COLORADO LOTTERY

FINANCIAL AND COMPLIANCE AUDIT

June 30, 2015 and 2014

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Members of the Legislative Audit Committee:

We have completed the financial statement audit of the Colorado Lottery as of and for the year ended June 30, 2015. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

Eide Bailly LLP

Greenwood Village, Colorado
December 4, 2015

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Purposes and Scope of Audit

Authority, Purpose and Scope

The Office of the State Auditor, State of Colorado, engaged Eide Bailly, LLP to conduct the financial audit of the Colorado Lottery for the Fiscal Year ended June 30, 2015. The audit of the Colorado Lottery (the Lottery) was performed under authority of Section 24-35-211, C.R.S., which requires the State Auditor to conduct an annual audit of the Lottery. The purpose of the audit was to express opinions on the financial statements of the Lottery for the year ended June 30, 2015.

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

The purposes and scope of this audit were:

- To express opinions on the financial statements of the Lottery as of and for the year ended June 30, 2015, including a review of the related systems of internal controls as required by auditing standards generally accepted in the United States of America.
- To review the Lottery's compliance with rules and regulations governing the expenditure of State funds for the year ended June 30, 2015.
- To evaluate progress in implementing the prior audit recommendations.

Summary of Major Audit Comments

Audit Findings and Financial Statement Audit Report Section

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 discovered during the course of the audit.

Auditor's Communication to Legislative Audit Committee

The auditor's communication to the Legislative Audit Committee describes the auditor's responsibility under auditing standards generally accepted in the United States of America and significant management judgments and estimates. This communication is located on page 67.

Summary of Progress in Implementing the Prior Year Audit Recommendations

As of our Fiscal Year 2015 audit, we determined the 2011 prior year recommendation was fully implemented. The Disposition of Prior Year Audit Recommendations begins on page 3.

COLORADO LOTTERY
Background
Years Ended June 30, 2015 and 2014

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

During Fiscal Year 2015, the Lottery employed 120 employees in its headquarters in Pueblo and branch offices in Denver, Fort Collins and Grand Junction.

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

Colorado Revised Statutes (C.R.S.) Section 24-35-210(9), requires that no less than 50% of the total revenue from sales of lottery tickets be for prizes. The legislation also provides guidelines for distribution of net proceeds to beneficiary agencies. “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 $62.0 million for the year ended June 30, 2015.

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 2015, the spillover funds were required to be transferred to the Public School Capital Construction Assistance Fund.

COLORADO LOTTERY
Disposition of Prior Year Audit Recommendation
June 30, 2015 and 2014

Number	Recommendation	Disposition
2011-1	The Colorado Lottery should ensure it is maximizing the amount of lottery revenue available to beneficiaries by reevaluating its current games structure, payout percentages, and operating expenses.	Implemented

Independent Auditor's Report

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

Report on the Financial Statements
We have audited the accompanying financial statements of the major fund and remaining fund information of the Colorado Lottery, an enterprise fund and private purpose fund of the State of Colorado, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Colorado Lottery's basic financial statements as listed in the table of contents.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund and remaining fund information of the Colorado Lottery as of June 30, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Notes 1 and 7 to the financial statements, the Colorado Lottery has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of July 1, 2014. Our opinions are not modified with respect to this matter. In accordance with GASB Statement No. 68, the 2014 financial statements have not been restated to reflect this change. Our opinions are not modified with respect to this matter.

Other Matters

Relationship with the State of Colorado
As discussed in Note 1 – Nature of Operations and Summary of Significant Accounting Policies, the financial statements of the Colorado Lottery are intended to present the financial position and cash flows for only that portion of the financial reporting entity, the State of Colorado, which is attributable to the transactions of the Colorado Lottery. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2015 and 2014, and the changes in its financial position, or, where applicable, its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 22; the schedule of the Lottery's proportionate share of the net pension liability and the schedule of the Lottery's contributions for the Colorado Lottery's defined benefit pension plan on pages 59 through 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information
Out audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Colorado Lottery's basic financial statements. The Schedule of Revenues and Costs for Scratch and Jackpot Games, Schedule of Percent of Prize Expense to Gross Ticket Sales and Budgetary Comparison are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Revenue and Costs for Scratch and Jackpot Games, Schedule of Percent of Prize Expense to Gross Ticket Sales and Budgetary Comparison 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 financial statements or to the financial statements themselves, and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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 December 4, 2015 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Colorado Lottery's internal control over financial reporting and compliance.

Eide Bailly LLP

Greenwood Village, Colorado
December 4, 2015

This discussion and analysis of the Colorado Lottery's financial performance provides an overview of financial activities for the Fiscal Years ended June 30, 2015 and 2014. Please read it in conjunction with the Lottery's financial statements, which begin on page 23. These financial statements reflect only activities of the Colorado Lottery.

Financial Highlights

- The Lottery's Fiscal Year 2015 overall sales performance came in at $538.0 million, making the current fiscal year the fourth highest sales year in the Lottery's thirty-three year history. Fiscal Year 2013 sales of $566.3 million remained at the top spot, with Fiscal Year 2012 sales of $545.3 million and Fiscal Year 2014 sales of $545.0 million retaining the second and third spots, respectively. Overall sales for Fiscal Year 2015 reflected a $7.0 million decrease from Fiscal Year 2014. From Fiscal Year 2013 to Fiscal Year 2014, the Lottery saw a much larger decrease of nearly $21.3 million. The decrease in sales in Fiscal Year 2015 from Fiscal Year 2014 was chiefly due to the continuing overall decline in jackpot games sales of $22.1 million. This decline was mostly offset by an increase in scratch sales of $15.1 million resulting in overall scratch sales of $377.2 million, a new all-time record high. The decrease in sales in Fiscal Year 2014 was also chiefly due to the overall decrease in jackpot games sales of $14.7 million but was also combined with a decrease of over $6.5 million in scratch sales.

  The $22.1 million decrease in jackpot games sales in Fiscal Year 2015 from the previous fiscal year consisted of a $12.5 million or a 14.8 percent decrease in Powerball sales; a $5.8 million or a 15.7 percent drop in Mega Millions sales and a $4.0 million or 11.7 percent decrease in Lotto sales. The decline in the sales of these three products can be attributed to fewer sustained Powerball jackpot runs, lower sales at most jackpot levels, and slower resulting jackpot growth when the runs did occur. The Cash 5 and Pick 3 games showed only slight increases of $141,255 combined when compared to the prior year.

  The $14.7 million decrease in jackpot games sales in Fiscal Year 2014 from Fiscal Year 2013 consisted of a $32.2 million or a 27.6 percent drop in Powerball sales, attributed to the lack of any record breaking jackpots as seen in the previous year. The highest Powerball jackpot in Fiscal Year 2014 was $448.4 million compared to two jackpots of nearly $600 million reached in Fiscal Year 2013. An increase in Mega Millions sales of nearly $13.6 million and a combined increase in sales of $3.9 million for the Lottery's in-state jackpot games (Lotto, Cash 5 and Pick 3) partially offset the decline in Powerball sales. The Mega Millions jump in sales was due to an increase in the average jackpot hit from $62.3 million in Fiscal Year 2013 to $211.4 million in Fiscal Year 2014.

- Funds distributed or available for distribution from 2015 sales were nearly $128.0 million, the third highest proceeds amount in Lottery history. Fiscal Year 2015 distributions included a spill-over of funds to the Public School Capital Construction Assistance Fund of nearly $2.0 million. This spill-over occurred when the Great Outdoors Colorado (GOCO) proceeds cap of $62.0 million in the current fiscal year was reached. The cap for GOCO is the 1992 base year amount of $35 million as adjusted for the annual change in the cost of living increase for the Denver-Boulder area. The funds distributed or available for distribution of $135.6 million from 2013, with a spill-over totaling $8.6 million, remained the highest in the Lottery's history with Fiscal Year 2014's distribution of $130.1 million remaining in the second place spot. Since its start in Fiscal Year 2009, the spill-over going to the Public School Capital Construction Assistance Fund has totaled $71.3 million.

- Fiscal Year 2015 gross profit (Lottery product sales minus costs tied directly to those sales) as a percent of sales increased by nearly 0.1 percent over the previous fiscal year. Prize expense, retailer bonuses and ticket costs as a percentage of sales all dropped from the previous fiscal year, with the biggest drop in prize expense of over 0.1 percent. Retailer commissions as a percentage of sales, however, increased slightly due to the increase in scratch sales seen in Fiscal Year 2015 which pays a higher commission rate to selling retailers than does jackpot sales. Vendor fees as a percentage of sales also increased due to the new jackpot gaming systems vendor contract with IGT (formally GTECH) starting in November 2014 with higher contracted vendor fees than in the previous year. Gross profit as a percent of sales for Fiscal Year 2014 climbed when compared to the previous year with an increase of 0.2 percent from Fiscal Year 2013. This was mainly the result of the over 0.1 percent and nearly 0.1 percent decreases in prize expense and retailer bonus expense, respectively, as a percentage of sales. Other costs directly tied to the sale of Lottery products, including commissions, vendor fees and ticket costs, as a percentage of sales remained steady.

- Total prize expense as a percentage of sales for all Lottery products decreased slightly from 61.7 percent to 61.6 percent in Fiscal Years 2014 and 2015, respectively, with a decrease from 68.3 percent to 66.5 percent for scratch games and an increase from 48.7 percent to 50.2 percent for all jackpot games. The decrease in scratch prize expense as a percentage of sales in Fiscal Year 2015 was mainly due to the Lottery's continued efforts to increase distributions to its beneficiary agencies by maintaining the lower prize percentages by its games established in recent years along with a $3.4 million increase in unclaimed scratch prizes in Fiscal Year 2015. The increase in unclaimed scratch prizes was due to both an increase in the number of games and average prize amounts per game written off. The increase in jackpot games prize expense percentage was mainly due to an increase in Lotto jackpot hits from five in Fiscal Year 2014 to eight in Fiscal Year 2015 which increases Lotto prize expense by $500,000 per hit, combined with a drop in total unclaimed jackpot prizes of nearly $1 million in Fiscal Year 2015. Total prize expense as a percentage of sales for all Lottery products decreased from 61.8 percent in Fiscal Year 2013 to 61.7 percent in Fiscal Year 2014. This was due to a decrease from 69.3 percent to 68.3 percent for scratch games, partially offset by an increase from 47.9 percent to 48.7 percent for jackpot games in Fiscal Years 2013 and 2014, respectively. The decrease in scratch game prize expense as a percentage of sales was mainly due to the Lottery's efforts to lower prize percentages mentioned above. The increase in jackpot games overall prize expense percentage was due to a $2 million drop in unclaimed prizes in Fiscal Year 2014. Unclaimed prizes ultimately reduce the prize expense percentages for all products.

- Retailer bonuses as a percentage of sales decreased slightly for Fiscal Year 2015 from Fiscal Year 2014 while commissions as a percentage of sales increased slightly. Bonuses as a percentage of sales decreased from 0.8 percent for Fiscal Year 2013 to 0.7 percent for Fiscal Year 2014 while retailer commissions as a percentage of sales remained virtually unchanged. Combined commissions and bonuses as a percentage of sales in Fiscal Years 2015, 2014 and 2013 were virtually the same at 7.4 percent. Cost of tickets sold and vendor fees as a percentage of sales combined to over 2.0 percent in Fiscal Year 2015 with the same costs as a percentage of sales at 2.0 percent for both Fiscal Years 2014 and 2013. Vendor fees totaled $8,353,284, $8,204,497, and $8,575,816 for Fiscal Years ended June 30, 2015, 2014 and 2013, respectively, reflecting fluctuations in sales and a slight rate increase associated with the new jackpot gaming systems contract which began in November 2014.

Games Offered by the Colorado Lottery

Currently, the Lottery offers two different ways to play: scratch games and jackpot games. Scratch games consist of pre-printed tickets that may be purchased for various prices ($1, $2, $3, $5, $10 and $20) at any Lottery retailer. When scratched, they provide instant knowledge if the ticket is a winner and can be cashed immediately at the retailer level if the amount of the winnings is $599 or less. Prizes over $599 must be redeemed at the Lottery offices. Jackpot games which include Powerball, Lotto, Cash 5, Mega Millions, and Pick 3, on the other hand, require a longer playing time. Tickets are also purchased at the Lottery retailers and are printed on ticket stock as the purchase is made. Each ticket contains one or possibly more playing boards for one draw or up to thirteen weeks of draws. Each board consists of a set of numbers, the combination of numbers required for play varying by game. The winning numbers for each game are posted after their respective draw nights with drawings held on every night of the week. Players must check their numbers against the numbers drawn for each respective game to determine if they have a winning ticket. The tickets may also be cashed at the retailer level if the amounts of the winnings are $599 or less. Prizes over $599 must be redeemed at the Lottery offices.

Using this Annual Report

This annual report consists of a series of financial statements. The statements of net position provide information about the Lottery's assets, liabilities and deferred inflows and outflows and reflect the Lottery's financial position as of June 30, 2015 and 2014. The statements of revenues, expenses and changes in fund net position report the activity of selling the Lottery products and the expenses related to such activity for the years ended June 30, 2015 and 2014. 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, 2015 and 2014.

