



COLORADO LOTTERY
FINANCIAL AND COMPLIANCE AUDIT
June 30, 2020 and 2019

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Members of the Legislative Audit Committee:

We have completed the financial statement audit of the Colorado Lottery as of and for the years ended June 30, 2020 and 2019. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We were engaged to conduct our audit pursuant to Section 44-40-112, C.R.S., which requires the State Auditor to annually audit the Lottery 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

Denver, Colorado
November 19, 2020

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COLORADO LOTTERY
Report Summary
Years Ended June 30, 2020 and 2019

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, 2020. The audit of the Colorado Lottery (the Lottery) was performed under authority of Section 44-40-112 C.R.S., which requires the State Auditor to conduct an annual audit of the Lottery. The purpose of the audit was to express opinions on the financial statements of the Lottery for the years ended June 30, 2020 and 2019.

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

The purposes and scope of this audit were:

- To express opinions on the financial statements of the Lottery as of and for the years ended June 30, 2020 and 2019, including consideration of the related systems of internal controls as required by auditing standards generally accepted in the United States of America.
- To test the Lottery's compliance with certain rules and regulations governing the expenditure of State funds for the year ended June 30, 2020.
- To evaluate progress in implementing the prior audit recommendations, if any.

Summary of Major Audit Comments

Audit Findings and Financial Statement Audit Report Section

There were no prior year audit recommendations outstanding.

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

Audit Opinions and Reports

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

Auditor's Communication to Legislative Audit Committee and Lottery Commission

The auditor's communication to the Legislative Audit Committee and Lottery Commission describes the auditor's responsibility under auditing standards generally accepted in the United States of America and significant management judgments and estimates. This communication is located on page 75.

COLORADO LOTTERY
Background
Years Ended June 30, 2020 and 0219

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 2020, the Lottery employed 101 employees in its headquarters in Pueblo and branch offices in Denver, Fort Collins and Grand Junction.

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

Colorado Revised Statutes (C.R.S.) Section 44-40-111(9), requires that no less than 50% of the total revenue from sales of lottery tickets be for prizes. The legislation also provides guidelines for distribution of net proceeds to beneficiary agencies. Article XXVII of the Colorado Constitution states that "net lottery proceeds" (that is, proceeds after the payment of prizes and lottery expenses and a reserve for future operations) are to be distributed to the Conservation Trust Fund within the Department of Local Affairs, the Division of Parks and Wildlife within the Department of Natural Resources, and the Great Outdoors Colorado Trust Fund (GOCO). The amount distributed to GOCO is limited by a constitutional cap, which was calculated to be nearly \$70.4 million for the year ended June 30, 2020.

Prior to 2002, amounts exceeding the GOCO cap (the spillover) were distributed to the State General Fund. For Fiscal Years 2002 through 2007, the spillover funds were distributed to the State Public School Fund Contingency Reserve. For Fiscal Year 2008, the spillover funds were transferred to the Lottery Proceeds Contingency Reserve Fund. For Fiscal Years 2009 through 2020, the spillover funds were required to be transferred to the Public School Capital Construction Assistance Fund pursuant to Section 22-43.7-104, C.R.S.



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Colorado Lottery, an enterprise fund of the State of Colorado, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Colorado Lottery's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Colorado Lottery as of June 30, 2020 and 2019, 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.

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, 2020 and 2019, and the changes in its financial position, or, where applicable, its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 21, the schedule of the Colorado Lottery's proportionate share of the net pension liability, the schedule of the Colorado Lottery's contributions for the Colorado Lottery's defined benefit pension plan on pages 64 through 65, as well as the schedule of the Colorado Lottery's proportionate share of the net OPEB liability and the schedule of Colorado Lottery's contributions for the Lottery's OPEB through the Health Care Trust Fund on pages 66 through 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2020 on our consideration of the Colorado Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Colorado Lottery's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Colorado Lottery's internal control over financial reporting and compliance.

Eide Bailly LLP

Denver, Colorado
November 19, 2020

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2020 and 2019

This discussion and analysis of the Colorado Lottery's financial performance provides an overview of financial activities for the Fiscal Years ended June 30, 2020 and 2019. Please read it in conjunction with the Lottery's financial statements, which begin on page 22. These financial statements reflect only activities of the Colorado Lottery.

Games Offered by the Colorado Lottery

The Lottery offers a variety of ways to play with two different game types: scratch games and jackpot (draw) games. Scratch games consist of pre-printed tickets that may be purchased at various price points with multiple play styles at any Lottery retailer. When scratched, they provide instant knowledge if the ticket is a winner and can be cashed immediately at a retailer location if the amount of the winnings is \$599 or less or at Lottery offices if over \$599. Jackpot or draw games require a longer playing time with winners determined by the selection of a combination of numbers during each game's associated drawing. The Lottery currently offers six different jackpot games, with drawings held every day of the week. Like scratch, winning jackpot tickets may be cashed at the retailer if the amounts of the total winnings by ticket are \$599 or less. Tickets with prizes over \$599 must be redeemed at the Lottery offices. The Lottery also offers an instant add-on game to one of its jackpot games. The purchase gives players the opportunity to win a randomly assigned instant prize, providing the player the instant winning experience of scratch with the purchase of a jackpot ticket. With no draw involved and with prizes ranging from \$2 to \$500, winning tickets may be cashed instantly at the retailer.

Financial Highlights

- The Colorado Lottery's overall ticket sales for Fiscal Year 2020 reached over \$658.8 million, the second highest revenue year in the Lottery's history. This sales achievement was reached despite a substantial drop in overall jackpot sales and a drop in all sales in March and early April during the state's stay-at-home order due to the COVID-19 pandemic. In comparison to the previous sales record set in Fiscal Year 2019 of \$679.8 million, sales declined by nearly \$21.0 million or 3.1 percent. The Fiscal Year 2018 sales mark of \$612.0 million moved down to the third spot. On a positive note, scratch sales set a new record high in the current fiscal year with sales reaching \$490.7 million, or 10.7 percent higher than the previous record set in Fiscal Year 2019. Jackpot sales declined by \$68.2 million or 28.9 percent from the previous fiscal year. This decline was due to lower Mega Million and Powerball jackpot amounts that never reached the record-high amounts set in Fiscal Year 2019.
- Funds distributed or available for distribution from Fiscal Year 2020 sales were \$142.4 million, just shy of the second highest distribution mark of \$143.6 million reached in Fiscal Year 2016. The prior fiscal year's record of nearly \$166.5 million remains the highest in the Lottery's history. With a 14.4 percent decrease in distributions from Fiscal Year 2019 to Fiscal Year 2020, distributions still hit the Great Outdoors Colorado (GOCO) proceeds cap of nearly \$70.4 million and included a spill-over of funds to the Public School Capital Construction Assistance Fund of nearly \$850 thousand. This was the nineteenth year in a row the Lottery successfully reached the GOCO cap, ranging from \$46.5 million in Fiscal Year 2002 to the nearly \$70.4 million in the current fiscal year. Since Fiscal Year 2009, distributions to the Public School Capital Construction Assistance Fund have totaled over \$56.2 million, currently helping fund Building Excellent Schools Today (BEST), a capital construction grant program established in 2008 and administered by the Colorado Department of Education Division of Public School Assistance.

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2020 and 2019

- With the shift from jackpot sales to the increased scratch sales in Fiscal Year 2020, gross profit (Lottery product sales minus costs tied directly to those sales) as a percentage of sales decreased by 3.1 percent from the previous fiscal year (from 28.9 percent to nearly 25.8 percent). Costs tied directly to sales include prize expense, retailer commissions and bonuses, scratch ticket costs and vendor fees charged for the use of the jackpot gaming systems provided by the third party vendor International Game Technology (IGT). An increase of 3.1 percent in prize expense as a percentage of sales was the chief reason for the overall decrease in the gross profit percentage. Scratch sales carry a higher prize expense as a percentage of sales than do jackpot sales. Total prize expense as a percentage of sales for all Lottery products increased from 61.3 percent to 64.4 percent in Fiscal Years 2019 and 2020, respectively, due to the shift. This was combined with an increase as a percentage of sales in retailer commissions (also higher for scratch sales) and vendor fees. These increases were offset by slight decreases as a percentage of sales of retailer bonuses and of the costs for printing and license property fees of scratch tickets sold from Fiscal Year 2019 to Fiscal Year 2020.

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, 2020 and 2019. The Statements of Revenues, Expenses and Changes in Net Position report the activity of selling the Lottery products and the expenses related to such activity for the years ended June 30, 2020 and 2019. 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, 2020 and 2019.

Statements of Net Position

The Statements of Net Position present a financial snapshot of the Lottery at June 30, 2020 and 2019. It presents the fiscal resources (assets) of the Lottery, the consumption of net assets that is applicable to a future reporting period (deferred outflows), the claims against those resources (liabilities), the acquisition of net assets that is applicable to a future reporting period (deferred inflows) and the residual available for future operations (net position). Assets and liabilities are classified by liquidity as either current or noncurrent.

Deferred outflows 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.

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2020 and 2019

Condensed Statements of Net Position
June 30, 2020, 2019, and 2018

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Assets			
Current assets	\$ 78,861,753	\$ 77,974,884	\$ 68,768,925
Restricted assets	8,330,893	8,435,637	7,012,424
Capital assets	<u>363,310</u>	<u>422,552</u>	<u>284,956</u>
Total assets	<u>\$ 87,555,956</u>	<u>\$ 86,833,073</u>	<u>\$ 76,066,305</u>
Deferred Outflows			
Pensions	\$ 1,419,332	\$ 4,283,041	\$ 9,748,300
Other postemployment benefits	<u>60,798</u>	<u>78,450</u>	<u>64,281</u>
Total deferred outflows	<u>\$ 1,480,130</u>	<u>\$ 4,361,491</u>	<u>\$ 9,812,581</u>
Liabilities			
Current liabilities	\$ 82,396,939	\$ 82,858,225	\$ 73,250,713
Long-term liabilities	761,706	798,751	810,865
Net pension liability	20,589,605	25,422,465	45,852,060
Net other postemployment benefits liability	<u>829,761</u>	<u>1,075,746</u>	<u>1,066,928</u>
Total liabilities	<u>\$ 104,578,011</u>	<u>\$ 110,155,187</u>	<u>\$ 120,980,566</u>
Deferred Inflows			
Pensions	\$ 9,550,273	\$ 13,761,517	\$ 2,165,329
Other postemployment benefits	<u>238,628</u>	<u>34,881</u>	<u>17,849</u>
Total deferred inflows	<u>\$ 9,788,901</u>	<u>\$ 13,796,398</u>	<u>\$ 2,183,178</u>
Net Position			
Investment in Capital Assets	\$ 363,310	\$ 422,552	\$ 284,956
Restricted – Licensed Agent Recovery Reserve	766,783	688,356	593,286
Restricted – Operating Reserve	1,800,000	1,800,000	1,700,000
Unrestricted - Unrealized Gain/Loss on Investments	1,467,218	265,189	(573,515)
Unrestricted - Unfunded Pension Liability	(29,752,722)	(35,921,437)	(38,269,089)
Unrestricted - Unfunded Other Postemployment Benefits Asset/(Liability)	<u>24,585</u>	<u>(11,681)</u>	<u>(1,020,496)</u>
Total net position	<u>\$ (25,330,826)</u>	<u>\$ (32,757,021)</u>	<u>\$ (37,284,858)</u>

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2020 and 2019

The Lottery's total assets at June 30, 2020 were over \$87.5 million. Assets consisted primarily of cash and investments of nearly \$48.8 million, including restricted balances of nearly \$2.6 million, receivables from Lottery retailers for the sales of Lottery products of \$30.8 million, prepaid prize expense with Multi-State Lottery Association (MUSL) of nearly \$5.8 million, scratch ticket inventory of \$1.7 million and a net investment in fixed assets of nearly \$0.4 million.

