenue, for the Division's portion, for the purchase of the building are estimated to be approximately $177,000 in fiscal 2007. The Division paid approximately $197,000 and $196,000 in fiscal year 2006 and 2005 respectively. Total paid through 2006 is approximately $1,861,000.

Note 13 - Related Party Transactions (continued)

The Division, as an agency of the State of Colorado, paid fees to the State for auditing, investigative, and legal services, the Division's share of the building purchase, and other direct and indirect expenses incurred. Beginning in fiscal year 2006, the legal services are included in the Department of Revenue indirect/direct appropriation. Prior to fiscal year 2006, these costs were included in the Division's legal services appropriation and presented as a separate expenditure in the Statement of Revenues, Expenditures, and Changes in Fund Balance. Interagency charges consist of the following:

	For the Years Ended June 30,	
	2006	2005
State agency services		
Colorado State Patrol	$ 1,530,104	$ 1,364,592
Colorado Bureau of Investigation	709,446	649,268
Colorado Division of Fire Safety	152,579	134,799
Legal Services (Colorado Department of Law)	-	122,565
Indirect costs (Colorado Department of Revenue)	722,708	595,722
Office of the State Auditor	30,510	29,620
Colorado Department of Local Affairs	121,411	102,437
Total payments to state agencies	$ 3,266,758	$ 2,999,003

Note 13 - Related Party Transactions (continued)

The Division had liabilities to other state agencies, the State's General Fund and other governments as follows:

	June 30, 2006	June 30, 2005
State agencies		
Colorado State Historical Society	$ 28,041,290	$ 26,020,457
Colorado Department of Local Affairs	6,509,585	6,040,463
Office of Economic Development	24,500,000	185,861
Colorado Council on the Arts	1,500,000	-
Colorado State Patrol	204,811	113,503
Colorado Division of Fire Safety	26,062	14,611
Total liabilities to state agencies	60,781,748	32,374,895
State's General Fund	17,564,148	40,238,779
Other governments		
City of Black Hawk	7,110,170	6,587,172
City of Central City	903,931	824,291
City of Cripple Creek	2,000,646	1,881,558
Gilpin County	9,616,921	8,893,755
Teller County	2,400,775	2,257,869
Total liabilities to other governments	22,032,443	20,444,645
Total liabilities to state agencies, State General Fund and other governments	$ 100,378,339	$ 93,058,319

Total related party liabilities of $100,378,339 and $93,058,319 at June 30, 2006 and 2005, respectively, include amounts due to the Colorado State Patrol and the Division of Fire Safety which total $230,873 and $128,114, respectively, and represent liabilities related to agreements with these agencies. The remaining liabilities of $100,147,466 and $92,930,205, respectively, are related to the fiscal years 2006 and 2005 gaming distributions.

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*

Members of the Legislative Audit Committee

We have audited the accompanying financial statements of the Division of Gaming, Department of Revenue, State of Colorado (the "Division") as of and for the year ended June 30, 2006, and have issued our report thereon dated August 3, 2006. We conducted our audit 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.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit, we considered the Division's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

<u>Compliance and Other Matters</u>

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

Members of the Legislative Audit Committee

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

Ehrhardt Keefe Steiner & Hottman PC

August 3, 2006
Denver, Colorado

REQUIRED AUDITOR COMMUNICATIONS TO THE LEGISLATIVE AUDIT COMMITTEE

Members of the Legislative Audit Committee

We have audited the financial statements of the Division of Gaming, Department of Revenue, State of Colorado (the "Division") for the year ended June 30, 2006, and have issued our report thereon dated August 3, 2006. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS*

As stated in our contract dated May 23, 2005 our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free from material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control over financial reporting of the Division. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Division's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

SIGNIFICANT ACCOUNTING POLICIES

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our contract, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Division are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2006.

We noted no transactions entered into by the Division during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Management's use of estimates is disclosed in the notes to the financial statements.

AUDIT ADJUSTMENTS

For purposes of this letter, professional standards define an audit adjustment as a proposed correction to the financial statements that, in our judgment, may not have been detected except through our audit procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Division's financial reporting process (that is, cause future financial statements to be materially misstated).

In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Division, either individually or in the aggregate, indicate matters which could have a significant effect on the Division's financial reporting process.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Pursuant to professional standards, the auditors' responsibility for other information in documents containing the Division's audited financial statements does not extend beyond the financial information identified in the audit report, and the auditor is not required to perform procedures to corroborate such other information. However, in accordance with such standards, we are required to read the information in such documents and consider whether such information, or the manner of its presentation, is materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information, which we believe is a material misstatement of fact. No such inconsistencies or misstatements came to our attention.

DISAGREEMENTS WITH MANAGEMENT

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

CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Division's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consulted has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

ISSUES DISCUSSED PRIOR TO RETENTION OF INDEPENDENT AUDITORS

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Division's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the information and use of the Legislative Audit Committee, the Division's management, and others within the Division and is not intended to be, and should not be used by anyone other than these specified parties. However, this report is a matter of public record upon release by the Legislative Audit Committee.

Ehrhardt Keefe Steiner & Hottman PC

August 3, 2006
Denver, Colorado

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

Distribution Page
Years Ended June 30, 2006 and 2005

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