Statements of Net Position

The statements of net position present a financial snapshot of the Lottery at June 30, 2015 and 2014. It presents the fiscal resources of the Lottery (assets), the consumption of net assets that is applicable to a future reporting period (deferred outflows), the claims against those resources (liabilities), the acquisition of net assets that is applicable to a future reporting period (deferred inflows) and the residual available for future operations (net position). Assets and liabilities are classified by liquidity as either current or noncurrent. Deferred outflows are reported in a separate section following assets, with deferred inflows reported in a separate section following liabilities. Net position is classified by the ways in which these assets may be used for future operations.

Condensed Statements of Net Position
June 30, 2015, 2014 and 2013

	2015	2014	2013
Assets			
Current assets	$ 57,985,990	$ 57,706,896	$ 64,107,946
Restricted assets	6,460,543	6,736,352	6,630,364
Capital assets	549,690	957,567	1,900,322
Total assets	$ 64,996,223	$ 65,400,815	$ 72,638,632
Deferred Outflows - Pensions	$ 1,071,597	$ -	$ -
Liabilities			
Current liabilities	$ 61,646,250	$ 61,723,207	$ 68,056,857
Long-term liabilities	796,373	760,275	919,090
Net pension liability	23,627,441	-	-
Total liabilities	$ 86,070,064	$ 62,483,482	$ 68,975,947
Deferred Inflows - Pensions	$ 136,155	$ -	$ -
Net Position			
Net investment in capital assets	$ 549,690	$ 957,567	$ 1,900,322
Restricted – licensed agent recovery reserve (bonding reserve)	378,903	383,534	388,870
Restricted – operating reserve	1,500,000	1,400,000	1,300,000
Unrestricted - unrealized gain/loss on investments	125,007	176,232	73,493
Unrestricted - unfunded pension liability	(22,691,999)	-	-
Total net position	$ (20,138,399)	$ 2,917,333	$ 3,662,685

The Lottery's total assets at June 30, 2015 were $65.0 million. Assets consisted primarily of cash and investments of $38.4 million, including restricted balances of $1.9 million, receivables from Lottery retailers for the sales of Lottery products of $20.2 million, prepaid prize expense with Multi-State Lottery Association (MUSL) of nearly $4.6 million, scratch ticket inventory of $1.1 million and a net investment in fixed assets of over $0.5 million.

Comparable figures at June 30, 2014 were $65.4 million in total assets, principally including cash and investments of $39.1 million, including restricted balances of $1.8 million, receivables from retailers of $18.9 million, prepaid prize expense with MUSL of over $4.9 million, scratch ticket inventory of $1.3 million and a net investment in fixed assets of nearly $1.0 million.

Comparable figures at June 30, 2013 were $72.6 million in total assets, principally including cash and investments of $44.3 million, including restricted balances of nearly $1.7 million, receivables from retailers of $20.3 million, prepaid prize expense with MUSL of $4.9 million, scratch ticket inventory of $1.2 million and a net investment in fixed assets of $1.9 million.

The Lottery's total assets decreased by $0.4 million from Fiscal Year 2014 to Fiscal Year 2015. This decrease was primarily made up of the decreases in cash and investments of $0.7 million, in prepaid prize expense with Multi-State Lottery Association (MUSL) of nearly $0.4 million, in scratch ticket inventory of over $0.1 million and in net investment in fixed assets of over $0.4 million, offset by the increase of $1.3 million in receivables from retailers, with no other significant changes in any one asset category. The Lottery's total assets decreased by $7.2 million from Fiscal Year 2013 to Fiscal Year 2014. This decrease was primarily caused by the $5.2 million decrease in cash and investments due to the drop in funds available for distribution for the fourth quarter of Fiscal Year 2014 compared to the same quarter in Fiscal Year 2013, the $1.3 decrease in receivables from retailers, and the $0.9 million decrease in capital assets.

The Lottery's total liabilities at June 30, 2015 totaled $86.1 million, which consisted primarily of net pension liability of $23.6 million newly booked due to the adoption of Governmental Accounting Standards Board (GASB) Statement No. 68 and GASB Statement No. 71 in Fiscal Year 2015, prize liability on all the Lottery products of about $26.0 million, proceeds distributions due to recipients of $31.8 million, $1.6 million due to Lottery vendors and retailer bonus payments due of $1.3 million.

The Lottery's total liabilities at June 30, 2014 totaled $62.5 million, which consisted primarily of prize liability on all Lottery products of $25.8 million, proceeds distributions due of $30.5 million, Lottery vendor payments due of $2.6 million and retailer bonus payments due of $1.5 million.

The Lottery's liabilities at June 30, 2013 totaled approximately $69.0 million, which consisted primarily of prize liability on all the Lottery products of about $25.4 million, proceeds distribution due to recipients of $37.3 million, $2.3 million due to Lottery vendors and $1.4 million due to MUSL.

The Lottery's total liabilities of $86.1 million at June 30, 2015 increased by $23.6 million over the previous fiscal year chiefly due to the first-time recording of net pension liability of $23.6 million with all other liabilities remaining nearly the same as the $62.5 million at June 30, 2014. Decreases of nearly $1.0 million in the amount due to vendors and $0.4 million in the amount due to MUSL were nearly offset by an increase of $1.3 million in proceeds distributions due to recipients. Remaining liability categories showed much smaller changes from June 30, 2014 to June 30, 2015.

The Lottery's total liabilities at June 30 decreased from Fiscal Year 2013 to Fiscal Year 2014 by nearly $6.5 million. The decrease was chiefly due to the $6.8 million decrease in the proceeds distribution due to recipients tied to a more profitable fourth quarter experienced in Fiscal Year 2013 compared to the same quarter in Fiscal Year 2014 and the $1.0 million decrease in the amount payable to MUSL, offset by the nearly $0.9 million increase in the annual retailer sales bonus liability paid in July of the following fiscal year and the $0.4 million increase in prize liability.

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

The change in net position from June 30, 2014 to June 30, 2015 consisted of a total $23.1 million change in the five components that make up total net position. This included 1) a decrease in investment in capital assets of $407,877 due to the depreciation expense of $557,445 recognized in Fiscal Year 2015 offset by current year additions of capital assets of $149,568; 2) a slight decrease in the Licensed Agent Recovery Reserve (also known as bonding reserve) from $383,534 to $378,903; 3) an increase in the operating reserve from $1.4 million to $1.5 million; 4) a net decrease in unrealized gain on investments of $51,225 resulting from a net decrease in the adjustments on State Treasury investments, and 5) a net decrease in unfunded pension liability of $22.7 million resulting from the effect of the restatement associated with the recognition of the unfunded pension liability in accordance with the implementation of GASB Statement No. 68 and GASB Statement No. 71 net of the current year's unfunded pension expense.

Following is a schedule of net position for Fiscal Years 2015 and 2014:

	2015	2014	Change
Investment in capital assets	$ 549,690	$ 957,567	$ (407,877)
Licensed agent recovery reserve	378,903	383,534	(4,631)
Operating reserve	1,500,000	1,400,000	100,000
Unrestricted - unrealized gain/loss on investments	125,007	176,232	(51,225)
Unrestricted - unfunded pension liability	(22,691,999)	-	(22,691,999)
Total net position	$ (20,138,399)	$ 2,917,333	$ (23,055,732)

The change in net position from June 30, 2013 to June 30, 2014 consisted of a decrease in investment in capital assets of $942,755 mainly due to the depreciation expense recognized in Fiscal Year 2014, a decrease in the bonding reserve from $388,870 to $383,534, an increase in the operating reserve from $1.3 million to $1.4 million and a net increase in unrealized gain and losses on investments of $102,739 resulting from a net increase in the adjustments on State Treasury investments.

Following is a schedule of net position for Fiscal Years 2014 and 2013:

	2014	2013	Change
Investment in capital assets	$ 957,567	$ 1,900,322	$ (942,755)
Licensed agent recovery reserve	383,534	388,870	(5,336)
Operating reserve	1,400,000	1,300,000	100,000
Unrestricted - unrealized gain/loss on investments	176,232	73,493	102,739
Total net position	$ 2,917,333	$ 3,662,685	$ (745,352)

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, 2015, 2014, and 2013

	2015	2014	2013
Operating Revenues	$ 538,025,144	$ 545,030,260	$ 566,286,598
Direct Operating Expenses	382,148,410	387,530,205	403,656,257
Gross Profit on Sale of Tickets	155,876,734	157,500,055	162,630,341
Other Operating Expenses			
Marketing and communications	13,823,454	13,629,282	13,627,884
Wages and benefits	9,635,406	9,256,494	9,187,414
Other operating expenses	5,437,874	6,182,913	5,835,169
Total Other Operating Expenses	28,896,734	29,068,689	28,650,467
Other Operating Revenue	195,041	382,539	289,398
Total Operating Income	127,175,041	128,813,905	134,269,272
Nonoperating Revenues (Expenses)			
Investment income	442,094	554,251	77,300
Unfunded pension expense	(660,976)	-	-
Proceeds distributions	(127,980,868)	(130,113,508)	(135,631,761)
Total Nonoperating Expenses	(128,199,750)	(129,559,257)	(135,554,461)
Change in Net Position	(1,024,709)	(745,352)	(1,285,189)
Net Position, Beginning of Year	2,917,333	3,662,685	4,947,874
Restatement - Adoption of New Accounting Standard	(22,031,023)	-	-
Net Position, End of Year	$ (20,138,399)	$ 2,917,333	$ 3,662,685

Sales Activities

Revenues from the sales of Lottery products for the Fiscal Year ended June 30, 2015 were $538.0 million, the fourth highest in the Lottery's thirty plus year history. Down from the previous fiscal year amount of $545.0 million, the $7.0 million decrease represented a 1.3 percent drop from Fiscal Year 2014 sales. Overall sales for the Fiscal Year ended June 30, 2014 were the third highest in the Lottery's history, although also down from the previous fiscal year. The drop in Fiscal Year 2014 sales represented a decrease of $21.3 million or 3.8 percent from Fiscal Year 2013 sales of $566.3 million, the highest sales figure ever recorded.

On the rebound, Fiscal Year 2015 scratch sales of $377.2 million represented a $15.1 million or 4.2 percent increase over the prior fiscal year scratch sales of $362.0 million, setting a new all-time scratch sales record. The increase can be attributed to a $29.4 million jump in the sales of the $5 and $10 priced tickets this fiscal year (including the highly popular, quick-selling $5 *Walking Dead* scratch ticket) offset by a $14.3 million drop in sales of the $1, $2, $3 and $20 priced tickets. This is the first time in eight years since the Fiscal Year 2008 introduction of the $20 priced ticket, that sales of the $20 scratch games as a percentage of total scratch sales have gone down.

Fiscal Year 2014 scratch sales of $362.0 million represented a nearly $6.6 million or a 1.3 percent decrease compared to the prior fiscal year scratch sales of $368.6 million. Fiscal Year 2014 scratch sales began strong, higher than the previous year's sales. December holiday scratch sales, however, were down $0.8 million from the previous year, possibly due to the shorter Christmas 2013 shopping season between Thanksgiving and Christmas Day. Continuing the downward trend into the third quarter of Fiscal Year 2014, scratch sales saw an unprecedented drop of 6.0 percent or $5.8 million from Fiscal Year 2013 third quarter.

The decline in jackpot game sales in Fiscal Year 2015 was primarily due to the $12.5 million or 14.8 percent decrease in Powerball sales. Combined with double digit percentage drops in Mega Millions sales (15.7 percent) and Lotto sales (11.7 percent) for a total of over $9.7 million drop for the two games when compared to the prior fiscal year, total jackpot sales in the current fiscal year were down $22.1 million from Fiscal Year 2014. As mentioned previously, the lack of sustained Powerball jackpot runs, lower sales in these products and the resulting slower jackpot growth when the runs did occur were the main reasons for the drop in sales. The average Powerball jackpot when hit was $141.8 million in Fiscal Year 2015 down from $215.8 million in Fiscal Year 2014. Although the number of draws between Mega Millions jackpot wins went from 9.3 in Fiscal Year 2014 to 16.2 in Fiscal Year 2015, the longer jackpot runs did not generate the same nationwide sales and the same jackpot growth as in prior years. For example, a 21 draw jackpot run in Fiscal Year 2014 generated a $414 million nationwide jackpot with $9.0 million in Colorado sales. Fiscal Year 2015 saw two 21 draw jackpot runs, generating jackpots of only $326 million and $265 million with an average of only $7.0 million in Colorado sales per run. With 8 hits in Fiscal Year 2015 compared to 5 hits in Fiscal Year 2014, the average Lotto jackpot also declined from $5.2 million in Fiscal Year 2014 to $2.6 million in Fiscal Year 2015. It appears that players continue to suffer from "jackpot fatigue", a term describing the phenomenon where players do not buy tickets until the game offers bigger and bigger jackpots. The other two jackpot games, Cash 5 and Pick 3, showed modest increases of less than one percent when compared to the prior year for a combined total of $141,255 gain in sales.

Total jackpot game sales in Fiscal Year 2014 of $183.0 million represented a decrease of $14.7 million or 7.4 percent from Fiscal Year 2013. Total jackpot game sales in Fiscal Year 2013 were $197.7 million. As mentioned above in the *Financial Highlights* section, the decrease in jackpot games sales in Fiscal Year 2014 was primarily due to the $32.2 million decrease in Powerball sales tied to the lack of relatively high jackpots compared to the previous year's record breaking ones. The decline in Powerball sales was partially offset by an increase of $13.6 million or 2.7% increase in Mega Millions sales. Starting in October 2013, the Mega Millions game experienced a change to its matrix in an effort to grow jackpots faster and to higher amounts. Results were mixed in Fiscal Year 2014 seeing three Mega Millions jackpots near $400 million, two prior to the change and one after. This compared to the highest jackpot of $190 million in Fiscal Year 2013. The decrease in jackpot game sales was also offset by a combined increase in in-state jackpot games (Lotto, Cash 5, and Pick 3) sales of $3.9 million.