Comparable figures at June 30, 2019 were \$86.8 million in total assets, principally including cash and investments of \$54.7 million, including restricted balances of \$2.5 million, receivables from retailers of \$24.0 million, prepaid prize expense with MUSL of over \$5.9 million, scratch ticket inventory of \$1.6 million and a net investment in fixed assets of \$0.4 million.

Comparable figures at June 30, 2018 were nearly \$76.1 million in total assets, principally including cash and investments of \$47.0 million, including restricted balances of \$2.3 million, receivables from retailers of \$22.1 million, prepaid prize expense with MUSL of \$4.7 million, scratch ticket inventory of nearly \$1.9 million and a net investment in fixed assets of nearly \$0.3 million.

The Lottery's total assets increased by \$0.7 million from Fiscal Year 2019 to Fiscal Year 2020. The increase in total assets was primarily made up of the increases in receivables from retailers of \$6.8 million and in scratch ticket inventory of \$0.1 million, offset by decreases in cash and investments of nearly \$6.0 million and in prepaid prize expense with MUSL of nearly \$0.2 million. The decrease in cash and investments of nearly \$6.0 million can be chiefly attributed to the \$8.5 million of net cash used by the distribution of proceeds paid in Fiscal Year 2020 over the cash provided by operating activities, offset by \$1.4 million in interest income and \$1.2 million gain in fair market value of investments. The Lottery's total assets increased by over \$10.7 million from Fiscal Year 2018 to Fiscal Year 2019. This increase was primarily made up of increases in cash and investments of nearly \$7.7 million, in receivables from retailers of nearly \$2.0 million, and in prepaid prize expense with MUSL of \$1.2 million, offset by a decrease in scratch ticket inventory of nearly \$0.3 million.

The Lottery's total liabilities at June 30, 2020 totaled nearly \$104.6 million, which consisted primarily of prize liability on all Lottery products of nearly \$39.2 million, proceeds distributions due to recipients of over \$38.6 million, net pension liability of nearly \$20.6 million recorded in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, nearly \$2.4 million due to retailers for bonuses, wages and benefits due to Lottery employees of \$0.9 million, net other postemployment benefits (OPEB) liability of \$0.8 million recorded in accordance with GASB Statement No. 75, \$0.8 million due to Lottery vendors, \$0.7 million due to Lottery employees for annual and sick leave and \$0.5 million due to MUSL.

The Lottery's total liabilities at June 30, 2019 totaled over \$110.1 million, which consisted primarily of prize liability on all Lottery products of \$36.6 million, proceeds distributions due to recipients of nearly \$36.5 million, net pension liability of over \$25.4 million, nearly \$4.0 million due to Lottery vendors, over \$3.5 million due to retailers for bonuses, over \$1.1 million due to MUSL, and net OPEB liability of nearly \$1.1 million.

The Lottery's total liabilities at June 30, 2018 totaled over \$121.0 million, which consisted primarily of net pension liability of nearly \$45.9 million, proceeds distributions due to recipients of nearly \$36.5 million, net pension liability of over \$25.4 million, nearly \$4.0 million due to Lottery Vendors, over \$3.5 million due to retailers for bonuses, over \$1.1 million due to MUSL, and net OPEB liability of nearly \$1.1 million.

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2020 and 2019

The Lottery's total liabilities of nearly \$104.6 million at June 30, 2020 decreased by over \$5.5 million from the previous fiscal year chiefly due to the decreases of over \$4.8 million in the net pension liability, of nearly \$3.2 million in vendor liability, of \$1.1 million in retailer bonus liability, and of over \$0.6 million in the amount due to MUSL, offset by the \$2.5 million increase in prize liability and the \$2.2 million increase in funds available for proceeds distribution. Remaining liability categories showed much smaller changes from June 30, 2019 to June 30, 2020.

The Lottery's total liabilities of over \$110.1 million at June 30, 2019 decreased by over \$10.8 million from the previous fiscal year chiefly due to the over \$20.4 million decrease in the net pension liability, the nearly \$0.5 million decrease in prize liability, and the \$0.2 million decrease in the amount due to MUSL, offset by the \$6.0 million increase in funds available for proceeds distribution, the \$3.3 million increase in the amount due to Lottery vendors, and the nearly \$0.9 million increase in retailer bonus liability.. Remaining liability categories showed much smaller changes from June 30, 2018 to June 30, 2019.

Components of the Lottery's net position are: 1) an amount to represent the Lottery's investment in capital assets as required by the reporting model under GASB Statement No. 34, (see "Total Capital Assets" on the Statements of Net Position); 2) a Licensed Agent Recovery Reserve (bonding reserve) funded by retailers in accordance with Section 44-40-121, C.R.S. to cover any uncollectible receivable accounts; 3) an amount representing the funds held by the Lottery in an operating reserve to ensure the operation of the Lottery for the ensuing year in accordance with Section 44-40-111 (5)(a), C.R.S. (see "Cash and Investments – Operating Reserve" on the Statements of Net Position); 4) unrestricted, unrealized gain/loss on investments, which represents an adjustment made by the Lottery to reflect its share of unrealized gains or losses on investments held by the State Treasurer, 5) unrestricted, unfunded pension liability, which represents the Lottery's share of the State's unfunded net pension liability as calculated by PERA and 6) unrestricted, unfunded OPEB liability, which represents the Lottery's share of the State's unfunded net liability for the Health Care Trust Fund as calculated by PERA.

The change in net position from June 30, 2019 to June 30, 2020 consisted of a decrease in investment in capital assets of \$59 thousand due to depreciation expense of \$106 thousand recognized in Fiscal Year 2020 partially offset by current year additions of capital assets of \$47 thousand, an increase in the Licensed Agent Recovery Reserve (also known as bonding reserve) from \$688 thousand to nearly \$767 thousand, an unrealized gain on investments of \$1.2 million from a net increase in the adjustments on State Treasury investments, a net decrease in unfunded pension liability and related deferrals of nearly \$6.2 million, and a net decrease in unfunded net OPEB liability and related deferrals of \$43 thousand, combined with no change in the operating reserve for a total net increase in net position of \$7.4 million.

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2020 and 2019

Following is a schedule of net position for Fiscal Years 2020 and 2019:

	2020	2019	Change
Investment in Capital Assets	\$ 363,310	\$ 422,552	\$ (59,242)
Restricted - Licensed Agent			
Recovery Reserve	766,783	688,356	78,427
Restricted - Operating Reserve	1,800,000	1,800,000	-
Unrestricted - Unrealized Gain or			
Loss on Investments	1,467,218	265,189	1,202,029
Unrestricted - Unfunded Pension			
Liability	(29,752,722)	(35,921,437)	6,168,715
Unrestricted - Unfunded Other			
Postemployment Benefits			
Asset/(Liability)	24,585	(11,681)	36,266
Total net position	<u>\$ (25,330,826)</u>	<u>\$ (32,757,021)</u>	<u>\$ 7,426,195</u>

The Lottery's total net position increased \$4.5 million from June 30, 2018 to June 30, 2019. This included 1) an increase in investment in capital assets of over \$137 thousand due to current year additions of capital assets of \$279 thousand offset by depreciation expense of \$142 thousand recognized in Fiscal Year 2019 2) an increase in the bonding reserve from \$593 thousand to \$688 thousand; 3) a net increase in operating reserve of \$100 thousand from \$1.7 million to \$1.8 million; 4) an unrealized gain on investments of nearly \$839 thousand resulting from a net increase in the adjustments on State Treasury investments; 5) a net decrease in unfunded net pension liability and related deferrals of over \$2.3 million; and 6) a net decrease in unfunded net OPEB liability and related deferrals of \$1.0 million.

Following is a schedule of net position for Fiscal Years 2019 and 2018:

	2019	2018	Change
Investment in Capital Assets	\$ 422,552	\$ 284,956	\$ 137,596
Restricted - Licensed Agent			
Recovery Reserve	688,356	593,286	95,070
Restricted - Operating Reserve	1,800,000	1,700,000	100,000
Unrestricted - Unrealized Gain or			
Loss on Investments	265,189	(573,515)	838,704
Unrestricted - Unfunded Pension			
Liability	(35,921,437)	(38,269,089)	2,347,652
Unrestricted - Unfunded Other			
Postemployment Benefits Liability	(11,681)	(1,020,496)	1,008,815
Total net position	<u>\$ (32,757,021)</u>	<u>\$ (37,284,858)</u>	<u>\$ 4,527,837</u>

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2020 and 2019

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total Net Position	\$ (25,330,826)	\$ (32,757,021)	\$ (37,284,858)
Add back Unrestricted - Unfunded Pension Liability	29,752,722	35,921,437	38,269,089
Add back Unrestricted - Unfunded Other Postemployment Benefits (Asset)/Liability	<u>(24,585)</u>	<u>11,681</u>	<u>1,020,496</u>
Net position excluding pension and OPEB effect	<u>\$ 4,397,311</u>	<u>\$ 3,176,097</u>	<u>\$ 2,004,727</u>

The Lottery's net position excluding the effects of GASB 68 and GASB 75 increased by \$1.2 million from June 30, 2019 to June 30, 2020 and by nearly \$1.2 million from June 30, 2018 to June 30, 2019. The increases from June 30, 2019 to June 30, 2020 and from June 30, 2018 to June 30, 2019 were mainly due to the unrealized gain on investments resulting from the net increase in the adjustment on State Treasury investments. The other three components of the Lottery's net position, as explained above, combined for a positive and relatively unchanged net position of \$2.9 million, \$2.9 million, and \$2.6 million at June 30, 2020, June 30, 2019, and June 30, 2018, respectively.

Statements of Revenues, Expenses and Changes in Net Position

The statements of revenues, expenses and changes in net position present the financial activity of the Lottery over the fiscal year. The focus is on operating revenues and expenses that have a significant effect on the distributions paid to the proceeds recipients.

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**Condensed Statements of Revenues, Expenses and
Changes in Net Position**
For the Fiscal Years Ended June 30, 2020, 2019, and 2018

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating Revenues	\$ 658,839,497	\$ 679,779,611	\$ 611,993,333
Direct Operating Expenses	<u>489,117,826</u>	<u>483,410,571</u>	<u>442,729,142</u>
Gross Profit on Sale of Tickets	<u>169,721,671</u>	<u>196,369,040</u>	<u>169,264,191</u>
Other Operating Expenses			
Marketing and communications	12,695,694	14,883,619	13,597,868
Wages and benefits	3,139,662	7,195,223	18,741,540
Other operating expenses	<u>6,801,948</u>	<u>5,980,644</u>	<u>5,750,192</u>
Total Other Operating Expenses	<u>22,637,304</u>	<u>28,059,486</u>	<u>38,089,600</u>
Other Operating Revenue	<u>158,749</u>	<u>185,141</u>	<u>163,651</u>
Total Operating Income	<u>147,243,116</u>	<u>168,494,695</u>	<u>131,338,242</u>
Nonoperating Revenues			
Investment income	2,599,311	2,318,941	382,486
Transfer in - pension direct distribution	<u>9,273</u>	<u>175,361</u>	<u>-</u>
Total Nonoperating Revenues	<u>2,608,584</u>	<u>2,494,302</u>	<u>382,486</u>
Proceeds distributions	<u>(142,425,505)</u>	<u>(166,461,160)</u>	<u>(140,736,802)</u>
Total Nonoperating Expenses	<u>(142,425,505)</u>	<u>(166,461,160)</u>	<u>(140,736,802)</u>
Net Income/(Loss)	<u>7,426,195</u>	<u>4,527,837</u>	<u>(9,016,074)</u>

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**Condensed Statements of Revenues, Expenses and
Changes in Net Position (Continued)**
For the Fiscal Years Ended June 30, 2020, 2019, and 2018

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net Position, Beginning of Year	\$ (32,757,021)	\$ (37,284,858)	\$ (28,268,784)
Net Change in Net Position	<u>7,426,195</u>	<u>4,527,837</u>	<u>(9,016,074)</u>
Net Position, End of Year	<u><u>\$ (25,330,826)</u></u>	<u><u>\$ (32,757,021)</u></u>	<u><u>\$ (37,284,858)</u></u>

Sales Activities

Although Fiscal Year 2020 revenues from the sales of Lottery products ended the year down from the previous fiscal year, sales boosts from the continued record-setting pace of scratch products and a change to Colorado Lottery's oldest in-state jackpot game—Lotto were encouraging. These positive efforts resulted in the second highest fiscal year sales outcome in the Lottery's history. Fiscal Year 2020 revenues from the sales of Lottery products ended at \$658.8 million, surpassing the previous second place sales spot of Fiscal Year 2018 by \$46.8 million. Sales revenues for the current fiscal year were down from the previous fiscal year by \$20.9 million, representing a 3.1 percent decrease in overall sales. Fiscal Year 2019 sales revenues remained the highest at \$679.8 million.

Fiscal Year 2020 scratch sales of \$490.7 million represented a \$47.3 million or 10.7 percent increase from Fiscal Year 2019 scratch sales of \$443.4 million. Over the last three fiscal years scratch sales have steadily increased by a total of \$110.4 million or 29.0 percent over those of Fiscal Year 2017. As players continued the shift to the higher priced tickets, the increase in sales in Fiscal Year 2020 can be attributed to a \$49.5 million or 20.6 percent increase in sales of \$10, \$20 and \$50 priced tickets over the previous fiscal year. This was combined with smaller overall increases in the sales of the \$1 priced tickets of nearly \$3.0 million or 15.5 percent increase and of the \$5 priced tickets of \$1.0 million or 0.9 percent increase. These gains were offset by a drop in sales of \$4.3 million or 10.9 percent of \$3 priced tickets and \$1.9 million or 7.5 percent of \$2 priced ticket from Fiscal Year 2019. With the regularly scheduled launches of new and exciting scratch games including several "family of games", the launch and virtual sell out of the second \$50 game, and the efforts of the Lottery's retailer network to provide Lottery products throughout the entire fiscal year, scratch sales remained at its high levels.

Fiscal Year 2019 scratch sales of \$443.4 million represented a \$35.9 million or 8.8 percent increase from Fiscal Year 2018 scratch sales of \$407.5 million. The increase in scratch ticket sales in Fiscal Year 2019 can be attributed to a \$28.6 million or 31.6 percent increase in sales of \$10 priced tickets, a \$9.2 million or 29.3 percent increase in sales of \$50 priced tickets, and a \$2.6 million or 11.6 percent increase in sales of \$2 priced tickets over the previous fiscal year. A strong showing in the crossword play style, from the \$500,000 Spotlight games and from the second Willy Wonka Golden Ticket explained the increase in the \$10 priced scratch category. The total of increased sales was offset by a decrease in sales of \$2.0 million or 9.6 percent in sales of \$1 priced tickets, nearly \$1.3 million or 1.3 percent in sales of \$20 priced tickets, and a combined decrease in sales of \$1.2 million or 1.4 percent in sales of \$5 and \$3 priced tickets

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Fiscal Year 2020 combined jackpot sales ended at \$168.1 million, a \$68.2 million or 3.1 percent decrease from the previous record breaking fiscal year. Powerball and Mega Millions jackpot levels were relatively low throughout the year compared to the record-breaking ones of the prior fiscal year, resulting in a combined drop in sales of \$70.0 million from Fiscal Year 2019. In addition, with a drop in Powerball and Mega Millions sales nationwide due to the new coronavirus, leaders who oversee each game made the decision in April 2020 to reduce the amount at which new jackpots start and to the amount jackpots grow based on sales rather than a set amount. Smaller jackpots equated to lesser sales which perpetuated the current trend. Drops in sales totaling \$3.5 million of the Cash 5 with Cash 5 EZ Match and Lucky For Life also added to the decline in jackpot sales in the current fiscal year. On the positive side, after 30 plus years Colorado's own Lotto game was changed and launched as the new Colorado Lotto+ Plus game in September 2019. Changes to the game included a matrix change in the possible draw numbers, better odds of winning, and a built in random prize multiplier. These changes came with an increase in the price point from \$1 to \$2 per play, in line with the national games offered by the Lottery. For an additional \$1 per play, players can also play the add-on feature of the game called Plus for a chance to win a top prize of \$250,000, while using the same numbers as the base game in an additional drawing. These changes resulted in a nearly \$4.9 million increase in Lotto fiscal year sales over those of the previous one. Sales of the Pick 3 jackpot game saw a modest \$0.5 million increase in Fiscal Year 2020 also offsetting the declines in sales mentioned above.

Combined jackpot game sales reached record setting levels in Fiscal Year 2019. Jackpot sales for the fiscal year ended at \$236.4 million, a \$31.9 million or 15.6 percent increase over the previous fiscal year record of Fiscal Year 2018. The increase in jackpot game sales could be attributed to the higher sales associated with the higher Mega Millions and Powerball jackpots seen throughout the fiscal year. These included the November 2018 Mega Millions jackpot of \$1.5 billion, the highest in the game's history. The Mega Millions game changed from a \$1 to \$2 priced game during Fiscal Year 2018, making Fiscal Year 2019 the first full year with Mega Millions jackpot sales at the higher price and the resulting higher jackpots. Fiscal Year 2019 Mega Millions sales jumped \$34.3 million or 89.4 percent over Fiscal Year 2018. Powerball game sales of \$86.1 million in Fiscal Year 2019 represented the highest of any of the jackpot games, however, was slightly down by \$2.0 million or 2.3 percent from the previous fiscal year. Combined sales of \$77.5 million from all other jackpot products (Lotto, Cash 5 with Cash 5 EZ Match, Pick 3 and Lucky For Life) were also slightly down by just \$0.4 million from sales of the same products in the previous fiscal year.

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The following tables compare Lottery product sales between fiscal years.

Product Sales	2020	2019	Difference	Change
Scratch	\$ 490,695,434	\$ 443,409,967	\$ 47,285,467	10.7 %
Powerball	51,136,995	86,147,274	\$ (35,010,279)	(40.6)
Lotto	32,889,854	28,034,842	\$ 4,855,012	17.3
Mega Millions	37,685,155	72,719,920	\$ (35,034,765)	(48.2)
Cash 5	15,582,864	16,571,656	\$ (988,792)	(6.0)
Cash 5 EZ Match	2,563,667	3,041,876	\$ (478,209)	(15.7)
Pick 3	13,403,086	12,902,998	\$ 500,088	3.9
Lucky For Life	14,882,442	16,951,078	\$ (2,068,636)	(12.2)
Total	<u>\$ 658,839,497</u>	<u>\$ 679,779,611</u>	<u>\$ (20,940,114)</u>	(3.1)

Product Sales	2019	2018	Difference	Change
Scratch	\$ 443,409,967	\$ 407,489,335	\$ 35,920,632	8.8 %
Powerball	86,147,274	88,156,321	(2,009,047)	(2.3)
Lotto	28,034,842	28,462,945	(428,103)	(1.5)
Mega Millions	72,719,920	38,401,894	34,318,026	89.4
Cash 5	16,571,656	17,666,933	(1,095,277)	(6.2)
Cash 5 EZ Match	3,041,876	3,881,956	(840,080)	(21.6)
Pick 3	12,902,998	12,247,661	655,337	5.4
Lucky For Life	16,951,078	15,686,288	1,264,790	8.1
Total	<u>\$ 679,779,611</u>	<u>\$ 611,993,333</u>	<u>\$ 67,786,278</u>	11.1

Other Operating Revenues

Other operating revenues for both the Fiscal Years ended June 30, 2020 and June 30, 2019 totaled nearly \$0.2 million with a slight decrease in the current fiscal year of \$26 thousand. Other operating revenues mainly represent the net change in the bonding reserve mentioned earlier, amounts collected from Lottery retailers for annual licensing fees, liquidated damages charged to the jackpot gaming vendor for failure to satisfy or perform the duties and obligations as outlined in their contract between them and the Lottery, and fees the Lottery is allowed to charge retailers for failure to clear their weekly sweep of amounts owed.

Nonoperating Revenues

Nonoperating revenues for the years ended June 30, 2020 and June 30, 2019 totaled \$2.6 million and nearly \$2.5 million, respectively. A nearly \$0.4 million increase in the Lottery's share of the unrealized gains on investments held by the Treasury tied to the GASB Statement No. 31 adjustment recording was offset by the \$0.2 million net decrease in nonoperating interest revenue earned on investments held by the Treasury and by the MUSL group, and the nearly \$0.1 million decrease in the transfer-in from the Treasury for the pension direct distribution made to Colorado PERA in Fiscal Year 2020. The GASB Statement No. 31 adjustment resulted in an increase in revenue of \$0.4 million due to the change from a net gain of \$0.8 million recorded in Fiscal Year 2019 to a net gain of \$1.2 million recorded in Fiscal Year 2020.