The following tables compare Lottery product sales between fiscal years.

Product Sales	2015	2014	Difference	Change
Scratch	$ 377,164,257	$ 362,045,443	$ 15,118,814	4.2 %
Powerball	72,009,314	84,518,786	(12,509,472)	(14.8)
Lotto	29,837,628	33,809,181	(3,971,553)	(11.7)
Mega Millions	31,015,743	36,799,903	(5,784,160)	(15.7)
Cash 5	19,263,308	19,173,636	89,672	0.5
Pick 3	8,734,894	8,683,311	51,583	0.6
Total	$ 538,025,144	$ 545,030,260	$ (7,005,116)	(1.3) %

Product Sales	2014	2013	Difference	Change
Scratch	$ 362,045,443	$ 368,583,078	$ (6,537,635)	(1.8) %
Powerball	84,518,786	116,726,233	(32,207,447)	(27.6)
Lotto	33,809,181	32,561,865	1,247,316	3.8
Mega Millions	36,799,903	23,217,230	13,582,673	58.5
Cash 5	19,173,636	21,279,304	(2,105,668)	(9.9)
Raffle	-	1,969,010	(1,969,010)	(100.0)
Pick 3	8,683,311	1,949,878	6,733,433	345.3
Total	$ 545,030,260	$ 566,286,598	$ (21,256,338)	(3.8) %

Other Operating Revenues

Other operating revenues for the Fiscal Years ended June 30, 2015, June 30, 2014 and June 30, 2013 totaled $0.2 million, $0.4 million and $0.3 million, respectively. The major reason for the $0.2 million decrease from Fiscal Year 2014 to the current fiscal year was chiefly due to the drop in liquidated damages charged to Scientific Games for non-performance of the jackpot gaming systems vendor contract as the Lottery switched to a new vendor in early November 2014. The $0.1 million increase in Fiscal Year 2014 from Fiscal Year 2013 was conversely due to the increase in liquidated damages charged to Scientific Games for non-performance of the jackpot gaming systems vendor contract compared to the prior year.

Nonoperating Revenues

Nonoperating revenues for the years ended June 30, 2015 and June 30, 2014 totaled $0.4 million and nearly $0.6 million, respectively. The major reason for the decrease was due to the GASB Statement No. 31 adjustment recording the Lottery's share of the unrealized gains and losses on investments held by the Treasury which resulted in a drop in revenue of $153,964 as a result of the change from a net gain of $102,739 in Fiscal Year 2014 to a net loss of $51,225 in Fiscal Year 2015. An increase in the average cash balances held along with an increase in interest rates paid on investments in Fiscal Year 2015, however, offset the decline in revenues by an increase of $56,219 in nonoperating interest revenue.

Nonoperating revenues for the years ended June 30, 2014 and June 30, 2013 totaled $0.6 million and $80 thousand, respectively. The major reason for the increase was due to the increase to the GASB Statement No. 31 adjustment recording the Lottery's share of the unrealized gains and losses on investments held by the treasury decreasing from a net loss of $391,482 in Fiscal Year 2013 to a net $102,739 gain in Fiscal Year 2014. In addition, continued decline in interest rates, offset by an increase in the average cash balances held on which interest was paid, resulted in a $23,765 decrease in nonoperating revenues.

Total Revenues

Total revenues were $538.7 million and $546.0 million for the years ended June 30, 2015 and 2014, respectively. The major contributing factor to the decrease in total revenues of approximately $7.3 million was primarily due to the 12.1 percent decrease in total jackpot game sales offset by the 4.2 percent increase in scratch game sales for a total decrease of $7.0 million in game sales in the current fiscal year. In addition, other operating revenue decreased by $0.2 million and investment income decreased by $0.1 million as outlined above.

Total revenues were $546.0 million and $566.7 million for the years ended June 30, 2014 and 2013, respectively. The major contributing factor to the decrease in total revenues of nearly $20.7 million was the overall 3.8 percent decrease in Lottery product sales totaling $21.3 million offset by the approximately $0.5 million increase of nonoperating revenues and the $0.1 million increase of other operating revenues as outlined above.

Major Expenses

Approximately $382.1 million of the Lottery's total expenses of $411.0 million for the Fiscal Year ended June 30, 2015 were incurred in direct support of the Lottery games. These expenses include prize expense, retailer compensation, money spent to purchase scratch tickets and compensation to the vendor who maintains and supports the jackpot gaming system. Of the $382.1 million spent in Fiscal Year 2015 for the direct support of the Lottery games, $331.5 million or 86.7% was for prize expense associated with those games.

In comparison, approximately $387.5 million of the Lottery's total expenses of $416.6 million for the Fiscal Year ended June 30, 2014 were game-related expenses. Of the $387.5 million spent in Fiscal Year 2014 for direct support of the Lottery games, $336.5 million or 86.8% was spent for prize expense associated with those games.

In comparison, approximately $403.7 million of the Lottery's total expenses of $432.3 million for the Fiscal Year ended June 30, 2013 were game-related expenses. Of the $403.7 million spent in Fiscal Year 2013 for direct support of the Lottery games, $350.3 million or 86.8% was spent for prize expense associated with those games.

Total prize expense in Fiscal Year 2015 decreased $5.0 million from Fiscal Year 2014. In Fiscal Year 2015, based on the overall $7.0 million decrease in sales, a $4.3 million decrease in prize expense would have been expected. An additional $0.7 million savings, therefore, was achieved in the prize expense category. Prize expense as a percentage of sales went down from 61.7 percent in Fiscal Year 2014 to 61.6 percent in Fiscal Year 2015. The two factors that play a role in the calculation of total prize expense as a percentage of sales are prize expense by product and product mix. Product mix can be scratch versus jackpot sales, Powerball sales versus Cash 5 sales, $1 scratch sales versus $20 scratch sales, or any combination of products or price points. Looking at the scratch product as a whole, scratch prize expense as a percentage of sales went down from 68.3 percent in Fiscal Year 2014 to 66.5 percent in Fiscal Year 2015. Assuming no change to the scratch/jackpot product mix, this decrease would have saved the Lottery $6.9 million in prize expense. This decrease, however, was partially offset by the increase in overall jackpot games prize expense of 1.5% (48.7 percent to 50.2 percent) for an increase in prize expense of approximately $2.3 million, for a net savings of $4.6 million. On the other hand, the change in scratch/jackpot product mix and the scratch price product mix of the current fiscal year nearly offset this net savings amount. A 3.7 percent product shift from jackpot sales (33.6 percent of total sales to 29.9 percent) to scratch sales (66.4 percent of sales to 70.1 percent) from Fiscal Year 2014 to Fiscal Year 2015 resulted in an increase in prize expense of approximately $3.2 million due to the fact that scratch games have higher prize expense percentages than do jackpot games. In addition a 3.1 percent shift from the three lowest priced scratch tickets which carry lower prize expense percentages to the three highest priced scratch tickets resulted in a $0.5 million increase in prize expense.

Total prize expense in Fiscal Year 2014 decreased $13.7 million from Fiscal Year 2013. Generally, a decrease would be expected with an associated decrease in product sales as was seen in Fiscal Year 2014. As a percentage of sales, however, overall prize expense went down from 61.8 percent in Fiscal Year 2013 to 61.7 percent in Fiscal Year 2014. The decrease in the prize percentage is equivalent to a $0.6 million reduction in prize expense.

Scratch prize expense as a percentage of sales decreased by over 1.8 percent in Fiscal Year 2015 over the previous fiscal year. Over one half of this decrease was due to the $3.4 million increase in unclaimed prizes from Fiscal Year 2015 over Fiscal Year 2014. Starting in Fiscal Year 2012, Lottery management issued a directive to change the prize structure of some of our scratch games and introduce scratch games with lower overall prize payouts, in order to increase the distributions to our proceeds recipients. This process has been a slow one due to the amount of time it takes for the development, approval and ultimate launch of a scratch game out in the market, however, in Fiscal Year 2015 the full effect of the savings was reached with a 1.0 percent drop in prize expense over Fiscal Year 2014. This decline was offset by a the continuing shift in sales from the lower price point games (the $1, $2 and $3 games) to the higher price point games (the $5, $10 and $20 games). The higher priced tickets carry a higher prize expense percentage causing the overall scratch prize expense to increase by 0.2 percent thereby negating some of the progress made by lowering the prize payouts.

Scratch prize expense as a percentage of sales decreased by 1.0 percent in Fiscal Year 2014 from Fiscal Year 2013. The decrease in scratch prize expense seen in Fiscal Year 2014 was a direct result of the continuation of the directive mentioned above. A $0.7 million drop in unclaimed scratch tickets in Fiscal Year 2014 (the write off of which lowers prize expense), however, negated some of the decrease in the scratch prize expense as a percentage of sales.

Jackpot game prize expense as a percentage of sales increased by an overall 1.5 percent in Fiscal Year 2015 compared to Fiscal Year 2014. This resulted in a $2.3 million increase in jackpot game prize expense from what was expected with the $22.2 million decrease in jackpot sales from the prior year. The main reason for this increase was due to the nearly 5.0 percent increase in the Lotto prize expense percentage due to the increase in jackpot hits from five in Fiscal Year 2014 to eight in Fiscal Year 2015. Each Lotto hit increases the prize expense by $0.5 million which represents funding of the initial advertised jackpot amount of $1 million. A decrease in the write off of unclaimed jackpot prizes of $0.9 million also contributed to the increase in the jackpot prize expense percentage. These increases were slightly offset by a shift to Powerball and Mega Millions which carry a lower prize expense than the other three jackpot games.

Overall jackpot game prize expense as a percentage of sales increased from 47.9 percent in Fiscal Year 2013 to 48.7 percent in Fiscal Year 2014. The main reason for the increase was due to the $2.0 million decrease in the write off of unclaimed jackpot prizes in Fiscal Year 2014. Due to the lack of higher jackpots in the Powerball game in Fiscal Year 2014 and the associated increase in write offs when these occur, Powerball accounted for $1.9 million of this drop.

As a percentage of sales, the Lottery saw a slight increase in the other game-related expenses other than prize expense in Fiscal Year 2015 from Fiscal Year 2014, namely with an increase in the commissions and in vendor fees due to the change in scratch jackpot product mix and the conversion to a new jackpot gaming systems vendor in November 2014, respectively. Total other game-related expenses were over 9.4 percent of sales in Fiscal Year 2015 compared to 9.3 percent in Fiscal Year 2014. The Lottery saw a decrease in other game-related expenses in Fiscal Year 2014 from Fiscal Year 2013, especially in the retailer bonus expense category. Total other game-related expenses were 9.3 percent of sales in Fiscal Year 2014 compared to 9.4 percent in Fiscal Year 2013.

Following are tables comparing the game-related expenses between Fiscal Years 2015 and 2014:

Game-Related Expenses	2015	% of Sales	2014	% of Sales	Difference	Change in % of Sales
Prize Expense						
Scratch	$250,776,391	66.5 %	$ 247,349,989	68.3 %	$ 3,426,402	(1.8) %
Powerball	34,701,513	48.2	40,130,951	47.5	(5,429,438)	0.7
Lotto	16,356,901	54.8	16,846,382	49.8	(489,481)	5.0
Mega Millions	14,827,976	47.8	17,627,121	47.9	(2,799,145)	(0.1)
Cash 5	10,446,120	54.2	10,398,485	54.2	47,635	-
Raffle	-	N/A	(40,120)	N/A	40,120	N/A
Pick 3	4,390,086	50.3	4,198,685	48.3	191,401	2.0
Total prize expense	331,498,987	61.6	336,511,493	61.7	(5,012,506)	(0.1)
Retailer compensation						
Commissions	35,964,041	6.7	36,249,056	6.6	(285,015)	0.1
Bonuses	3,851,251	0.7	3,963,926	0.7	(112,675)	-
Ticket costs	2,480,847	0.5	2,601,233	0.5	(120,386)	-
Vendor fees	8,353,284	1.5	8,204,497	1.5	148,787	-
Total	$ 382,148,410	71.0 %	$ 387,530,205	71.1 %	$ (5,381,795)	(0.1) %

Following are tables comparing the game-related expenses between Fiscal Years 2014 and 2013:

Game-Related Expenses	2014	% of Sales	2013	% of Sales	Difference	Change in % of Sales
Prize Expense						
Scratch	$ 247,349,989	68.3 %	$ 255,573,498	69.3 %	$ (8,223,509)	(1.0) %
Powerball	40,130,951	47.5	54,336,854	46.6	(14,205,903)	0.9
Lotto	16,846,382	49.8	16,289,162	50.0	557,220	(0.2)
Mega Millions	17,627,121	47.9	10,722,656	46.2	6,904,465	1.7
Cash 5	10,398,485	54.2	11,554,225	54.3	(1,155,740)	(0.1)
Match Play	-	N/A	(128,894)	N/A	128,894	N/A
Raffle	(40,120)	N/A	1,000,000	50.8	(1,040,120)	N/A
Pick 3	4,198,685	48.3	912,954	46.8	3,285,731	1.5
Total prize expense	336,511,493	61.7	350,260,455	61.9	(13,748,962)	(0.2)
Retailer compensation						
Commissions	36,249,056	6.6	37,596,118	6.6	(1,347,062)	-
Bonuses	3,963,926	0.7	4,617,752	0.8	(653,826)	(0.1)
Ticket costs	2,601,233	0.5	2,606,116	0.5	(4,883)	-
Vendor fees	8,204,497	1.5	8,575,816	1.5	(371,319)	-
Total	$ 387,530,205	71.1 %	$ 403,656,257	71.3 %	$ (16,126,052)	(0.2) %

Non game-related expenses totaled $28.9 million in Fiscal Year 2015 compared to $29.1 million in Fiscal Year 2014, a 0.6 percent or $171,955 decrease. Of the $28.9 million expenses that were non game-related in Fiscal Year 2015, more than $13.8 million, slightly higher than the previous fiscal year's amount, was for promotions and institutional and product advertising. Approximately $9.6 million, a $378,912 or 4.1 percent increase over Fiscal Year 2014, was for compensation to the Lottery employees. The increase in employee compensation in Fiscal Year 2015 was mainly the result of a $216 thousand increase in accrued sick and annual leave, an $81 thousand benefit contribution increase effective January 1, 2015, a $54 thousand increase in base building and non-base building pay effective July 1, 2014, a $14 thousand increase in sick and annual leave payouts to employees who quit or retired in the year and a $12 thousand increase in worker's compensation premiums. $1.6 million was paid to other state agencies, chiefly for overhead allocation expenses paid to the Office of Information Technology and to the Department of Revenue. Additionally, delivery expense for scratch games made up $1.0 million of non game-related expenses with building rental expense at over $0.7 million.

Non game-related expenses totaled $29.1 million in Fiscal Year 2014 compared to $28.6 million in Fiscal Year 2013, an increase of 1.5 percent or $418,222. Of the $29.1 million expenses that were non game-related in Fiscal Year 2014, more than $13.6 million, virtually the same as the previous year, was for promotions and institutional and product advertising. Approximately $9.4 million, a $0.2 million increase over Fiscal Year 2013, was for compensation to the Lottery employees. The increase in employee compensation in Fiscal Year 2014 was mainly the result of an over $0.5 million increase in base building and non-base building pay, offset by a $0.3 million decrease in employee sales bonus pay. Over $1.7 million was paid to other state agencies, chiefly for overhead allocation expenses paid to the Office of Information Technology and to the Department of Revenue. Depreciation expense and delivery expense for scratch games both made up $1.0 million of the non game-related expenses. In addition, the equipment expense of $0.5 million primarily consisted of the purchase of 100 new retailer gaming terminals due to the aging of the current terminals out in the field.

Nonoperating Expenses

Nonoperating expenses of $660,976 for unfunded pension expense were booked for the first time in Fiscal Year 2015. The expense was tied to the adoption of GASB Statement No. 68 and GASB Statement No. 71 in the current year. Fiscal Year 2014 had no nonoperating expenses.

Distributions to the Proceeds Recipients

The Lottery's proceeds distribution for Fiscal Year 2015 totaled nearly $128.0 million, a decrease of $2.1 million or 1.6 percent from Fiscal Year 2014. The $128.0 million became the third highest distribution amount in the Lottery's history. As a percentage of total revenue, the Lottery returned nearly 23.8 percent in Fiscal Year 2015, a slight drop from the over 23.8 percent in Fiscal Year 2014. Of these total proceeds, $62.0 million was allocated to the Great Outdoors Colorado Trust Fund, nearly $51.2 million to the Conservation Trust Fund and $12.8 million to the Division of Parks and Outdoor Recreation per the distribution formula stated in Colorado Revised Statutes (C.R.S.) 24-35-210. The maximum distribution to Great Outdoors Colorado of $62.0 million, pursuant to C.R.S. 33-60-104(1)(c) and 33-60-104(2), was reached, thus creating a spill-over into the Public School Capital Construction Assistance Fund of nearly $2.0 million pursuant to C.R.S. 22-43.7-104 (2)(b)(III).

The Lottery's continued efforts in Fiscal Year 2014 to increase proceeds as a percentage of revenue generated funds available for distributions of $130.1 million, the second largest distribution amount in Lottery history despite the drop in sales, especially in jackpot game category which has the highest gross profit margin. As a percentage of total revenue, the Lottery returned over 23.8 percent in Fiscal Year 2014, a slight drop from the 23.9 percent in Fiscal Year 2013. Of these total proceeds, $60.3 million was allocated to the Great Outdoors Colorado Trust Fund, nearly $52.1 million to the Conservation Trust Fund and $13.0 million to the Division of Parks and Outdoor Recreation. The spill-over into the Public School Capital Construction Assistance Fund was over $4.7 million.

The Lottery's proceeds distributions for Fiscal Year 2013 totaled $135.6 million, the highest distribution amount of any fiscal year in the history of the Lottery. Approximately $59.2 million was distributed to Great Outdoors Colorado, over $54.2 million to the Conservation Trust Fund, $13.6 million to the Division of Parks and Outdoor Recreation and a spill-over into the Public School Capital Construction Assistance Fund of $8.6 million.

Capital Assets

The Lottery's investment in net capital assets at June 30, 2015, 2014 and 2013 amounted to $0.5 million, $1.0 million, and $1.9 million, respectively. The investment in capital assets as of June 30, 2015, 2014 and 2013 included computer equipment, servers, back office computer system, drawing equipment, modular furniture, cameras, recorders and leasehold improvements net of accumulated depreciation. Equipment asset value increased by $149,568 from Fiscal Year 2014 to Fiscal Year 2015 and decreased by $24,594 from Fiscal Year 2013 to Fiscal Year 2014. The increase in equipment from Fiscal Year 2014 to Fiscal Year 2015 was due to the purchase and capitalization of miscellaneous computer equipment for $77 thousand and video conferencing equipment for $72 thousand. The decrease in equipment from Fiscal Year 2013 to Fiscal Year 2014 was all due to the write off of obsolete computer equipment. Capital assets are shown on the Statement of Net Position at the cost on the day of acquisition. Analysis of changes in capital assets is as follows:

Capital Assets as of
June 30, 2015, 2014 and 2013

	2015	2014	2013
Capital Assets			
Equipment	$ 6,071,861	$ 5,922,293	$ 5,946,887
Leasehold Improvements	64,711	64,711	64,711
Less: Accumulated Depreciation	(5,586,882)	(5,029,437)	(4,111,276)
Net capital assets	$ 549,690	$ 957,567	$ 1,900,322

Budgetary Highlights

The Lottery's budget is determined by a variety of methods. The majority of the budget is set by the annual appropriations bill (the Long Bill), which determines budgets for every agency within the State. Many of the appropriation lines in the Long Bill are at the Department of Revenue (department) level, and the department has the discretion to allocate them among each agency within the department. The Long Bill and department level allocations are approved shortly before the start of each fiscal year. Agencies may also request a supplemental appropriation during the fiscal year to cover unexpected expenses (or a negative supplemental for less than expected expenses), as well as year-end transfers of spending authority, if needed. Department level re-allocations were approved in employee benefits, variable vehicle, legal services and vehicle lease payments. The final method of funding is special legislation. There was no special legislation affecting the Lottery's budget in Fiscal Year 2015.

The approved Lottery budget at the beginning of Fiscal Year 2015 was over $525.6 million. Department level reallocations approved throughout the fiscal year decreased the budget slightly by $89,241 to an amended total of just under $525.6 million. Total expenditures and roll-forwards for Fiscal Year 2015 on a budget basis came to $411.4 million, resulting in excess appropriations (or savings) of nearly $114.2 million.

Economic Outlook

In Fiscal Year 2016 the Lottery plans to concentrate its efforts in developing new, creative games to keep existing players playing and to attract new players to the fun, all while increasing sales in order to maximize proceeds to beneficiaries. The Lottery expects sales to increase 10% or $55.0 million from $538.0 million in Fiscal Year 2015 to $593.0 million in Fiscal Year 2016, while once again projecting to meet the GOCO proceeds cap.

With the recent decline in jackpot sales over the last couple years due to smaller jackpot amounts, a phenomenon that is out of the Lottery's control, the Lottery is making other plans in order to increase jackpot sales. With jackpot games having higher gross profits as a percentage of sales than scratch products, the Lottery feels it is important to keep our jackpot game players excited about the overall jackpot product and product mix. In October 2015 Powerball will be changing its prize matrix, increasing the *Match 4 Plus the Powerball* prize level from $10 thousand to $50 thousand and introducing a 10X multiplier ball. Overall odds of winning a prize will be decreased without a change to the price of a ticket. The Lottery plans to introduce a new multi-state jackpot game Lucky for Life in the last quarter of Fiscal Year 2016. With the game limited to states of similar size and population as Colorado and with the chance to win a "for life" prize, the Lottery is hoping to appeal to a different jackpot player. An add-on game tied to the existing Cash 5 and Lotto jackpot games with a chance to win a prize instantly rather than waiting for the draw is in the works for early Fiscal Year 2017.

In the scratch arena, the Lottery is planning to introduce new and innovative scratch tickets during Fiscal Year 2016 to keep the oldest piece of the Lottery business fresh. Players will be introduced to the first $50 price point scratch ticket in late October, 2015. With the best chance to win a prize out of any other Lottery game and the chance of winning $3 million instantly or as a second chance prize, players will be exposed to a new scratch playing and winning experience. With the possibility of selling $60 million for this $50 game, the Lottery is expecting the projected increase in sales to chiefly come from this game in Fiscal Year 2016. With the huge success of the $5 *Walking Dead* scratch ticket in Fiscal Year 2015, the Lottery is also planning to put three new licensed property games out into the market throughout the year with the first, *WORDS with friends,* on sale in August 2015. Targeted scratch advertising throughout the year from the Lottery's marketing group will help ensure a successful scratch sales year.

With these product changes to support the projected sales increases, the Lottery plans to continue to expand its retailer base and the venues from which Lottery products are sold. Future plans include expanded presence at special events such as at the Colorado State Fair with a renovated building and Lottery employee participation in the running of the event. Expansion of the presence of the Lottery in the Denver International Airport into all its concourses is a goal in Fiscal Year 2016 with greater exposure to the 54 million passengers who pass through the airport each year. Sales personnel have also been tasked to continue licensing new retailers with their eye on different outlets such as the big box stores.

Overall, the key to achieving all these goals is the continued analysis by Lottery personnel of what worked and what did not as new product strategies and initiatives are introduced.

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 2015 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 John Caligaris, the Colorado Lottery's Controller, 225 North Main Street, Pueblo, CO 81003.

COLORADO LOTTERY
Statements of Net Position
June 30, 2015 and 2014

	2015	2014
ASSETS		
Current Assets:		
Cash and Investments	$ 36,567,210	$ 37,344,039
Accounts Receivable, net of the allowance for doubtful accounts of $192,396 in 2015 and $156,458 in 2014	20,217,923	18,923,528
Consignment Inventory, at Cost	97,796	96,822
Warehouse Inventory, at Cost	1,027,328	1,158,843
Prepaid Expenses	75,733	183,664
Total Current Assets	57,985,990	57,706,896
Reserve and Restricted Assets:		
Cash and Investments-Operating Reserve	1,500,000	1,400,000
Cash and Investments-Licensed Agent Recovery Reserve Receipts	378,903	383,534
Prepaid Prize Expense with MUSL	4,581,640	4,952,818
Total Reserve and Restricted Assets	6,460,543	6,736,352
Capital Assets:		
Equipment	6,071,861	5,922,293
Leasehold Improvements	64,711	64,711
Less Accumulated Depreciation and Amortization	(5,586,882)	(5,029,437)
Total Capital Assets	549,690	957,567
TOTAL ASSETS	64,996,223	65,400,815
DEFERRED OUTFLOWS - PENSIONS	1,071,597	-
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 66,067,820	$ 65,400,815

See Notes to Financial Statements

COLORADO LOTTERY
Statements of Net Position
(Continued)
June 30, 2015 and 2014

	2015	2014
LIABILITIES		
Current Liabilities:		
Accounts Payable	$ 1,580,911	$ 2,551,217
Prize Liability	26,019,403	25,829,136
Payable to MUSL	84,015	520,686
Accrued Annual and Sick Leave	36,427	9,305
Wages and Benefits	765,035	770,834
Retailer Bonus Liability	1,340,842	1,533,522
Funds Available for Distribution	31,819,617	30,508,507
Total Current Liabilities	61,646,250	61,723,207
Long-Term Liabilities:		
Accrued Annual and Sick Leave	756,884	699,550
Expired Warrants Liability	39,488	60,725
Net Pension Liability	23,627,442	-
Total Long-Term Liabilities	24,423,814	760,275
TOTAL LIABILITIES	86,070,064	62,483,482
DEFERRED INFLOWS - PENSIONS	136,155	-
NET POSITION		
Net Investment in Capital Assets	549,690	957,567
Restricted-Licensed Agent Recovery Reserve	378,903	383,534
Restricted-Operating Reserve	1,500,000	1,400,000
Unrestricted-Unrealized Gain/Loss on Investments	125,007	176,232
Unrestricted-Unfunded Pension Liability	(22,691,999)	-
TOTAL NET POSITION	(20,138,399)	2,917,333
TOTAL LIABILITIES AND NET POSITION	$ 66,067,820	$ 65,400,815

See Notes to Financial Statements

COLORADO LOTTERY
Statements of Revenues, Expenses, and Changes in Fund Net Position
For the Years Ended June 30, 2015 and 2014