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Total Revenues

Total revenues were \$661.6 million and \$682.4 million for the years ended June 30, 2020 and June 30, 2019, respectively. The major contributing factor to the nearly \$20.9 million decrease in total revenues was primarily due to the over \$20.9 million or 3.1 percent decrease in Lottery product sales, offset by a slight increase in other operating revenue and investment income of nearly \$0.1 million in Fiscal Year 2020 over Fiscal Year 2019

Major Expenses

The Lottery incurred \$489.1 million or 95.6 percent of its total expenses of over \$511.7 million for Fiscal Year ended June 30, 2020 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 \$489.1 million spent in Fiscal Year 2020 for the direct support of the Lottery games, over \$424.6 million was for prize expense associated with those games.

In comparison, \$483.4 million or 93.9 percent of the Lottery's total expenses of nearly \$511.5 million for the Fiscal Year ended June 30, 2019 were game-related expenses. Of the over \$483.4 million spent in Fiscal Year 2019 for direct support of the Lottery games, \$416.9 million was spent for prize expense associated with those games.

Total prize expense in Fiscal Year 2020 increased \$7.6 million from Fiscal Year 2019 despite the overall decrease in sales experienced in Fiscal Year 2020. This increase is reflected in the increase in the prize expense as a percentage of sales from 61.3 percent in the prior fiscal year to 64.4 percent in the current fiscal year for all products, with several factors contributing to the increase. On the scratch side, the prize expense as a percentage of scratch sales increased from 67.5 percent to 69.3 percent for Fiscal Year 2019 and Fiscal Year 2020, respectively. This 1.8 percent increase as a percentage of sales translates to an \$8.8 million increase in prize expense and was primarily tied to the \$5.5 million increase in the initial bookings of second chance prizes of new scratch games launched during Fiscal Year 2020 compared to Fiscal Year 2019. This was combined with a decrease in the write off of unclaimed prizes of \$1.2 million (which reduces prize expense), and the shift to the higher priced scratch games, as mentioned earlier, which carry a higher prize expense as a percentage of sales. Jackpot prize expense as a percentage of jackpot sales increased slightly from 49.8 percent in Fiscal Year 2019 to 50.3 percent in Fiscal Year 2020 due to an increase in the sales of the new Lotto+ Plus game designed with a higher prize expense percentage than the old Lotto game. Finally, a clear change in the sales product mix in the current year contributed to the increase in the prize expense as a percentage of sales with an over 9.3 percent shift from jackpot sales (from 34.8 percent of total sales to 25.5 percent) to scratch sales (from 65.2 percent of total sales to 74.5 percent) which possess a much higher prize expense percentage.

Total prize expense in Fiscal Year 2019 increased nearly \$33.5 million from Fiscal Year 2018 primarily due to the overall increase in sales experienced in Fiscal Year 2019; however, the prize expense as a percentage of sales decreased from 62.7 percent to 61.3 percent for Fiscal Year 2018 and Fiscal Year 2019, respectively. The decrease of prize expense as a percentage of sales was primarily due to an increase in unclaimed prizes from \$10.1 million or nearly 1.7 percent of sales in Fiscal Year 2018 to nearly \$13.8 million or 2.0 percent of sales in Fiscal Year 2019. The remaining drop in prize expense as a percentage of sales in Fiscal Year 2019 can be attributed to several factors including the nearly 1.4 percent product shift from scratch sales (from 66.6 percent of total sales to 65.2 percent) to jackpot sales (from 33.4 percent of total sales to 34.8 percent) and the initial booking of the \$3 million second chance prize for the \$50 scratch game at the start of the game in Fiscal Year 2018 with the majority of sales occurring in Fiscal Year 2019.

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As a percentage of sales, the overall other game-related expenses other than prize expense remained nearly the same both at 9.8 percent for Fiscal Year 2019 and Fiscal Year 2020. Increases in retailer commissions and vendor fees were nearly offset by decreases in retailer bonuses and cost of tickets percentages.

Following are tables comparing the game-related expenses between Fiscal Years 2020 and 2019:

Game-Related Expenses	2020	% of Sales		2019	% of Sales	Difference	Change in % of Sales
Prize Expense							
Scratch	\$ 339,951,107	69.3 %	\$	299,240,160	65.2 %	\$ 40,710,947	4.1 %
Powerball	23,655,012	46.3		40,950,837	47.5	(17,295,825)	(1.2)
Lotto	19,004,192	57.8		14,529,352	51.8	4,474,840	6.0
Mega Millions	18,461,704	49.0		34,900,730	48.0	(16,439,026)	1.0
Cash 5	7,831,685	50.3		9,159,621	55.3	(1,327,936)	(5.0)
Cash 5 EZ Match	1,482,040	57.8		1,777,359	58.4	(295,319)	(0.6)
Pick 3	6,420,003	47.9		6,209,327	48.1	210,676	(0.2)
Lucky For Life	7,753,906	52.1		10,171,758	60.0	(2,417,852)	(7.9)
Total prize expense	424,559,649	64.4		416,939,144	61.3	7,620,505	3.1
Retailer compensation							
Commissions	44,361,989	6.7		45,128,159	6.6	(766,170)	0.1
Bonuses	5,606,981	0.9		6,446,362	1.0	(839,381)	(0.1)
Ticket costs	2,735,841	0.4		2,898,566	0.4	(162,725)	-
Vendor fees	11,853,366	1.8		11,998,340	1.8	(144,974)	-
Total direct op. exp.	\$ 489,117,826	74.2 %	\$	483,410,571	71.1 %	\$ 5,707,255	3.1 %

Following are tables comparing the game-related expenses between Fiscal Years 2019 and 2018:

Game-Related Expenses	2019	% of Sales		2018	% of Sales	Difference	Change in % of Sales
Prize Expense							
Scratch	\$ 299,240,160	65.2 %	\$	280,699,778	68.9 %	\$ 18,540,382	(3.7) %
Powerball	40,950,837	47.5		41,966,627	47.6	(1,015,790)	(0.1)
Lotto	14,529,352	51.8		15,298,252	53.7	(768,900)	(1.9)
Mega Millions	34,900,730	48.0		18,667,694	48.6	16,233,036	(0.6)
Cash 5	9,159,621	55.3		9,550,117	54.1	(390,496)	1.2
Cash 5 EZ Match	1,777,359	58.4		2,293,935	59.1	(516,576)	(0.7)
Pick 3	6,209,327	48.1		5,923,621	48.4	285,706	(0.3)
Lucky For Life	10,171,758	60.0		9,087,701	57.9	1,084,057	2.1
Total prize expense	416,939,144	61.3		383,487,725	62.7	33,451,419	(1.4)
Retailer compensation							
Commissions	45,128,159	6.6		40,701,692	6.7	4,426,467	(0.1)
Bonuses	6,446,362	1.0		5,424,871	0.9	1,021,491	0.1
Ticket costs	2,898,566	0.4		2,624,629	0.4	273,937	-
Vendor fees	11,998,340	1.8		10,490,225	1.7	1,508,115	0.1
Total direct op. exp.	\$ 483,410,571	71.1 %	\$	442,729,142	72.4 %	\$ 40,681,429	(1.3) %

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Non game-related expenses totaled \$22.6 million in Fiscal Year 2020 compared to nearly \$28.1 million in Fiscal Year 2019, an over \$5.4 million or 19.3 percent decrease. Non game-related expenses chiefly consist of expenses for marketing and communication, wages and benefits, payments made to state agencies including costs allocations paid to the Department of Revenue, and delivery expense of Lottery scratch tickets. Fiscal Year 2020 marketing and communication expenses were \$12.7 million compared to \$14.9 million in Fiscal Year 2019. Decreases in specific product advertising, sponsorships, and research costs were offset by increases in corporate/proceeds advertising, point of sale material and promotional costs. Fiscal Year 2020 net wages and benefits expense of \$3.1 million included a \$6.2 million reduction adjustment of GASB pension and OPEB expenses. The GASB adjustment is the income statement effect related to GASB 68 and 75 that are recorded against wages and benefits. Fiscal Year 2019 net wages and benefits expense of \$7.2 million included a \$3.2 million reduction adjustment of pension and OPEB expenses. Additionally, payments made to state agencies including indirect cost allocations paid to the Office of Information Technology (OIT) and Department of Revenue and audit costs paid to the Office of the State Auditor totaled \$2.9 million in Fiscal Year 2020 compared to \$1.7 million in Fiscal Year 2019. The \$1.2 million increase in payments made to other state agencies was mainly due to the transfer of thirteen Lottery employees to OIT at the beginning of Fiscal Year 2020, with a shift of the expenses associated with these former employees from wages and benefits expense to state agency payments as these employees were still assigned to the Lottery by OIT.

Non game-related expenses totaled nearly \$28.1 million in Fiscal Year 2019 compared to \$38.1 million in Fiscal Year 2018, a \$10.0 million or 2.6 percent decrease. Of the nearly \$28.1 million non game-related expenses in Fiscal Year 2019, \$14.9 million was for marketing agency fees, promotions, and institutional and product advertising compared to \$13.6 million in Fiscal Year 2018. Other significant non game-related expenses in Fiscal Year 2019 included wages and benefits expense of \$7.2 million., \$1.7 million for payments made to other state agencies, and \$1.0 million for delivery of scratch games. Increases in non game-related expenses for marketing-related costs of \$1.3 million, wages and benefits of \$0.3 million and professional services costs of \$0.3 million, were offset by the decrease in the pension and OPEB expense adjustment of \$12.0 million and much smaller decreases in equipment, annual and sick leave, depreciation, and telephone costs of \$0.2 million.

Distributions to the Proceeds Recipients

The Lottery's proceeds distribution for Fiscal Year 2020 totaled \$142.4 million. This represented a decrease of \$24.0 million or 14.4 percent from the record-breaking Fiscal Year 2019 proceeds amount of nearly \$166.5 million. The current year's proceeds amount, however, was the third highest in Lottery history. As a percentage of total revenue, the Lottery returned 21.6 percent in Fiscal Year 2020, a decrease of 2.9 percent from the 24.4 percent in Fiscal Year 2019. Of these total proceeds, nearly \$70.4 million, the cap amount, was allocated to the Great Outdoors Colorado Trust Fund, \$57.0 million to the Conservation Trust Fund and over \$14.2 million to the Division of Parks and Outdoor Recreation per the distribution formula stated in Colorado Revised Statutes (C.R.S.) 44-40-111. Due to the fact that the maximum distribution to Great Outdoors Colorado of nearly \$70.4 million, pursuant to C.R.S. 33-60-104(1)(c) and 33-60-104(2), was reached, \$848 thousand spilled over into the Public School Capital Construction Assistance Fund pursuant to C.R.S. 22-43.7-104 (2)(b)(III).