	2015	2014
OPERATING REVENUES		
Gross Ticket Sales	$ 538,025,144	$ 545,030,260
DIRECT OPERATING EXPENSES		
Prize Expense	331,498,987	336,511,493
Retailer Commissions and Bonuses	39,815,292	40,212,982
Cost of Tickets and Vendor Fees	10,834,131	10,805,730
Total Direct Operating Expenses	382,148,410	387,530,205
GROSS PROFIT ON SALE OF TICKETS	155,876,734	157,500,055
OTHER OPERATING EXPENSES		
Marketing and Communications	13,823,454	13,629,282
Administration Fees Paid to MUSL	127,709	85,228
Wages and Benefits	9,635,406	9,256,494
Professional Services	308,721	178,471
State Agencies Services	724,982	267,553
Department of Revenue Services	529,826	486,936
Travel	103,739	51,803
Equipment (including loss on disposition of equipment of $0 and $825, respectively)	104,848	521,428
Depreciation	557,445	960,109
Space Rental	775,080	754,269
Rents for Equipment	29,076	25,557
Motor Pool Leasing	311,069	368,640
Materials and Supplies	117,657	100,755
Telephone	307,533	233,137
On-Line Telecommunications	57,368	431,334
Data Processing Supplies and Services	35,657	329,666
Equipment Maintenance	208,613	272,636
Printing	18,227	21,526
Delivery Expense	961,753	961,938
Other	158,571	131,927
Total Other Operating Expenses	28,896,734	29,068,689
OTHER OPERATING REVENUE	195,041	382,539

See Notes to Financial Statements

COLORADO LOTTERY
Statements of Revenues, Expenses, and Changes in Fund Net Position
(Continued)
For the Years Ended June 30, 2015 and 2014

	2015	2014
TOTAL OPERATING INCOME	$ 127,175,041	$ 128,813,905
NONOPERATING REVENUES (EXPENSES)		
Investment Income	442,094	554,251
Unfunded Pension Expense	(660,976)	-
Funds Distributed for Current Year	(96,161,251)	(99,605,001)
Funds Available for Distribution for Current Year	(31,819,617)	(30,508,507)
Total Nonoperating Revenues (Expenses)	(128,199,750)	(129,559,257)
NET INCOME(LOSS)	$ (1,024,709)	$ (745,352)
NET POSITION, BEGINNING OF YEAR	2,917,333	3,662,685
Restatement - Adoption of New Accounting Standard	(22,031,023)	-
NET POSITION, BEGINNING OF YEAR, AS RESTATED	(19,113,690)	3,662,685
Net Change in Net Position	(1,024,709)	(745,352)
NET POSITION, END OF PERIOD	$ (20,138,399)	$ 2,917,333

See Notes to Financial Statements

COLORADO LOTTERY
Statements of Cash Flows
June 30, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Cash received from retailers	$ 536,875,049	$ 547,217,929
Cash paid in prizes	(331,401,331)	(336,622,967)
Cash paid in retailer commissions	(35,964,041)	(36,249,056)
Cash payments to suppliers	(30,212,388)	(30,518,493)
Cash payments to employees for services	(9,556,749)	(9,507,901)
Cash paid in retailer bonus	(4,044,768)	(3,138,356)
Net cash provided by operating activities	125,695,772	131,181,156
Cash Flows from Noncapital Financing Activities		
Distribution of net proceeds	(126,669,758)	(136,903,363)
Net cash used by noncapital financing activities	(126,669,758)	(136,903,363)
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	(149,568)	(18,179)
Net cash used by capital and related financing activities	(149,568)	(18,179)
Cash Flows from Investing Activities		
Interest received	493,319	451,512
Change in fair market value of investments	(51,225)	102,739
Net cash provided by investing activities	442,094	554,251
Increase (Decrease) in Cash and Investments	(681,460)	(5,186,135)
Cash and Investments, Beginning of Year (including $1,783,534 and $1,688,870, respectively, in restricted accounts)	39,127,573	44,313,708
Cash and Investments, End of Year, (including $1,878,903 and $1,783,534, respectively, in restricted accounts)	$ 38,446,113	$ 39,127,573

See Notes to Financial Statements

COLORADO LOTTERY
Statements of Cash Flows
(Continued)
June 30, 2015 and 2014

	2015	2014
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 127,175,041	$ 128,813,905
Adjustments of reconcile operating income to net cash provided by operating activities		
Depreciation	557,445	960,109
Loss (gain) on disposition of equipment	-	825
Change in:		
Accounts Receivable	(1,294,395)	1,337,085
Ticket Inventory	130,541	(84,515)
Prepaid Expenses	107,931	(132,319)
Prepaid Prize Expense with MUSL	371,178	(11,324)
Liabilities (excluding funds available for distribution)	(1,351,969)	297,390
Net cash provided by operating activities	$ 125,695,772	$ 131,181,156
Reconciliation of Cash and Investments		
Cash and investments	$ 36,567,210	$ 37,344,039
Restricted cash and investments- Licensed Agent Recovery Reserve	378,903	383,534
Restricted cash and investments- Operating Reserve	1,500,000	1,400,000
Cash and Investments, End of Period	$ 38,446,113	$ 39,127,573

See Notes to Financial Statements

COLORADO LOTTERY
Powerball Annuity Winners Trust Fund
Statements of Fiduciary Net Position
June 30, 2015 and 2014

	2015	2014
ASSETS		
Current Assets		
Investments	$ 488,000	$ 469,000
Long Term Assets		
Investments	11,354,742	11,206,761
Total Assets	$ 11,842,742	$ 11,675,761
NET POSITION		
Held in Trust for Powerball winner	$ 11,842,742	$ 11,675,761
Total Net Position	$ 11,842,742	$ 11,675,761

See Notes to Financial Statements

COLORADO LOTTERY
Powerball Annuity Winners Trust Fund
Statements of Changes in Fiduciary Net Position
For the Years Ended June 30, 2015 and 2014

	2015	2014
Additions		
Investment income (loss)	$ 635,981	$ 559,084
Deductions		
Prize payment	469,000	451,000
Change in Net Position	166,981	108,084
Net Position of Assets Held in Trust for Powerball Winner		
Beginning of Year	11,675,761	11,567,677
End of Year	$ 11,842,742	$ 11,675,761

See Notes to Financial Statements

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

Nature of Operations

The Colorado Lottery (the Lottery) began operations April 30, 1982 under the provisions of Section 24-35-202, C.R.S. The Lottery operates under a commission and provides operation and service of lottery games as authorized by the statute. The Lottery's revenues are predominantly earned from the sale of lottery products, including scratch games and jackpot games including Lotto, Powerball, Cash 5, Mega Millions and Pick 3.

The financial statements reflect activities of the Lottery, an enterprise fund of the State of Colorado and activities of the Lottery's Powerball Annuity Winners Trust Fund, a private trust fund of the State of Colorado, for the Fiscal Years ended June 30, 2015 and 2014. The Lottery is an agency of the State of Colorado. The financial statements are intended to present the financial position and results of operations and cash flows of only that portion of the State of Colorado that is attributable to the transactions of the Lottery and the Lottery's Powerball Annuity Winners Trust Fund in accordance with accounting principles generally accepted in the United States of America.

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net position during the reporting period. Actual results could differ from those estimates.

Fund Accounting

Government resources are allocated to, and accounted for, in separate sub-entities called funds, based upon the purposes for which the resources are to be spent and the means by which spending activities are controlled. A fund is a fiscal and accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, net position, revenues and expenditures.

Enterprise Fund

The Lottery accounts for its operations as an enterprise fund. The intent of the State of Colorado Legislature is that the Lottery's cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Lottery defines operating revenues as those earned as a direct result of the fund's principal ongoing operations, i.e., the sale of lottery products. Operating expenses include expenses incurred in earning those revenues such as prize payments, the cost of tickets, vendor fees, retailer commissions and bonuses, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

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

Private Trust Fund

The Lottery accounts for Powerball Annuity Prizes in a private trust fund. The prizes are considered awarded when claimed by the winner. The Lottery is placed in a fiduciary situation, while the Multi-State Lottery Association (MUSL) manages the prize funds for the winner. Governmental accounting mandates that a separate Statement of Net Position and Statement of Changes in Net Position be prepared for such fund. Those statements are included herein.

Pensions

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

Basis of Accounting

Basis of accounting refers to when revenues, expenditures or expenses are recognized in the accounts and reported in the financial statements. The Lottery accounts for funds using the accrual basis of accounting. Revenues from scratch ticket sales are recognized at the point of ticket pack activation. Revenues from Lotto, Powerball, Cash 5, Mega Millions, and Pick 3 ticket sales are recognized when the tickets are sold. Prize expense for scratch tickets is recognized at the point of ticket activation. Prize expense for Lotto, Powerball, Cash 5, Mega Millions, and Pick 3 is recognized when tickets are sold. Other operating expenses are recognized when they are incurred. Revenues (additions) are recognized in the Powerball Annuity Winners Trust Fund based on the Fair Market Value of the original investment as of June 30, 2015 and 2014. Expenses (deductions) are recognized when payments are remitted to the winner(s).

Budget

By October 24th of each year, the Department of Revenue Executive Director submits to the 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.

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

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 are invoiced weekly and are electronically transferred from the retailers' accounts into the Lottery's account one week following the invoice date.

Allowance for doubtful accounts represents a provision for receivables that will probably not be collected in the future. Consideration of the economic climate, credit-worthiness of individual account debtors, bankruptcy of debtor, discontinuance of debtor's business, and failure of repeated attempts to collect and barring of collection by statute of limitations are factors used in considering when an account becomes uncollectible. The accrual of a loss contingency is required when a loss is probable and/or can be reasonably estimated.

The Lottery uses the specific identification method to determine expected uncollectibles. Under the provisions of Section 24-35-219, C.R.S., licensed agent recovery reserve receipts are collected from the retailers to cover uncollectible accounts. The accounts receivable and the licensed agent recovery reserve are shown net of estimated uncollectible receivables of $192,396 and $156,458 as of June 30, 2015 and 2014, respectively.

Warehouse Inventory

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

Consignment Inventory

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

Supplies Inventory

The State of Colorado's threshold for recording supplies inventories is $100,000 per location. The supplies inventory of the Lottery consistently falls below the $100,000 threshold per location. Accordingly, no supplies inventory appears on the statements of net position.

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

Prepaid Prize Expense

As part of the Lottery's agreement with MUSL, for both the Powerball and Mega Millions games, a certain percentage of sales has to 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. No payments were required to be made to the Powerball reserves in Fiscal Years 2015 and 2014. Beginning in Fiscal Year 2010 when the Lottery started selling Mega Millions and up until March 28, 2014, the Lottery was required to pay, at varying rates, a percentage of both Mega Millions and Megaplier sales until the Mega Millions reserve requirement was met. No payments to MUSL were required to be made in Fiscal Year 2015 with a total of $264,492 paid in Fiscal Year 2014. Effective October 1, 2014 and April 1, 2015, MUSL rebalanced both the Powerball and Mega Millions reserves and new reserve ceilings were determined for each member state. With the addition of Maryland, Wyoming and Puerto Rico as new MUSL members in the current fiscal year, the Colorado Lottery's reserve requirements were lowered. This resulted in refunds to the Lottery of $227,430 of the Powerball reserves and $133,396 of the Mega Million reserve causing a decrease in the prepaid prize expense with MUSL. In addition, with the Lottery's approval, MUSL holds small amounts in an unreserved account to be used to pay miscellaneous, unforeseen expenses. The unreserved account included in prepaid prize expense at June 30, 2015 was $4,182, a reduction of $10,352 from June 30, 2014.

Capital Assets

Capital assets, which include internal use computer software, equipment, vehicles, and leasehold improvements, are stated at cost. The Lottery adopted the state policy of capitalizing equipment only if the cost exceeds $5,000 and has a useful life of more than one year. Depreciation for equipment 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 the estimated useful lives of five years. Leasehold improvements are depreciated over the greater of five years or the term of the lease. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and resulting gains or losses are recognized in current operations.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statements of Net Position includes a separate section for deferred outflows of resources. This separate element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense expenditure) until then. The Lottery's Deferred Outflows – Pensions represents the amount of pension contributions made to the State pension plan subsequent to the December 31, 2014 measurement date, and the deferred variance in expected to actual investment earnings.

In addition to liabilities, the Statements of Net Position includes a separate section for deferred inflows of resources. This separate element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Lottery's Deferred Outflows – Pension 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 a cost-sharing multiple-employer defined benefit pension plan in which the Lottery participates, and the deferred experience gains and losses.

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

Accrued Wages and Benefits

At the end of each fiscal year, the state shifts the pay date for the month of June for employees paid on a monthly basis, deferring the date from the last working day of June to the first working day of July. For the Lottery, along with other minor payroll accruals, this created a liability for accrued wages and benefits at June 30, 2015 and 2014 of $765,035 and $770,834, respectively.

Prize Liability and Prize Expense

Under the provisions of Section 24-35-210 (9), C.R.S., the Lottery must pay no less than fifty percent (50%) of total ticket sales as prizes. In the aggregate, the Lottery continues to meet this requirement. Additional prize expense and corresponding liability may be incurred as a result of market fluctuations in the cost of annuities used to pay Lotto jackpots (see Note 10).

All scratch, jackpot game and special drawing prizes are accounted for using the accrual basis of accounting. Scratch prize liability and expense are recognized at the point of ticket pack activation. The liability and expense for jackpot game prizes are recognized at the point of retail sale and are adjusted as the jackpot game draws occur and actual prize liability is determined. The liability for special drawing prizes is accrued on the first day of sales of the associated game. Prize liability for all games is reduced as prizes are paid to winners. The net prize liability at June 30, 2015 and 2014 was $26,019,403 and $25,829,136, 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 $8,949,258 for the Fiscal Year ended June 30, 2015 and $5,530,434 for the Fiscal Year ended June 30, 2014.

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 $2,815,686 for the Fiscal Year ended June 30, 2015 and $3,765,363 for the Fiscal Year ended June 30, 2014.

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

Retailer Bonus Liability

Under provisions 5.17, 10.13 and 14.19 of the Colorado Lottery Commission Rules and Regulations:

"Each licensee shall be 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 2015 and 2014 resulted in 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 in Fiscal Years 2015 and 2014 resulted in a reduction of bonus expense.

Licensed Agent Recovery Reserve

Under the provisions of Section 24-35-219, C.R.S., a Licensed Agent Recovery Reserve was established on January 1, 1988 to maintain surety bond receipts collected from Lottery retailers. Billing rates are established by the Executive Director of the Department of Revenue and are reviewed on an annual basis. Retailers have the option to obtain private surety bond coverage at a rate of $2,000 surety coverage per outlet at their discretion. As of June 30, 2015 and June 30, 2014, the Lottery had reserved $378,903 and $383,534, respectively. The Lottery utilizes restricted net assets before using unrestricted net assets.

Lottery Fund Net Position

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

In June 2002 the Lottery Commission approved a balance in net assets "equal to the net value of the Lottery's capital assets". As of June 30, 2015 and June 30, 2014, the Lottery had reserved $549,690 and $957,567, respectively.

In April 2005, the Lottery set up a separate operating reserve independent of the net capital asset reserve in the amount of $1.7 million. The amount held in this operating reserve is reviewed annually and adjusted accordingly. The annual reviews were completed in October 2014 and October 2013. The reserve was increased to $1.5 million in Fiscal Year 2015 from $1.4 million in Fiscal Year 2014, in accordance with the reviews.

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

Equipment Expense

Included in "The Statement of Revenues, Expenses, and Changes in Fund Net Position" is an account titled equipment. This account reports the gain or loss on disposed assets, fixed asset purchases under the capitalization threshold, software purchases under the capitalization threshold, and other miscellaneous equipment transactions that do not qualify for capitalization.

Compensated Leave

All permanent employees of the Lottery may accrue annual and sick leave based on length of service subject to certain limitations on the amount that will be paid upon termination. In addition, employees who are classified as non-exempt from overtime pay have accumulated overtime which must be taken as compensatory time or paid. The estimated cost of compensated absences for which employees are vested is as follows:

	June 30, 2014	Increases	Decreases	June 30, 2015
Annual leave	$ 595,033	$ 514,798	$ (431,861)	$ 677,970
Sick leave	113,004	37,676	(35,861)	114,819
Total annual and sick leave	708,037	552,474	(467,722)	792,789
Compensatory time	818	13,482	(13,778)	522
Total compensated leave	$ 708,855	$ 565,956	$ (481,500)	$ 793,311

	June 30, 2013	Increases	Decreases	June 30, 2014
Annual leave	$ 723,364	$ 520,051	$ (648,382)	$ 595,033
Sick leave	133,918	41,669	(62,583)	113,004
Total annual and sick leave	857,282	561,720	(710,965)	708,037
Compensatory time	1,083	3,785	(4,050)	818
Total compensated leave	$ 858,365	$ 565,505	$ (715,015)	$ 708,855

The short-term portion of the above accrued annual and sick leave at June 30, 2015 and June 30, 2014 is $36,427 and $9,305, respectively. This represents the amount to be paid out to known current employees planning to retire and cash in their leave balances within the next twelve months.

Expired Warrants Liability

Expired warrants liability represents the expiration of aged uncashed warrants and imprest checks which expired on or before June 30, 2003. In accordance with Section 15-12-914 (2), C.R.S., recipients are entitled to claim payment up to 21 years after original date of issue. Pursuant to Section 24-35-212 (2), C.R.S., the amount of these uncashed warrants shall remain in the Lottery fund. Pursuant to the Unclaimed Property Act, Section 38-13-113, C.R.S., the funds to cover the liability for any uncashed warrants, which expire after June 30, 2003 are transferred to the Unclaimed Property Fund. The Lottery must request reimbursement from the Unclaimed Property Fund for any warrants presented for payment that expired after June 30, 2003. No request for reimbursement was made for Fiscal Years ending June 30, 2015 and June 30, 2014 from the Unclaimed Property Fund.

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

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 give-aways, and buy x-get-y. Specific promotional coupons/tickets are distributed/awarded to players through special promotions and drawings and can be redeemed/claimed at any lottery office for a specified Lottery product. Specific promotional coupons/tickets with a total face value of $112 and $5,531 were redeemed in Fiscal Years ended June 30, 2015 and June 30, 2014, respectively.

Scratch and jackpot game tickets for specific games are given away as a more direct approach to introduce players to lottery games. During the Fiscal Years ended June 30, 2015 and 2014, scratch tickets with a total face value of $137,460 and $154,020, respectively, were given away. No free jackpot tickets were given away in Fiscal Year 2015 or Fiscal Year 2014.

For the “buy x-get-y” promotions, players are given the opportunity to receive a “free” jackpot ticket when a qualifying purchase is made, for instance buy five Lotto tickets receive a free Pick 3 ticket. During the Fiscal Year ended June 30, 2015, jackpot games tickets with a total face value of $14,876 were given away through this method. During the Fiscal Year ended June 30, 2014, jackpot games tickets with a total face value of $165,153 were given away.

Scratch and jackpot game tickets and coupon promotions are valued at cost. For the Fiscal Years ended June 30, 2015 and 2014, $117,713 and $186,520, respectively, were recorded as costs related to free tickets and coupons. These costs were included in Marketing and Communications expense in the statements of revenues, expenses and changes in fund net position for coupons redeemed and scratch and jackpot game tickets given away.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on net income or previously reported net position.

Implementation of GASB Statement No. 68 and GASB Statement No. 71

Effective July 1, 2014 for Fiscal Year 2015, the Lottery adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments to calculate and report the costs and obligations associated with pensions in their basic financial statements. Employers are required to recognize pension amounts for all benefits provided through the plan which include the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. The effect of the implementation of these standards on beginning net position is disclosed in Note 13 and the additional disclosures required by these standards are included in Note 7.

NOTE 2 – CASH AND INVESTMENTS

Cash
Cash includes petty cash funds, change funds, an imprest account, a depository account and cash on deposit with the State Treasurer. A detail of cash at June 30, 2015 and 2014 is as follows:

	2015	2014
Petty cash	$ 1,100	$ 1,100
Change funds	72,000	72,000
Imprest account	190,000	200,000
Depository accounts	30,000	30,000
Cash on deposit with State Treasurer	36,274,110	37,040,939
Total unrestricted cash and investments	36,567,210	37,344,039
Restricted cash and investments - Licensed Agent		
Recovery Reserve Receipts on deposit with State Treasurer	378,903	383,534
Operating Reserve on deposit with State Treasurer	1,500,000	1,400,000
Total restricted cash and investments	1,878,903	1,783,534
Total cash and investments	$ 38,446,113	$ 39,127,573

Cash on Deposit with State Treasurer

Under the provisions of Section 24-35-210 (6), C.R.S., the State Treasurer shall invest the monies of the Lottery in excess of operating and prize payment expenses and all authorized transfers. Interest or any other return on investments is paid to the Lottery Fund account on a monthly basis. Actual interest payments are determined by the State Treasurer. The actual allocated interest rate for Fiscal Years 2015 and 2014 was 1.01% and 0.96%, respectively.

In addition, 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, 2015, the Lottery had cash on deposit with the State Treasurer of $38,153,013, which represented approximately 0.5 percent of the total $7,661.8 million fair value of deposits in the State Treasurer's Pool (Pool).

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.

NOTE 2 – CASH AND INVESTMENTS(CONTINUED)

Effective July 1, 1997, with the Lottery's initial adoption of Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all of the Treasurer's investments, which include the net Licensed Agent Recovery Reserve Receipts are reported at fair value, which is determined based on quoted market prices. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the Pool. Additional information on the Treasurer's Pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Lottery's deposit policy for custodial credit risk requires compliance with the provisions of state law. State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the State of Colorado; bonds of any city, county, school district or special road district of the State of Colorado; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

The Lottery accounts are held in Public Deposit Protection Act (PDPA) qualified institutions, thus balances held in the Lottery's accounts in excess of $250,000 per institution are secured through PDPA with guaranteed securities.

Investments

A Private Purpose Trust was established in Fiscal Year 2008 to record the Lottery's investments, held by MUSL, for the benefit of Colorado's Powerball annuity prize winners (Colorado Winners Trust). An investment policy followed by MUSL governs the purchase of these investments.

The policy states that a brokerage firm wishing to submit a bid for the sale of securities to MUSL must first be qualified by 1) providing information to MUSL which substantiates compliance with minimum standards and guidelines as set forth by MUSL and 2) by entering into an agreement with MUSL. In addition, MUSL will purchase from qualifying brokers only securities which are backed by the full faith and credit of the United States Government or its agencies. The approved securities are Certificates on Government Receipts, Certificates Accrual Treasury Securities, Coupon Treasury Receipts, Easy Growth Treasury Receipts, Government & Agency Term Obligation Receipts, Government Loan Trust, Class 1-Z, Government Trust Certificates, JOB Certificates, Principal Treasury Receipts, Resolution Funding Corporation Strips, Stripped Government Receipts, Treasury Investment Growth Receipts, Treasury Bond Receipts, United States Agency for International Development bonds, United States Treasury Coupon Under Book Entry, United States Treasury Bills, United States Treasury Securities Stripped, Physical Coupon Treasury Strips, Zero Coupon Treasury Obligations, Government Loan Trusts, and AID Bonds.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Lottery will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Lottery's securities are held by the counterparty in the Lottery's name and therefore, custodial risk is minimal.

NOTE 2 – CASH AND INVESTMENTS(CONTINUED)

Interest Rate Risk – Investments

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. MUSL manages its exposure to interest rate risk by purchasing only securities which are either explicitly or implicitly guaranteed by the United States Government and by holding these investments to maturity.

The following table summarizes the investment holdings of the Powerball Annuity Winners Trust Fund for the years ended June 30, 2015 and 2014:

	2015		2014	
Investment Type	Fair Value	Weighted Average Maturity (in years)	Fair Value	Weighted Average Maturity (in years)
U. S. Treasury Investments	$ 3,877,871	17.72	$ 3,561,739	18.71
Federal Judiciary	1,900,178	6.28	1,819,709	7.26
Government Trust Certificates	224,829	1.26	221,541	2.26
U.S. Aid Bonds	2,838,791	5.20	3,216,477	5.27
Resolution Funding Corp Strips	3,001,074	10.66	2,856,295	11.55
	$ 11,842,743		$ 11,675,761	

Credit Risk – Investments

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The U.S. Aid Bonds carry a AAA rating under the Moody's rating system. The Resolution Funding Corporation Strips, Federal Judiciary and Government Trust Certificates are not rated (NR).

Concentration of Credit Risk – Investments

Investment in any one issuer (other than U.S. Treasury securities, other investments explicitly guaranteed by the U. S. government, mutual funds, and external investment pools) that represent 5% or more of the total investment as of June 30, 2015 are the Resolution Funding Corporation Strips and the Federal Judiciary Bonds, which represent 25.3% and 16.0%, respectively, of the total investments. Such securities representing 5% or more of the total investment as of June 30, 2014 were the Resolution Funding Corporation Strips and the Federal Judiciary Bonds, which represent 24.5% and 15.6%, respectively, of the total investments.

NOTE 2 – CASH AND INVESTMENTS(CONTINUED)

Statements of Cash Flows

The statements of cash flows is prepared under the direct method then adjusted for prize payments and commission and bonus payments to retailers, which are netted from cash received from retailers and applied against accounts receivable balances. For cash flow purposes, cash and investments include restricted cash and investments held by the State Treasurer in its cash and investment pool.

NOTE 3 – SCHEDULE OF CHANGES IN CAPITAL ASSETS

	June 30, 2014	Increases	Decreases	June 30, 2015
Capital assets being depreciated:				
Equipment and software	$ 5,922,293	$ 149,568	$ -	$ 6,071,861
Leasehold improvements	64,711	-	-	64,711
Total historical costs	5,987,004	149,568	-	6,136,572
Less accumulated depreciation for equipment	(4,990,611)	(544,538)	-	(5,535,149)
Less accumulated depreciation for leasehold improvements	(38,826)	(12,907)	-	(51,733)
Total accumulated depreciation	(5,029,437)	(557,445)	-	(5,586,882)
Total capital assets, being depreciated, net	$ 957,567	$ (407,877)	$ -	$ 549,690

	June 30, 2013	Increases	Decreases	June 30, 2014
Capital assets being depreciated:				
Equipment and software	$ 5,946,887	$ 18,179	$ (42,773)	$ 5,922,293
Leasehold improvements	64,711	-	-	64,711
Total historical costs	6,011,598	18,179	(42,773)	5,987,004
Less accumulated depreciation for equipment	(4,085,392)	(947,167)	41,948	(4,990,611)
Less accumulated depreciation for leasehold improvements	(25,884)	(12,942)	-	(38,826)
Total accumulated depreciation	(4,111,276)	(960,109)	41,948	(5,029,437)
Total capital assets, being depreciated, net	$ 1,900,322	$ (941,930)	$ (825)	$ 957,567

NOTE 4 – OPERATING LEASES

The Lottery occupies office and warehouse space in Pueblo, Denver, Grand Junction and Fort Collins. Rental payments are contingent upon the continuing availability of funds. Specific lease information follows:

Pueblo

Office – The Lottery entered into an agreement with Midtown RLLLP on April 19, 2005 and the lease agreement began on June 27, 2005. The original lease was superseded July 31, 2012 when a new lease agreement was executed. A lease amendment was signed on April 9, 2013 to provide the Lottery with funds to offset the costs of equipment and cabling, moving/relocation, and security equipment connected with acquiring the first and mezzanine floors of the building. The new lease expires on June 30, 2022. The lease contains an option to renew for two additional five-year terms commencing on July 1, 2022. There are no other provisions for extension or renewal.