Capital Assets

The Lottery's investment in net capital assets at June 30, 2020, 2019, and 2018 amounted to nearly \$0.4 million, \$0.4 million, and \$0.3 million, respectively. The investment in capital assets as of June 30, 2020, 2019, and 2018 included computer equipment, servers, back office computer system, drawing equipment, modular furniture, cameras, recorders and leasehold improvements net of accumulated depreciation. The asset values of equipment for Fiscal Years 2020 and 2019 remained nearly the same with a slight decrease of \$15,203 in the current fiscal year.

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In Fiscal Year 2020 the capitalization of additional security camera equipment of \$47 thousand was offset by the surplus and/or disposal and write off of \$62 thousand of fully depreciated equipment, including servers and warehouse equipment, no longer used by the Lottery. The over \$279 thousand net increase in equipment from Fiscal Year 2018 to Fiscal Year 2019 was due to the over \$250 thousand purchase and capitalization of a new security camera system and the \$29 thousand for Cisco software. 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 (Note 3):

Capital Assets as of
June 30, 2020, 2019, and 2018

	2020	2019	2018
Capital Assets			
Equipment	\$ 6,262,894	\$ 6,278,097	\$ 5,998,573
Leasehold Improvements	64,711	64,711	64,711
Less: Accumulated Depreciation	(5,964,295)	(5,920,256)	(5,778,328)
Net capital assets	\$ 363,310	\$ 422,552	\$ 284,956

Budgetary Highlights

The Lottery's budget is determined by a variety of methods. The majority of the budget is set by the annual appropriations bill (the Long Bill), which determines budgets for every agency within the State. Many of the appropriation lines in the Long Bill are at the Department of Revenue (department) level, and the department has the discretion to allocate them among each agency within the department. The Long Bill and department level allocations are approved shortly before the start of each fiscal year. Agencies may also request a supplemental appropriation during the fiscal year to cover unexpected expenses (or a negative supplemental for less than expected expenses), as well as year-end transfers of spending authority, if needed. Department level re-allocations were approved in variable vehicle and leased space. The final method of funding is special legislation. There was no special legislation affecting the Lottery's budget in Fiscal Year 2020.

The approved Lottery budget at the beginning of Fiscal Year 2019 was nearly \$566.3 million. Department level reallocations approved throughout the fiscal year increased the overall budget slightly by nearly \$22 thousand. Total expenditures and roll-forwards for Fiscal Year 2020 on a budget basis came to nearly \$518.7 million, resulting in under expended appropriations of nearly \$47.6 million.

Economic Outlook

During fiscal year 2020, not only did most Lottery employees shift to working from home due to the COVID-19 pandemic, they continued work on the huge project of converting the back office computer system. In early June 2020, the project to replace the out-of-date system with an industry state-of-the-art system was successful, on time, and a major accomplishment for the Lottery. IGT, the Lottery's jackpot gaming system vendor, now operates and supports the new system which also includes new predictive ordering capabilities. With a strong platform to move forward, the Lottery can now look to the future with eager confidence. Although the recovery of the nation's economy, along with Colorado's, will undoubtedly be slow and lengthy, the Colorado Lottery remains cautiously optimistic to meet its goals of revenue, responsibility and conservation.

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The Lottery is aiming to reach fiscal year sales of \$1.0 billion by the end of Fiscal Year 2023. The first step is a Fiscal Year 2021 aggressive, but obtainable, sales goal of \$736.1 million, representing an over 10% sales growth from Fiscal Year 2020. The Lottery knows that to continue to grow sales and return maximum proceeds to its great beneficiaries, innovation must continue to be a top priority. The scratch game product will continue to be refined with changes that more closely align with industry best practices. Currently the Lottery offers 28 games at one time, up from the previous 24 games, with the goal by the end of the year to have 40 to 45 games available for ordering by retailers. Scheduled game launches are now standard and typically scheduled every six weeks. The Lottery has seen retailers prefer to receive new game shipments on a regular schedule and core players like knowing when new games are going to be available for purchase.

The Lottery will host a dynamic game development process called a Hack-a-Thon in late July through early August 2020. Over a week's period, game developers from around the world will be invited to the virtual event to develop, present and compete for prize money to develop potential monitor games that may be fully developed and offered at a future date. The staff of the Lottery is committed to look at new opportunities with retailers and in game development, operations, marketing and promotions and technology to continue to build on a solid foundation for ongoing success. To do this, it needs to continue to grow best practices in the scratch arena, introducing a whole new family of games to be sold via monitors in bars, restaurants, and social establishments.

Along with the recent changes to the Colorado Lotto game, the Lottery continues to look to add new Colorado-only jackpot games such as a Pick 4 game. Changes and additions such as these will provide a stabilizing factor to future jackpot sales. Although the Colorado Lottery has a goal of decreasing its dependence on the Powerball and Mega Millions games, maintaining and growing the sales of these multi-state games remains a high priority. Initial analysis of the Lottery's efforts to advertise larger jackpots for both of these games when jackpots reach an advertised value of \$350 million has had a positive impact on sales.

Next, the Lottery is striving to achieve Level 4 Responsible Gaming Certification from the World Lottery Association (WLA) by Fiscal Year 2022. According to the WLA website, "As WLA members, our duties are not only to grow sales and returns to good causes but to facilitate responsible play." The Lottery was successful in their application for Level 2 Certification and is ready to submit the Level 3 application. Responsible Gaming is a lifestyle choice, not a fad diet.

Finally, the Lottery is committed to becoming a conservation organization. Helping to keep the parks, open space, and recreation facilities that the Lottery helps fund in pristine condition is an ongoing goal of the Lottery. Sponsorship of and participation in local cleanups is not meant to be a "solution", as much as a reminder that we are all stewards of Colorado and the Lottery should behave as such every day.

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 2020 and to demonstrate the Lottery's accountability for the money generated from the sale of the Lottery products. If you have questions about this report or need additional information, contact Nancy Bartosz, the Colorado Lottery's Controller, 225 North Main Street, Pueblo, CO 81003.

COLORADO LOTTERY
Statements of Net Position
June 30, 2020 and 2019

	2020	2019
ASSETS		
Current Assets:		
Cash and Investments	\$ 46,197,570	\$ 52,227,733
Accounts Receivable, net of the allowance for doubtful accounts of \$125,546 in 2020 and \$116,665 in 2019	30,837,904	24,015,933
Consignment Inventory, at Cost	119,928	99,627
Warehouse Inventory, at Cost	1,611,864	1,509,864
Prepaid Expenses	94,487	121,727
Total Current Assets	78,861,753	77,974,884
Reserved and Restricted Assets:		
Cash and Investments-Operating Reserve	1,800,000	1,800,000
Cash and Investments-Licensed Agent Recovery Reserve Receipts	766,783	688,356
Prepaid Prize Expense with MUSL	5,764,110	5,947,281
Total Reserved and Restricted Assets	8,330,893	8,435,637
Capital Assets:		
Equipment	6,262,894	6,278,097
Leasehold Improvements	64,711	64,711
Less Accumulated Depreciation and Amortization	(5,964,295)	(5,920,256)
Total Capital Assets	363,310	422,552
TOTAL ASSETS	87,555,956	86,833,073
DEFERRED OUTFLOWS		
Pensions	1,419,332	4,283,041
Other Postemployment Benefits	60,798	78,450
TOTAL DEFERRED OUTFLOWS	1,480,130	4,361,491
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 89,036,086	\$ 91,194,564

COLORADO LOTTERY
Statements of Net Position
June 30, 2020 and 2019

	2020	2019
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 812,695	\$ 3,987,046
Prize Liability	39,165,132	36,623,032
Payable to MUSL	496,874	1,149,410
Accrued Annual and Sick Leave	17,759	43,897
Wages and Benefits	873,376	1,076,709
Retailer Bonus Liability	2,382,305	3,519,872
Funds Available for Distribution	38,648,798	36,458,259
Total Current Liabilities	82,396,939	82,858,225
Long-Term Liabilities:		
Accrued Annual and Sick Leave	742,874	776,135
Expired Warrants Liability	18,832	22,616
Net Pension Liability	20,589,605	25,422,465
Other Postemployment Benefits Liability	829,761	1,075,746
Total Long-Term Liabilities	22,181,072	27,296,962
TOTAL LIABILITIES	104,578,011	110,155,187
DEFERRED INFLOWS		
Pensions	9,550,273	13,761,517
Other Postemployment Benefits	238,628	34,881
TOTAL DEFERRED INFLOWS	9,788,901	13,796,398
NET POSITION		
Investment in Capital Assets	363,310	422,552
Restricted-Licensed Agent Recovery Reserve	766,783	688,356
Restricted-Operating Reserve	1,800,000	1,800,000
Unrestricted (deficit)	(28,260,919)	(35,667,929)
TOTAL NET POSITION	(25,330,826)	(32,757,021)
TOTAL LIABILITIES AND NET POSITION	\$ 89,036,086	\$ 91,194,564

COLORADO LOTTERY
Statements of Revenues, Expenses, and Changes in Fund Net Position
For the Years Ended June 30, 2020 and 2019

	2020	2019
OPERATING REVENUES		
Gross Ticket Sales	\$ 658,839,497	\$ 679,779,611
DIRECT OPERATING EXPENSES		
Prize Expense	424,559,649	416,939,144
Retailer Commissions and Bonuses	49,968,970	51,574,521
Cost of Tickets and Vendor Fees	14,589,207	14,896,906
Total Direct Operating Expenses	489,117,826	483,410,571
GROSS PROFIT ON SALE OF TICKETS	169,721,671	196,369,040
OTHER OPERATING EXPENSES		
Marketing and Communications	12,695,694	14,883,619
Administration Fees Paid to MUSL	157,515	158,031
Wages and Benefits	3,139,662	7,195,223
Professional Services	296,099	619,373
State Agencies Services	2,254,800	1,015,058
Department of Revenue Services	655,953	698,576
Travel	65,096	109,018
Equipment	62,407	76,654
Depreciation	106,157	141,928
Space Rental	939,701	919,465
Rents for Equipment	30,055	33,169
Motor Pool Leasing	236,396	300,504
Materials and Supplies	107,788	195,458
Telephone	191,668	148,290
Equipment Maintenance	421,379	340,011
Printing	34,418	19,644
Delivery Expense	1,033,301	1,026,532
Other	209,215	178,933
Total Other Operating Expenses	22,637,304	28,059,486
OTHER OPERATING REVENUE	158,749	185,141

COLORADO LOTTERY
Statements of Revenues, Expenses, and Changes in Fund Net Position
(Continued)
For the Years Ended June 30, 2020 and 2019

	2020	2019
TOTAL OPERATING INCOME	\$ 147,243,116	\$ 168,494,695
NONOPERATING REVENUES (EXPENSES)		
Investment Income	2,599,311	2,318,941
Transfer-In Pension Direct Distribution	9,273	175,361
Funds Distributed for Current Year	(103,776,707)	(130,002,901)
Funds Available for Distribution for Current Year	(38,648,798)	(36,458,259)
Total Nonoperating Expenses	(139,816,921)	(163,966,858)
NET INCOME	7,426,195	4,527,837
NET POSITION, BEGINNING OF YEAR	(32,757,021)	(37,284,858)
Net Change in Net Position	7,426,195	4,527,837
NET POSITION, END OF YEAR	\$ (25,330,826)	\$ (32,757,021)

COLORADO LOTTERY
Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Cash received from retailers	\$ 652,966,629	\$ 678,630,691
Cash paid in prizes	(422,280,472)	(417,383,824)
Cash paid in retailer commissions	(44,361,989)	(45,128,159)
Cash payments to suppliers	(38,252,930)	(34,228,882)
Cash payments to employees for services	(9,598,101)	(10,194,559)
Cash paid in retailer bonus	(6,742,303)	(5,587,019)
Net cash provided by operating activities	131,730,834	166,108,248
Cash Flows from Noncapital Financing Activities		
Distribution of net proceeds	(140,234,966)	(160,466,859)
Net cash used by noncapital financing activities	(140,234,966)	(160,466,859)
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	(46,915)	(279,524)
Net cash used by capital and related financing activities	(46,915)	(279,524)
Cash Flows from Investing Activities		
Interest received	1,397,282	1,480,237
Change in fair market value of investments	1,202,029	838,704
Net cash provided by investing activities	2,599,311	2,318,941
Increase (Decrease) in Cash and Investments	(5,951,736)	7,680,806
Cash and Investments, Beginning of Year (including \$2,488,356 and \$2,293,286 in restricted accounts for 2020 and 2019, respectively)	54,716,089	47,035,283
Cash and Investments, End of Year, (including \$2,566,783 and \$2,488,356 in restricted accounts for 2020 and 2019, respectively)	\$ 48,764,353	\$ 54,716,089

COLORADO LOTTERY
Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	2020	2019
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 147,243,116	\$ 168,494,695
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	106,157	141,928
Wages and Benefits - Pension and OPEB Adjustment	(6,204,980)	(3,356,467)
Transfer-In Pension Direct Distribution	9,273	175,361
Change in:		
Accounts Receivable	(6,821,971)	(1,953,278)
Warehouse and Consignment Inventory	(122,301)	260,583
Prepaid Expenses	27,240	(27,529)
Prepaid Prize Expense with MUSL	183,171	(1,228,143)
Liabilities (excluding funds available for distribution)	(2,688,871)	3,601,098
	\$ 131,730,834	\$ 166,108,248
Reconciliation of Cash and Investments		
Cash and investments	\$ 46,197,570	\$ 52,227,733
Restricted cash and investments- Licensed Agent		
Recovery Reserve	766,783	688,356
Restricted cash and investments- Operating Reserve	1,800,000	1,800,000
	\$ 48,764,353	\$ 54,716,089
Cash and Investments, End of Year		

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

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 44-40-102. The Lottery operates under a commission and provides operation and service of lottery games as authorized by the statute. The Lottery's revenues are predominantly earned from the sale of lottery products, including scratch games and jackpot draw games including Lotto+ Plus, Powerball, Cash 5 with Cash 5 EZ Match, Mega Millions, Pick 3, and Lucky For Life.

The financial statements reflect activities of the Lottery, an enterprise fund of the State of Colorado, for the Fiscal Years ended June 30, 2020 and 2019. The Lottery is an agency of the State of Colorado. The financial statements are intended to present the financial position and results of operations and cash flows of only that portion of the State of Colorado that is attributable to the transactions of the Lottery in accordance with accounting principles generally accepted in the United States of America.

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

Use of Estimates

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

Fund Accounting

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

Enterprise Fund

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

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

Pensions

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

The Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. The bill was signed into law by Governor Hickenlooper on June 4, 2018. SB 18-200 makes changes to certain benefit provisions. Some, but not all, of these changes were in effect as of June 30, 2020.

Other Postemployment Benefits (OPEB)

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

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The Lottery accounts for funds using the accrual basis of accounting. Revenues from and prize expense for scratch ticket sales are recognized at the point of ticket pack activation. Revenues from and prize expense for Lotto+ Plus, Powerball, Cash 5, Cash 5 EZ Match, Mega Millions, Pick 3, and Lucky For Life ticket sales are recognized when the tickets are sold.. Other operating expenses are recognized when they are incurred.

Budget

By November 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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

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

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

During the fiscal year, the approved legislative budget may be modified due to roll-forward authorization, supplemental budget approval or line item transfer authorization. All modifications must be approved by the State Controller and the Office of State Planning and Budgeting and the Legislature.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist of amounts due from retailers for activated scratch ticket packs and uncollected jackpot game sales. Billable accounts receivable consist of amounts due from retailers for settled scratch ticket packs and uncollected jackpot game sales. Billable accounts receivable is invoiced weekly and is electronically transferred from the retailers' accounts into the Lottery's account one week following the invoice date.

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

The Lottery uses the specific identification method to determine expected uncollectibles. Under the provisions of Section 44-40-121, C.R.S., licensed agent recovery reserve receipts are collected from the retailers to cover uncollectible accounts. The accounts receivable and the licensed agent recovery reserve are shown net of estimated uncollectible receivables of \$125,546 and \$116,665 as of June 30, 2020 and 2019, 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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

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

Supplies Inventory

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

Prepaid Prize Expense

As part of the Lottery's agreement with the Multi-State Lottery Association (MUSL), for both the Powerball and Mega Millions games, a certain percentage of sales must be paid to MUSL, when required, to bring the set prize and grand prize reserves up to the reserve requirement amounts as determined by MUSL. During Fiscal Year 2020, a total of \$103,996 was transferred from the Powerball Set Prize Reserve to cover the payment of low-tier prizes. Repayments of \$38,342 to the Powerball Set Prize Reserve and a transfer of \$100,236 to the Powerball Grand Prize Reserve were made to meet the rebalanced reserve requirements of the Lottery. At fiscal year end, a surplus of \$308,228 existed between the total set prize and grand prize reserve requirements of over \$3 million and the amount held by MUSL. During Fiscal Year 2019, a total of \$437,914 was transferred from the Powerball Set Prize Reserve to cover the payment of lower-tier prizes. Repayments of \$454,274 to the Powerball Set Prize Reserve and net transfers of \$124,965 to the Powerball Grand Prize Reserve were made to meet the rebalanced reserve requirements of the Lottery.

During Fiscal Year 2020, the Mega Millions Prize Reserve requirement dropped to approximately \$2.3 million from the previous fiscal year. Including payments of \$17,705 made to MUSL in Fiscal Year 2020 early in the fiscal year, \$235,458 was transferred from the reserve to cover the payment of low-tier prizes. At fiscal year end, a surplus of \$138,364 existed between the total reserve requirement and the amount held by MUSL. During Fiscal Year 2019, the Lottery's Mega Millions reserve requirement was approximately \$2.7 million. With a \$1.1 million deficit to the required amount at the end of Fiscal Year 2018, payments of over \$1.2 million, representing two percent of sales, were made in Fiscal Year 2019 to not only make up this deficit but to cover the \$139,616 payment of low-tier prizes transferred out of the Mega Millions Prize reserve during the fiscal year. At the end Fiscal Year 2019, a slight deficit of approximately \$18 thousand existed.

Capital Assets

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statements of Net Position includes a separate section for deferred outflows of resources. This separate element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Lottery's Deferred Outflows for Pensions and OPEB represents the amount of pension and health care trust fund contributions made to the State plans subsequent to the December 31, 2019 measurement date, the deferred variance in expected to actual investment earnings, the deferred experience gains and losses, changes in employer proportion and differences between contributions recognized and proportionate share of contributions and changes in assumptions.

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

Accrued Wages and Benefits

At the end of each fiscal year, the state shifts the pay date for the month of June for employees paid on a monthly basis, deferring the date from the last working day of June to the first working day of July. For the Lottery, along with other minor payroll accruals, this created a liability for accrued wages and benefits at June 30, 2020 and 2019 of \$873,376 and \$1,076,709, respectively.

Prize Liability and Prize Expense

Under the provisions of Section 44-40-111 (9), C.R.S., the Lottery must pay no less than fifty percent (50%) of total ticket sales as prizes. The Lottery continued to meet this requirement with 64.4% and 61.3% of ticket sales of all Lottery products paid as prizes in Fiscal Years 2020 and 2019 respectively. Additional prize expense and corresponding liability may be incurred as a result of market fluctuations in the cost of annuities used to pay various jackpots (see Note 11).

All scratch, jackpot 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, 2020 and 2019 was \$39,165,132 and \$36,623,032, respectively.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

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

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 \$7,899,839 for Fiscal Year ended June 30, 2020 and \$9,075,526 for Fiscal Year ended June 30, 2019.

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 \$3,789,227 for Fiscal Year ended 2020 and \$4,764,600 for Fiscal Year ended June 30, 2019.

Retailer Bonus Liability

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

The cashing bonus is accrued as tickets are sold and paid as winning tickets are redeemed. The write off of the accrued cashing bonus liability tied to unclaimed prizes at the end of the 180-day claim period in Fiscal Years 2020 and 2019 is recorded as a reduction of bonus expense.

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

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

Licensed Agent Recovery Reserve

Under the provisions of Section 44-40-121, C.R.S., a Licensed Agent Recovery Reserve, established on January 1, 1988, is used to maintain surety bond receipts collected from Lottery retailers. Billing rates are established by the Executive Director of the Department of Revenue and are reviewed on an annual basis. Retailers have the option to obtain private surety bond coverage at a rate of \$2,000 surety coverage per outlet at their discretion. As of June 30, 2020 and June 30, 2019, the Lottery had reserved \$766,783 and \$688,356, respectively. The Lottery utilizes restricted net position before using unrestricted net position for bad debts.

Lottery Fund Net Position

In accordance with Section 44-40-111 (5)(a), C.R.S., the Lottery is required to reserve “sufficient monies, as of the end of the fiscal year, to ensure the operation of the Lottery for the ensuing fiscal year.” The moneys reserved by the lottery shall be held in cash and investments.

In June 2002 the Lottery Commission approved a balance in net assets “equal to the net value of the Lottery’s capital assets”. As of June 30, 2020 and June 30, 2019, the Lottery had reported \$363,310 and \$422,552, respectively.

In April 2005, the Lottery set up a separate operating reserve independent of the net operating reserve in the amount of \$1.7 million. The amount held in this operating reserve is reviewed annually and adjusted accordingly. The current annual reviews were completed in January 2020 and January 2019.

The reserve increased to \$1.8 million in Fiscal Year 2019 and remained at the same amount of \$1.8 million in Fiscal Year 2020.