Warehouse – The Lottery leases primary warehouse space from Santa Fe 250 LLC. The Lottery entered into a lease agreement, which began July 1, 2011 and expires June 30, 2016. A lease amendment was signed August 8, 2012 to reduce monthly rent payments on the warehouse loft space. The lease contains an option to renew for one additional five-year term commencing on July 1, 2016. The lease also contains a holdover clause where the Lottery will become a month-to-month tenant if the Lottery fails to vacate the premises upon expiration or sooner termination of this lease. The rent to be paid by the Lottery during such continued occupancy shall be the same being paid by the Lottery as of the date of expiration or sooner termination. Landlord and the Lottery each hereby agree to give the other party at least thirty days written notice prior to termination of any holdover tenancy.

Denver

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

Warehouse – On December 11, 2009, the Lottery entered into a lease agreement with Valley Business Corp., Inc. beginning on December 11, 2009 and expiring on June 30, 2015. The lease contains an option to renew the lease for two (2) consecutive additional periods of five years each. The lease also contains a holdover provision, whereby if the Lottery fails to vacate the premises upon the expiration or sooner termination of the lease, the Lottery will continue making the same monthly rent payment in effect pursuant to the lease agreement as of the date of expiration or sooner termination of the lease. Valley Business Corp. Inc. and the Lottery both agree to give each other thirty (30) days written notice prior to the termination of a holdover tenancy period. The Lottery executed Amendment #1 to the lease with Valley Business Corp. effective July 23, 2015, which extended the term of the lease from June 30, 2015 through June 30, 2020, and made certain modifications to the existing premises.

NOTE 4 – OPERATING LEASES (CONTINUED)

Fort Collins

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

Grand Junction

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

			FUTURE MINIMUM LEASE PAYMENTS					
LOCATION	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**Later Years**
Pueblo Office	$ 256,575	$ 263,854	$ 265,433	$ 273,328	$ 353,206	$ 363,685	$ 374,592	$ 782,974
Pueblo Warehouse	163,510	163,895	156,220	-	-	-	-	-
Denver	197,246	203,509	205,627	211,608	217,589	223,570	-	-
Denver Warehouse	101,496	108,424	108,248	110,943	113,718	116,577	119,522	-
Fort Collins Office	25,989	26,888	-	-	-	-	-	-
Grand Jct Office	7,661	6,465	-	-	-	-	-	-
Parking	1,790	2,045	-	-	-	-	-	-
	$ 754,267	$ 775,080	$ 735,528	$ 595,879	$ 684,513	$ 703,832	$ 494,114	$ 782,974

NOTE 5 – OTHER REVENUE

A schedule of other revenue for the Fiscal Years ended June 30, 2015 and 2014 follows:

	2015	**2014**
License fees	$ 65,898	$ 66,255
Fines and penalties	32,687	267,916
Assignment fees	300	2,700
Net licensed agent recovery reserve receipts	(4,631)	(5,336)
Other	100,787	51,004
Total	$ 195,041	$ 382,539

NOTE 6 – DISTRIBUTION OF NET PROCEEDS

In accordance with Section 33-60-104, C.R.S., distributions of net proceeds shall be made on a quarterly basis. The State Treasurer shall distribute net lottery proceeds as follows: forty percent (40%) to the Conservation Trust Fund, ten percent (10%) to the Division of Parks and 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 as adjusted annually based on the consumer price index, which was calculated to be $62.0 million for the year ended June 30, 2015. Any excess over the limit shall be transferred to the State Public School Capital Construction Assistance Fund.

Income available for distribution at June 30:

	2015	2014
Operating income	$ 127,175,041	$ 128,813,905
Plus: Investment income	442,094	554,251
Less: Unfunded pension expense	(660,976)	-
Income before distributions	126,956,159	129,368,156
Change in licensed agent recovery reserve	4,631	5,336
Change in fair market value of investments	51,225	(102,739)
Change in operating reserve	(100,000)	(100,000)
Change in investment in capital assets	407,877	942,755
Change in unfunded pension expense	660,976	-
Income available for distribution	127,980,868	130,113,508
Less distributions prior to year-end	(96,161,251)	(99,605,001)
Income available for distribution	$ 31,819,617	$ 30,508,507

NOTE 6 – DISTRIBUTION OF NET PROCEEDS (CONTINUED)

	Accrued at June 30, 2014	Proceed Distribution Expenses	Distributions Paid	Accrued at June 30, 2015
Great Outdoors Colorado	$ 10,518,911	$ 61,992,978	$ (58,599,537)	$ 13,912,352
Public School Capital Assistance Fund	4,735,342	1,997,456	(4,735,342)	1,997,456
Conservation Trust Fund	12,203,403	51,192,347	(50,667,903)	12,727,847
Division of Parks and Outdoor Recreation	3,050,851	12,798,087	(12,666,976)	3,181,962
	$ 30,508,507	$ 127,980,868	$(126,669,758)	$ 31,819,617

	Accrued at June 30, 2013	Proceed Distribution Expenses	Distributions Paid	Accrued at June 30, 2014
Great Outdoors Colorado	$ 10,005,058	$ 60,321,412	$ (59,807,559)	$ 10,518,911
Public School Capital Assistance Fund	8,644,124	4,735,342	(8,644,124)	4,735,342
Conservation Trust Fund	14,919,344	52,045,403	(54,761,344)	12,203,403
Division of Parks and Outdoor Recreation	3,729,836	13,011,351	(13,690,336)	3,050,851
	$ 37,298,362	$ 130,113,508	$(136,903,363)	$ 30,508,507

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 that can be obtained at *www.copera.org/investments/pera-financial-reports*.

Benefits Provided

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.

NOTE 7 – PENSION PLANS (CONTINUED)

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.

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

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

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

Contributions

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

NOTE 7 – PENSION PLANS (CONTINUED)

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

	Fiscal Year 2013		**Fiscal Year 2014**		**Fiscal Year 2015**	
	CY 2012	*CY2013*	*CY2013*	*CY2014*	*CY2014*	*CY 2015*
	7/1/12 - 12/31/12	1/1/13 - 6/30/13	7/1/13 - 12/31/13	1/1/14 - 6/30/14	7/1/14 - 12/31/14	1/1/15 - 6/30/15
Employer Contribution Rate	10.15%	10.15%	10.15%	10.15%	10.15%	10.15%
Amount of Employer Contribution Apportioned to the Heath Care Trust Fund as specified in C.R.S. Section 24-51-208(1)(f)	-1.02%	-1.02%	-1.02%	-1.02%	-1.02%	-1.02%
Amount Apportioned to the SDTF	9.13%	9.13%	9.13%	9.13%	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411	3.00%	3.40%	3.40%	3.80%	3.80%	4.20%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411	2.50%	3.00%	3.00%	3.50%	3.50%	4.00%
Total Employer Contribution Rate to the SDTF	14.63%	15.53%	15.53%	16.43%	16.43%	17.33%

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

Employer contributions are recognized by the SDTF in the period in which the compensation becomes payable to the member, which is when the Lottery is statutorily committed to pay the contributions to the SDTF. Employer contributions recognized by the SDTF from the Lottery were $1,150,328, $1,070,065, and $958,457 for the Fiscal Years ended June 30, 2015, 2014, and 2013, respectively and represented 100% of the total required contributions for each year.

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

At June 30, 2015, the Lottery reported a liability of $23,627,442 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013. Standard update procedures were used to roll forward the total pension liability to December 31, 2014. The Lottery proportion of the net pension liability was based on the Lottery contributions to the SDTF for the calendar year 2014 relative to the total contributions of participating employers to the SDTF.

At December 31, 2014, the Lottery proportion was 0.2514291295 percent, which was a decrease of 0.00002 from its proportion measured as of December 31, 2013.

NOTE 7 – PENSION PLANS (CONTINUED)

For the Fiscal Year ended June 30, 2015, the Lottery recognized pension expense of $1,880,856. At June 30, 2015, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ -	$ 1,751
Net difference between projected and actual earnings on pension plan investments	481,766	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	-	134,404
Contributions subsequent to the measurement date	589,831	-
Total	$ 1,071,597	$ 136,155

The amount of $589,831 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,		
2016	$	47,633
2017		57,095
2018		120,442
2019		120,422

Actuarial assumptions. The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions and other inputs:

Price inflation	2.80 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	3.90 – 9.57 percent
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50 percent *
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00 percent
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

*In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term results that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.50%.

NOTE 7 – PENSION PLANS (CONTINUED)

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years.

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2011, adopted by PERA's Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

The SDTF's long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent analysis of the long-term expected rate of return, presented to the PERA Board on November 15, 2013, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return*
U.S. Equity - Large Cap	26.76%	5.00%
U.S. Equity - Small Cap	4.40%	5.19%
Non U.S. Equity - Developed	22.06%	5.29%
Non U.S. Equity - Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Gov't/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	100.00%	

* In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term results that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.50%.

Discount rate. The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the fixed statutory rates specified in law, including current and future AED and SAED, until the Actuarial Value Funding Ratio reaches 103 percent, at which point, the AED and SAED will each drop 0.50 percent every year until they are zero. Based on those assumptions, the SDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members.

NOTE 7 – PENSION PLANS (CONTINUED)

Therefore, the long-term expected rate of return 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. There was no change in the discount rate from the prior measurement date.

Sensitivity of the Lottery proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	$30,296,095	$23,627,442	$18,018,213

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

NOTE 8 – OTHER RETIREMENT PLANS

Defined Contribution Plan (DC Plan)

Plan Description

Employees of the State of Colorado that were hired on or after January 1, 2006 and employees of certain community colleges that were hired on or after January 1, 2008 which were eligible to participate in the SDTF, a cost-sharing multiple-employer defined benefit pension plan, have the option to participate in the SDTF or the Defined Contribution Retirement Plan (PERA DC Plan). The PERA DC Plan is an Internal Revenue Code Section 401(a) governmental profit-sharing defined contribution plan. Title 24, Article 51, Part 15 of the C.R.S., as amended, assigns the authority to establish Plan provisions to the PERA Board of Trustees. The DC Plan is also included in PERA's comprehensive annual financial report as referred to above.

Funding Policy

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

NOTE 8 – OTHER RETIREMENT PLANS (CONTINUED)

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

	Fiscal Year 2013		**Fiscal Year 2014**		**Fiscal Year 2015**	
	CY 2012	*CY2013*	*CY2013*	*CY2014*	*CY2014*	*CY 2015*
	7/1/12 - 12/31/12	1/1/13 - 6/30/13	7/1/13 - 12/31/13	1/1/14 - 6/30/14	7/1/14 - 12/31/14	1/1/15 - 6/30/15
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411	3.00%	3.40%	3.40%	3.80%	3.80%	4.20%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411	2.50%	3.00%	3.00%	3.50%	3.50%	4.00%
Total Additional Employer Contribution Rate to the SDTF	5.50%	6.40%	6.40%	7.30%	7.30%	8.20%

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

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

401(k) Defined Contribution Plan

Plan Description

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

Funding Policy

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

NOTE 8 – OTHER RETIREMENT PLANS (CONTINUED)

457 Deferred Compensation Plan

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2014, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution) to a maximum of $17,500. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional $5,500 contribution in 2014, for total contributions of $23,000. Contributions and earnings are tax deferred. At December 31, 2014, the plan had 17,738 participants.

The Lottery made contributions to other retirement plans totaling $18,093 during Fiscal Year 2015.

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS AND LIFE INSURANCE

Health Care Trust Fund

Plan Description

The Lottery contributes to the Health Care Trust Fund ("HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF 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 health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy

The Lottery is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the Lottery are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the Fiscal Years ending June 30, 2015, 2014 and 2013, the Lottery contributions to the HCTF were $68,405, $68,312 and $64,806, respectively, equal to their required contributions for each year.

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 August 5, 2062 based on updated life expectancy tables.

Specified prize payments	$184,903,083
Lifetime prize payments	31,157,000
Total guaranteed prize payments	$216,060,083

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 $16,714,000 as of June 30, 2015.

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

Colorado employers are liable for occupational injuries and diseases of their employees. Benefits are prescribed by the Worker's Compensation Act of Colorado for medical expenses and loss of wages resulting from job-related injuries. The state utilizes the services of BroadspireServices, Inc. to administer its plan. The state reimburses BroadspireServices, Inc. for the current cost of claims paid and related administrative expenses.

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

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

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

NOTE 10 – CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

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

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

Gaming Operations Commitments – The Lottery entered into long-term contracts with certain significant vendors related to providing jackpot data processing services and scratch tickets in support of the Lottery's gaming operations. The jackpot data processing contract with Scientific Games International (SGI) expired on October 31, 2014; however, the Lottery entered into a new contract with SGI effective January 17, 2014 extending the contract through November 1, 2014 considered the Conversion Period (no compensation period) due to the selection of and conversion to a new jackpot data processing vendor. The Lottery entered into a new contract with IGT formally GTECH, effective November 9, 2014 through June 30, 2021. The contract contains an Option to Extend for continued performance for up to a maximum of two (2) two-year extensions. Additionally, upon written notice the Lottery may unilaterally extend the term of the contract beyond the initial term or renewal term for a period not to exceed two months. The maximum amount payable under the contract, excluding renewal terms if any, is $74,853,000. Payments for the jackpot data processing contracts were $9,182,393 for Fiscal Year ended June 30, 2015 and $9,122,111 for the Fiscal Year ended June 30, 2014.

The Lottery exercised the option to extend the contracts for three additional periods of 12 months with its three scratch ticket vendors beginning July 1, 2014 and ending on June 30, 2017. There are no other provisions for extension or renewal. The total costs of the three extended contracts are not to exceed a total of $11,100,000. Payments under the initial contracts were $2,350,306 and $2,579,503 for the Fiscal Years ended June 30, 2015 and 2014, respectively.

The Lottery was approved as a member of the MUSL on February 26, 2001 and thus entered into an agreement with MUSL on June 6, 2001 to become a member and participate in Powerball games. As a member, the Lottery agrees to abide by the terms of the Multi-State Agreement dated September 16, 1987 and to any amendments to that agreement duly made by the board. The Lottery will remain a member indefinitely. Pursuant to this agreement, the Lottery will make payments to MUSL for administrative fees, weekly prize expenses, promotional purchases, miscellaneous reimbursements and assessments and contributions to the prize reserves.

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, 2015 is $3,457,858 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, 2015 the excess funds held by MUSL over Colorado's required reserves balance of $3,200,922 is $256,935, $63,157 less than the maximum allowable excess amount of $320,092.

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. The Colorado Lottery's balance in the reserve as of June 30, 2015 is $1,119,600. For the Mega Millions reserve, MUSL also reserves the right to hold funds not to exceed 110% of the required balance. As of June 30, 2015 the excess funds held by MUSL over Colorado's required Mega Millions reserve is $101,782, the maximum allowable excess amount, over the required reserves balance of $1,017,819.

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. The Colorado Lottery's balance in the unreserved fund held by MUSL as of June 30, 2015 is $4,182.

Other Major Vendor Commitments –The Lottery entered into a long-term contract with an advertising agency to provide advertising services to promote the Lottery's products. The contract period began on July 1, 2012 and expired on June 30, 2015. On June 22, 2015 the Lottery exercised the option for an additional term beginning July 1, 2015 and ending on June 30, 2016. One option to renew the contract for one (1) additional twelve-month period remains. The total compensation for services performed under the Option Letter is $14,950,000. Payments under the original contract were $13,148,709 and $12,730,316 for the Fiscal Years ended June 30, 2015 and 2014, respectively.

Litigation – Currently, there is no reportable outstanding litigation.

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 $1,634,921 and $1,750,971 for the Fiscal Years ended June 30, 2015 and 2014, respectively.

NOTE 13 – ADOPTION OF NEW STANDARD

As of July 1, 2014, the Lottery adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires the Lottery to calculate and report the cost and obligations associated with pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date as follows:

Net position at June 30, 2014, as previously reported	$ 2,917,333
Net pension liability at June 30, 2014	(22,581,471)
Deferred outflows of resources related to contributions made during the year ended June 30, 2014	550,448
Net position at June 30, 2014, as restated	$ (19,113,690)

REQUIRED SUPPLEMENTARY INFORMATION

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

Last 10 Fiscal Years*

		2015
Lottery's proportion of the net pension liability		0.2514291295%
Lottery's proportionate share of the net pension liability	$	23,627,442
Lottery's covered-employee payroll	$	6,673,901
Lottery's proportionate share of the net pension liability as a percentage of its covered-employee payroll		354.03%
Plan fiduciary net position as a percentage of the total pension liability		59.80%

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

See Notes to Required Supplementary Information

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

Last 10 Fiscal Years*

	2015
Contractually required contribution	$ 1,150,328
Contributions in relation to the contractually required contribution	(1,150,328)
Contribution deficiency (excess)	$ -
Lottery's covered-employee payroll	$ 6,739,389
Contributions as a percentage of covered-employee payroll	17.07%

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

See Notes to Required Supplementary Information

COLORADO LOTTERY

SUPPLEMENTARY INFORMATION

COLORADO LOTTERY
Schedule of Revenue and Costs for Scratch and Jackpot Games
For the Fiscal Year Ended June 30, 2015

		Jackpot Games					FY 2015	FY 2014
	Scratch	Lotto	Powerball	Cash 5	Mega Millions	Pick 3	Total	Scratch and Jackpot Games
TICKET SALES	$ 377,164,257	$ 29,837,628	$ 72,009,314	$ 19,263,308	$ 31,015,743	$ 8,734,894	$ 538,025,144	$ 545,030,260
PRIZE EXPENSE	(250,776,391)	(16,356,901)	(34,701,513)	(10,446,120)	(14,827,976)	(4,390,086)	(331,498,987)	(336,511,493)
NET REVENUE AFTER PRIZES	126,387,866	13,480,727	37,307,801	8,817,188	16,187,767	4,344,808	206,526,157	208,518,767
COMMISSIONS, BONUSES, TICKET COSTS & VENDOR FEES (Note 1)								
Retailer Commission	(26,337,052)	(1,786,307)	(4,310,127)	(1,152,588)	(1,855,815)	(522,152)	(35,964,041)	(36,249,056)
Retailer Bonus	(3,095,355)	(148,862)	(296,137)	(144,843)	(109,882)	(56,172)	(3,851,251)	(3,963,926)
Cost of Tickets Sold	(2,480,847)	N/A	N/A	N/A	N/A	N/A	(2,480,847)	(2,601,233)
Telecomm Reimbursements	544,823	43,101	104,019	27,826	44,803	12,618	777,190	793,860
On-Line Vendor Fees	(6,397,994)	(507,401)	(1,221,383)	(327,836)	(527,194)	(148,666)	(9,130,474)	(8,998,357)
TOTAL	(37,766,425)	(2,399,469)	(5,723,628)	(1,597,441)	(2,448,088)	(714,372)	(50,649,423)	(51,018,712)
GROSS PROFIT ON SALE OF TICKETS	$ 88,621,441	$ 11,081,258	$ 31,584,173	$ 7,219,747	$ 13,739,679	$ 3,630,436	$ 155,876,734	$ 157,500,055
AVERAGE DAILY TICKET SALES	$ 1,033,327	$ 81,747	$ 197,286	$ 52,776	$ 84,975	$ 23,931	$ 1,474,041	$ 1,489,154

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

COLORADO LOTTERY
Schedule of Percent of Prize Expense to Gross Ticket Sales
For the Fiscal Year Ended June 30, 2015

		Jackpot Games					FY 15	FY 14
	Scratch	Lotto	Powerball	Cash 5	Mega Millions	Pick 3	Total	Total
Prize Expense *	$ 250,776,391	$ 16,356,901	$ 34,701,513	$ 10,446,120	$ 14,827,976	$ 4,390,086	$ 331,498,987	$ 336,511,493
(/)Ticket Sales	$ 377,164,257	$ 29,837,628	$ 72,009,314	$ 19,263,308	$ 31,015,743	$ 8,734,894	$ 538,025,144	$ 545,030,260
Prize %	66.49%	54.82%	48.19%	54.23%	47.81%	50.26%	61.61%	61.74%

COLORADO LOTTERY
Budgetary Comparison
For the Fiscal Year Ended June 30, 2015

	Fiscal Year 2015 Original Budget	Supplemental Allocations & Internal Transfers	Fiscal Year 2015 Final Budget	Fiscal Year 2015 Actual Expenditures	Under Expended	Percent Under Expended
Personal Services	$ 9,344,734	$ (9,057)	$ 9,335,677	$ 8,315,799	$ 1,019,878	10.92%
Amortization Equalization	294,742	-	294,742	276,492	18,250	6.19%
Supplemental Amort. Equal.	276,321	-	276,321	259,191	17,130	6.20%
Workmen's Compensation	89,739	-	89,739	89,739	-	0.00%
Health and Life	953,274	-	953,274	922,572	30,702	3.22%
Short Term Disability	16,213	-	16,213	15,624	589	3.63%
Operating	1,203,156	-	1,203,156	1,039,853	163,303	13.57%
Variable Vehicle	206,469	(12,900)	193,569	160,201	33,368	N/A
Leased Space	764,387	2,000	766,387	765,855	532	0.07%
Leased Space-Grand Junctior	6,465	-	6,465	6,465	-	0.00%
Risk Management	27,222	-	27,222	27,222	-	0.00%
Vehicle Lease Payments	142,681	19,000	161,681	150,788	10,893	6.74%
Travel	113,498	-	113,498	103,739	9,759	8.60%
Marketing, Communications & Sales	14,700,000	-	14,700,000	13,692,689	1,007,311	6.85%
Payments to Other Agencies	239,410	-	239,410	95,569	143,841	60.08%
Legal Services	116,426	(80,392)	36,034	36,033	1	0.00%
Indirect Costs	586,778	-	586,778	529,826	56,952	9.71%
Ticket Costs-Scratch	6,578,000	-	6,578,000	3,485,176	3,092,824	47.02%
Research	250,000	-	250,000	130,765	119,235	47.69%
Vendor Fees	12,571,504	-	12,571,504	9,182,204	3,389,300	26.96%
Prize Payments	424,104,016	-	424,104,016	331,498,987	92,605,029	21.84%
Retailer Compensation	52,241,350	-	52,241,350	39,815,292	12,426,058	23.79%
Multi-State Lottery Fund	177,433	-	177,433	127,709	49,724	28.02%
CORE Conversion	35,657	-	35,657	35,657	-	0.00%
OIT Payments	593,380	-	593,380	593,380	-	0.00%
Postage	7,892	(7,892)	-	-	-	0.00%
TOTAL	$ 525,640,747	$ (89,241)	$ 525,551,506	$ 411,356,827	$ 114,194,679	21.73%

FY15 Staffing - FTE - (Note 1) 117.0 (Appropriated) 120.0 (Actual)

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

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

Prize Expense	$ 331,498,987
Commissions and Bonuses	39,815,292
Cost of Tickets & Vendor Fees	10,834,131
Operating Expenses	28,896,734
Total Expenses per Statement of Revenues, Expenses and Changes in Net Position	411,045,144
Telecommunications offset classified as revenue	777,190
Less: Non-Appropriated Expenses	
Depreciation	(557,445)
Accrued Annual and Sick Leave	(57,630)
Book Value of Assets Written Off	-
Sub-Total	411,207,259
Plus: Capitalized Purchases	149,568
	$ 411,356,827

Note1: The Governor’s budget office has informed the departments that the appropriated FTE can be exceeded by 10% for Fiscal Year 2015.

CPAs & BUSINESS ADVISORS

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the major fund and remaining fund information of the Colorado Lottery, an enterprise fund and private purpose fund of the State of Colorado as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Colorado Lottery's basic financial statements, and have issued our report thereon dated December 4, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Colorado Lottery's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Colorado Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Eide Bailly LLP

Greenwood Village, Colorado
December 4, 2015

EideBailly®

CPAs & BUSINESS ADVISORS

December 4, 2015

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

We have audited the basic financial statements of the major fund and remaining fund information of the Colorado Lottery, an enterprise fund and private purpose fund of the State of Colorado, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 31, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Colorado Lottery are described in Note 1 to the financial statements. As described in Note 1, the Colorado Lottery changed accounting policies related to accounting for pensions to adopt the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Accordingly, the accounting change has been retrospectively applied to the financial statements beginning July 1, 2014. We noted no transactions entered into by the Colorado Lottery during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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. The most sensitive estimates affecting the Colorado Lottery's financial statements were:

> Management's estimate of the prize expense and the corresponding prize liability is calculated based on the anticipated payout approved by the Lottery Commissioners, The prize expense and corresponding liability is incurred as tickets are activated by Lottery approved retailers. We evaluated the key factors and assumptions used to develop the prize expense and corresponding liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

> The disclosure of Cash and Investments in Note 2; Distribution of Net Proceeds in Note 6; Pension Plans in Note 7; Contingencies and Commitments in Note 10; Tax, Spending, and Debt Limitations in Note 11; Related Party Transactions in Note 12, and Adoption of New Standards in Note 13.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no corrected or uncorrected misstatements during Fiscal Year 2015.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 4, 2015.

Management 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 Colorado Lottery's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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 Colorado Lottery's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, the schedule of the Colorado Lottery's proportionate share of the net pension liability; and the schedule of the Colorado Lottery's contributions for the Colorado Lottery's defined benefit pension plan, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Revenues and Costs for Scratch and Jackpot Games, the Schedule of Percent of Prize Expense to Gross Ticket Sales, and Budgetary Comparison, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Legislative Audit Committee and management of the Colorado Lottery and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Eide Bailly LLP

Greenwood Village, Colorado