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. Annual leave is paid out upon any termination of employment, while sick leave is paid out at 25% of accrued amount only to employees who are retiring. 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:

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

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

	<u>June 30, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2020</u>
Annual leave	\$ 684,630	\$ 499,801	\$ (534,539)	\$ 649,892
Sick leave	134,396	38,879	(63,529)	109,746
Total annual and sick leave	<u>819,026</u>	<u>538,680</u>	<u>(598,068)</u>	<u>759,638</u>
Compensatory time	<u>1,006</u>	<u>13,405</u>	<u>(13,416)</u>	<u>995</u>
Total compensated leave	<u>\$ 820,032</u>	<u>\$ 552,085</u>	<u>\$ (611,484)</u>	<u>\$ 760,633</u>
	<u>June 30, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2019</u>
Annual leave	\$ 660,648	\$ 586,632	\$ (562,650)	\$ 684,630
Sick leave	124,021	46,778	(36,403)	134,396
Total annual and sick leave	<u>784,669</u>	<u>633,410</u>	<u>(599,053)</u>	<u>819,026</u>
Compensatory time	<u>2,913</u>	<u>16,844</u>	<u>(18,751)</u>	<u>1,006</u>
Total compensated leave	<u>\$ 787,582</u>	<u>\$ 650,254</u>	<u>\$ (617,804)</u>	<u>\$ 820,032</u>

The short-term portion of the above accrued annual and sick leave at June 30, 2020 and June 30, 2019 is \$17,759 and \$43,897, 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.

Promotional Activity

The Lottery engages in three types of promotional activities in an attempt to enhance sales, to increase player awareness and to increase the player base: special promotions and drawings, direct giveaways, and buy x-get-y. The number and amount of promotional activities can and do vary year over year due to such factors as budget availability, retailer and special events participation, and new product introductions. Specific promotional coupons/tickets are distributed/awarded to players through special promotions and drawings and can be redeemed/claimed at any lottery office for a specified Lottery product. Specific promotional coupons/tickets with a total face value of \$2,400 and \$2,000 were redeemed in Fiscal Years ended June 30, 2020 and June 30, 2019, 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, 2020 and June 30, 2019, scratch tickets with a total face value of \$120,807 and \$160,594, respectively, were given away. No free jackpot tickets were given away in Fiscal Year 2020 and Fiscal Year 2019.

For the “buy x-get-y” promotions, players are given the opportunity to receive a “free” jackpot ticket when a qualifying purchase is made, for instance buy five Lotto+ Plus tickets receive a free Pick 3 ticket. During the Fiscal Year ended June 30, 2020, free promotional tickets from a variety of jackpot games with a total face value of \$41,903 were given away with several different buy x qualifiers. During the Fiscal Year ended June 30, 2019, free promotional tickets from a variety of jackpot games, with a total face value of \$22,416 were given away.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

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

Scratch and jackpot game tickets and coupon promotions are valued at cost. For the Fiscal Years ended June 30, 2020 and June 30, 2019, \$83,834 and \$113,168, respectively, were recorded as costs related to special promotions and drawings, direct giveaways, and free tickets. These costs were included in Marketing and Communications expense in the statements of revenues, expenses and changes in fund net position.

NOTE 2 – CASH AND INVESTMENTS

Cash

Cash includes petty cash funds, imprest funds held at the Lottery claims centers, an imprest account, a depository account and cash on deposit with the State Treasurer. A detail of cash at June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Petty cash	\$ 1,550	\$ 1,550
Imprest account - Front Counters	78,000	73,000
Imprest account	195,000	200,000
Depository accounts	50,000	50,000
Cash on deposit with State Treasurer	<u>45,873,020</u>	<u>51,903,183</u>
 Total unrestricted cash and investments	 <u>46,197,570</u>	 <u>52,227,733</u>
 Restricted cash and investments - Licensed Agent		
Recovery Reserve Receipts on deposit with State Treasurer	766,783	688,356
Operating Reserve on deposit with State Treasurer	<u>1,800,000</u>	<u>1,800,000</u>
 Total restricted cash and investments	 <u>2,566,783</u>	 <u>2,488,356</u>
 Total cash and investments	 <u><u>\$ 48,764,353</u></u>	 <u><u>\$ 54,716,089</u></u>

Cash on Deposit with State Treasurer

Under the provisions of Section 44-40-111 (6), C.R.S., the State Treasurer shall invest the monies of the Lottery in excess of operating and prize payment expenses and all authorized transfers. Interest or any other return on investments is paid to the Lottery Fund account on a monthly basis. Actual interest payments are determined by the State Treasurer. The actual allocated interest rate for Fiscal Years 2020 and 2019 was 2.01% and 2.22%, respectively.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

In addition, the State Treasurer pools these deposits and invests them in securities approved by Section 24-75-601.1, C.R.S. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2020, the Lottery had cash on deposit with the State Treasurer of \$48,439,803, which represented approximately 0.5 percent of the total \$9,633.8 million fair value of deposits in the State Treasurer's Pool (Pool). As of June 30, 2019, the Pool's resources included \$16.0 million of cash on hand and \$9,617.8 million of investments.

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

Additional information on investments of the State Treasurer's Pool may be obtained in the State's Comprehensive Annual Financial Report for the year ended June 30, 2020.

The Lottery reports its share of the Treasurer's unrealized gains and losses based on its participation in the State Treasurer's Pool only at fiscal year end.

Deposits

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

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

Statements of Cash Flows

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NOTE 3 – SCHEDULE OF CHANGES IN CAPITAL ASSETS

	<u>June 30, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2020</u>
Capital assets being depreciated:				
Equipment and software	\$ 6,278,097	\$ 46,915	\$ (62,118)	\$ 6,262,894
Leasehold improvements	64,711	-	-	64,711
Total historical costs	<u>6,342,808</u>	<u>46,915</u>	<u>(62,118)</u>	<u>6,327,605</u>
Less accumulated depreciation for equipment and software	<u>(5,855,545)</u>	<u>(106,157)</u>	<u>62,118</u>	<u>(5,899,584)</u>
Less accumulated depreciation for leasehold improvements	<u>(64,711)</u>	<u>-</u>	<u>-</u>	<u>(64,711)</u>
 Total accumulated depreciation	<u>(5,920,256)</u>	<u>(106,157)</u>	<u>62,118</u>	<u>(5,964,295)</u>
Total capital assets, being depreciated, net	<u>\$ 422,552</u>	<u>\$ (59,242)</u>	<u>\$ -</u>	<u>\$ 363,310</u>
	<u>June 30, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2019</u>
Capital assets being depreciated:				
Equipment and software	\$ 5,998,573	\$ 279,524	\$ -	\$ 6,278,097
Leasehold improvements	64,711	-	-	64,711
Total historical costs	<u>6,063,284</u>	<u>279,524</u>	<u>-</u>	<u>6,342,808</u>
Less accumulated depreciation for equipment	<u>(5,713,617)</u>	<u>(141,928)</u>	<u>-</u>	<u>(5,855,545)</u>
Less accumulated depreciation for leasehold improvements	<u>(64,711)</u>	<u>-</u>	<u>-</u>	<u>(64,711)</u>
 Total accumulated depreciation	<u>(5,778,328)</u>	<u>(141,928)</u>	<u>-</u>	<u>(5,920,256)</u>
Total capital assets, being depreciated, net	<u>\$ 284,956</u>	<u>\$ 137,596</u>	<u>\$ -</u>	<u>\$ 422,552</u>

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

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. A new lease amendment was signed on November 18, 2016 to clarify the Lottery’s use of landlord owned equipment, and to agree to share the cost of a new uninterruptable power supply and a new power distribution system. The lease expires on June 30, 2022. The lease contains an option to renew for two additional five-year terms commencing on July 1, 2022. There are no other provisions for extension or renewal.

Warehouse – The Lottery leases primary warehouse space from Santa Fe 250 LLC. The Lottery entered into a lease agreement, which was signed by the State Controller’s Office on June 10, 2016 and became effective July 1, 2016 and expired June 30, 2019. Signed on November 19, 2018 by the State Controller’s Office, the Lottery executed Amendment #1 to the lease with Santa Fe 250, LLC. Becoming effective July 1, 2019, the amendment extended the term of the lease from July 1, 2019 through June 30, 2024 and established the monthly rent for the extended term.

Denver

Office – The Lottery occupies office space in the Galleria Towers Building in Denver. The Lottery entered into this lease agreement, which began July 1, 2009 and expired June 30, 2019. The State Controller’s Office signed an extension to this lease on May 22, 2019, which became effective on July 1, 2019 and expires on June 30, 2024. The lease contains an option to renew for one additional five-year term commencing on July 1, 2024. There are no other provisions for extension or renewal.

Warehouse – On December 11, 2009, the Lottery entered into a lease agreement with Valley Business Corp., Inc. beginning on December 11, 2009 and expiring on June 30, 2015. Exercising its first renewal option, the Lottery executed Amendment #1 to the lease with Valley Business Corp. effective July 23, 2015, which extended the term of the lease from June 30, 2015 through June 30, 2020 and made certain modifications to the existing premises. The lease contains one (1) more option to renew for an additional consecutive period of five years. The lease also contains a holdover provision, whereby if the Lottery fails to vacate the premises upon the expiration or sooner termination of the lease, the Lottery will continue making the same monthly rent payment in effect pursuant to the lease agreement as of the date of expiration or sooner termination of the lease. Valley Business Corp. Inc. and the Lottery both agree to give each other thirty (30) days written notice prior to the termination of a holdover tenancy period. The Lottery executed Amendment #2 to the lease with Valley Business Corp on May 4, 2020, which extended the term of the lease through June 30, 2021. The lease also updated the rent table through June 30, 2021, updated Article 15 to reflect current statutory requirements, and modified Article 18 for proper insurance arrangements.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

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.

Wireless Jackpot Signage

Effective June 21, 2016 the Lottery amended the IGT contract providing the jackpot gaming system to include the lease of 1,500 new in-store wireless jackpot signs capable of displaying information regarding jackpot amounts. Installation of the new signs is on a schedule agreed upon from time-to-time by the parties. The Lottery executed Option Letter #3 and extended the IGT contract through July 12, 2025. Contract Amendment #7 was executed on June 7, 2019 to establish new prices and rates of the original IGT contract, which also includes the amount of the lease for in-store jackpot signage.

Schedule of future lease payments:

LOCATION	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Later Years
Pueblo Office	\$ 385,713	\$ 397,261	\$ -	\$ -	\$ -	\$ -
Pueblo Warehouse	191,364	191,364	191,364	191,364	-	-
Denver Office	209,335	215,316	221,297	227,278	-	-
Denver Warehouse	122,733	-	-	-	-	-
In-store signage	749,500	840,250	940,075	1,049,882	1,170,670	38,488
	<u>\$ 1,658,645</u>	<u>\$ 1,644,191</u>	<u>\$ 1,352,736</u>	<u>\$ 1,468,524</u>	<u>\$ 1,170,670</u>	<u>\$ 38,488</u>

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NOTE 5 – OTHER REVENUE

A schedule of other revenue for the Fiscal Years ended June 30, 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>
License fees	\$ 66,040	\$ 64,470
Fines and penalties	5,666	16,239
Assignment fees	1,800	1,800
Net licensed agent recovery reserve receipts	78,427	95,070
Other	<u>6,816</u>	<u>7,562</u>
Total	<u>\$ 158,749</u>	<u>\$ 185,141</u>

NOTE 6 – DISTRIBUTION OF NET PROCEEDS

The net proceeds amount is equal to the Lottery's net income plus or minus the changes in the components of net position as described earlier. In accordance with Section 33-60-104, C.R.S., distributions of net proceeds shall be made on a quarterly basis. The State Treasurer shall distribute net lottery proceeds as follows: forty percent (40%) to the Conservation Trust Fund, ten percent (10%) to the Division of Parks and Wildlife and all the remaining net lottery proceeds in trust to the State Board of the Great Outdoors Colorado Trust Fund up to the statutory limit. Under Section 33-60-104(2), C.R.S., the limit is \$35 million in 1992 dollars and is adjusted annually based on the consumer price index, which was calculated to be nearly \$70.4 million for the year ended June 30, 2020. Any excess over the limit shall be transferred to the State Public School Capital Construction Assistance Fund.

Income available for distribution at June 30:

	<u>2020</u>	<u>2019</u>
Net Income before distributions	\$ 149,851,700	\$ 170,988,997
Changes in Net Position:		
Change in licensed agent recovery reserve	(78,427)	(95,070)
Change in fair market value of investments	(1,202,029)	(838,704)
Change in operating reserve	-	(100,000)
Change in investment in capital assets	59,242	(137,596)
Change in unfunded pension and OPEB revenue/expense	<u>(6,204,980)</u>	<u>(3,356,467)</u>
Income available for distribution	142,425,506	166,461,160
Less distributions prior to year-end	<u>(103,776,707)</u>	<u>(130,002,901)</u>
Income available for distribution	<u>\$ 38,648,799</u>	<u>\$ 36,458,259</u>

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NOTE 6 – DISTRIBUTION OF NET PROCEEDS (CONTINUED)

	<u>Accrued at June 30, 2019</u>	<u>Proceed Distribution Expenses</u>	<u>Distributions Paid</u>	<u>Accrued at June 30, 2020</u>
Great Outdoors Colorado	\$ 3,492,985	\$ 70,364,774	\$ (55,381,339)	\$ 18,476,420
Public School Capital				
Construction Assistance Fund	14,736,143	847,978	(14,736,143)	847,978
Conservation Trust Fund	14,583,304	56,970,202	(56,093,986)	15,459,520
Division of Parks and Outdoor Recreation	<u>3,645,827</u>	<u>14,242,551</u>	<u>(14,023,498)</u>	<u>3,864,880</u>
	<u>\$ 36,458,259</u>	<u>\$ 142,425,505</u>	<u>\$ (140,234,966)</u>	<u>\$ 38,648,798</u>

	<u>Accrued at June 30, 2018</u>	<u>Proceed Distribution Expenses</u>	<u>Distributions Paid</u>	<u>Accrued at June 30, 2019</u>
Great Outdoors Colorado	\$ 11,114,576	\$ 68,494,436	\$ (76,116,027)	\$ 3,492,985
Public School Capital				
Construction Assistance Fund	4,117,403	14,736,143	(4,117,403)	14,736,143
Conservation Trust Fund	12,185,583	66,584,464	(64,186,743)	14,583,304
Division of Parks and Outdoor Recreation	<u>3,046,396</u>	<u>16,646,117</u>	<u>(16,046,686)</u>	<u>3,645,827</u>
	<u>\$ 30,463,958</u>	<u>\$ 166,461,160</u>	<u>\$ (160,466,859)</u>	<u>\$ 36,458,259</u>

NOTE 7 – PENSION PLANS

Defined Benefit Pension Plan

Plan Description

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NOTE 7 – PENSION PLANS (CONTINUED)

Benefits Provided As of December 31, 2019

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

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

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

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

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

As of December 31, 2019, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S., once certain criteria are met. Pursuant to SB 18-200, the annual increase for 2019 is 0.00 percent for all benefit recipients. Thereafter, benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007, will receive an annual increase of 1.25 percent unless adjusted by the automatic adjustment provision (AAP) pursuant C.R.S. § 24-51-413. Benefit recipients under the PERA benefit structure who began eligible employment on or after January 1, 2007, will receive the lesser of an annual increase of 1.25 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the SDTF. The AAP may raise or lower the aforementioned annual increase by up to 0.25 percent based on the parameters specified in C.R.S. § 24-51-413

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.

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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NOTE 7 – PENSION PLANS (CONTINUED)

Contributions provisions as of June 30, 2020

Eligible employees of the Lottery and the State are required to contribute to the SDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, et seq. and § 24-51-413. For the period of 07/01/2019 through 06/30/2020 eligible employees with the exception of State Troopers are required to contribute 8.75 percent of their PERA-includable salary. Contribution rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

	Fiscal Year 2018		Fiscal Year 2019		Fiscal Year 2020	
	CY2017	CY2018	CY2018	CY2019	CY2019	CY2020
	7/1/17 - 12/31/17	1/1/18 - 6/30/18	7/1/18 - 12/31/18	1/1/19 - 6/30/19	7/1/19 - 12/31/19	1/1/20 - 6/30/20
Employer Contribution Rate	10.15%	10.15%	10.15%	10.15%	10.40%	10.40%
Amount of Employer Contribution Apportioned to the Health Care Trust Fund as specified in C.R.S. Section 24-51-208(1)(f)	-1.02%	-1.02%	-1.02%	-1.02%	-1.02%	-1.02%
Amount Apportioned to the SDTF	9.13%	9.13%	9.13%	9.13%	9.38%	9.38%
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411*	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Total Employer Contribution Rate to the SDTF	19.13%	19.13%	19.13%	19.13%	19.38%	19.38%

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

As specified in C.R.S. § 24-51-414, the State is required to contribute \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SDTF based on the proportionate amount of annual payroll of the SDTF to the total annual payroll of the SDTF, School Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund. A portion of the direct distribution allocated to the SDTF is considered a nonemployer contribution for financial reporting purposes. The direct distribution amount allocated to the Lottery was \$163,567 and \$175,361 for the Fiscal Years ended June 30, 2020 and 2019, respectively.

Subsequent to the SDTF's December 31, 2019 measurement date, HB 20-1379 *Suspend Direct Distribution to PERA Public Employees Retirement Association for 2020-21 Fiscal Year* was passed into law during the 2020 legislative session and signed by Governor Polis on June 29, 2020. This bill suspends the July 1, 2020, \$225 million direct distribution allocated to the State, School, Judicial, and DPS Divisions, as required under Senate Bill 18-200.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NOTE 7 – PENSION PLANS (CONTINUED)

Employer contributions are recognized by the SDTF in the period in which the compensation becomes payable to the member and the Lottery is statutorily committed to pay the contributions to the SDTF. Employer contributions recognized by the SDTF from the Lottery were \$1,239,774, \$1,414,350, \$1,290,829, for the Fiscal Years ended June 30, 2020, 2019, and 2018, respectively.

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

At June 30, 2020 and 2019, the Lottery reported a liability of \$20,589,605 and \$25,422,465, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. Standard update procedures were used to roll forward the total pension liability to December 31, 2019. The Lottery proportion of the net pension liability was based on the Lottery contributions to the SDTF for the calendar year 2019 relative to the total contributions of participating employers and the State as a nonemployer contributing entity for participating employers of the SDTF that are outside of the State's financial reporting entity.

At December 31, 2019, the Lottery proportion was .2121807562 percent, which was a decrease of .0112412967 percent from its proportion of .2234220529 percent measured as of December 31, 2018.

For the Fiscal Year ended June 30, 2020, the Lottery recognized pension revenue of \$4,777,054 and for Fiscal Year ended June 30, 2019, the Lottery recognized pension revenue of \$1,778,437. At June 30, 2020, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Year ended June 30, 2020		Year ended June 30, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 769,272	\$ -	\$ 726,997	\$ -
Changes of assumptions or other inputs	-	5,905,542	1,338,622	13,127,768
Net difference between projected and actual earnings on pension plan investments	-	2,218,286	1,284,123	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	36,468	1,426,445	177,864	633,749
Contributions subsequent to the measurement date	613,592	-	755,435	-
Total	\$ 1,419,332	\$ 9,550,273	\$ 4,283,041	\$ 13,761,517

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NOTE 7 – PENSION PLANS (CONTINUED)

The amount of \$613,592 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, 2021. 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:

2021	(6,976,730)
2022	(925,832)
2023	(87,066)
2024	(754,905)
2025	-
Thereafter	-

Actuarial assumptions

The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 – 9.17 percent
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07; and DPS benefit structure (automatic)	1.25 percent compounded annually
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)**	Financed by the Annual Increase Reserve

**For 2019, the annual increase was 0.00 percent.

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

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

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NOTE 7 – PENSION PLANS (CONTINUED)

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

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

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the November 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting.

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

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

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

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

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NOTE 7 – PENSION PLANS (CONTINUED)

Discount rate

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

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employee contributions were assumed to be made at the current member contribution rates in effect for each year, including scheduled increases in SB 18-200 and the additional 0.50 percent resulting from the 2018 AAP assessment, statutorily recognized July 1, 2019, and effective July 1, 2020. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law for each year, including the scheduled increase in SB 18-200 and the additional 0.50 percent, resulting from the 2018 AAP assessment, statutorily recognized July 1, 2019, and effective July 1, 2020. Employer contributions also include current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- As specified in law, the State will provide an annual direct distribution of \$225 million (actual dollars), commencing July 1, 2018, that is proportioned between the State, School, Judicial, and DPS Division Trust Funds based upon the covered payroll of each Division. The annual direct distribution ceases when all Division Trust Funds are fully funded.
- Employer contributions and the amount of total service costs for future plan members were based upon a process to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- The projected benefit payments reflect the lowered AI cap, from 1.50 percent to 1.25 percent resulting from the 2018 AAP assessment, statutorily recognized July 1, 2019, and effective July 1, 2020.
- Benefit payments and contributions were assumed to be made at the middle of the year.

Based on the above assumptions and methods, the projection test indicates the SDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent. There was no change in the discount rate from the prior measurement date.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NOTE 7 – PENSION PLANS (CONTINUED)

Sensitivity of the Lottery’s proportionate share of the net pension liability to changes in the discount rate

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

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability	\$ 26,487,892	\$ 20,589,605	\$ 15,598,201

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 (PERA DC Plan)

Plan Description

Employees of the State of Colorado that were hired on or after January 1, 2006 and employees of certain community colleges that were hired on or after January 1, 2008 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).

Pursuant to C.R.S. § 24-51-1501(4), the PERA DC Plan eligibility was extended to certain new classified employees at State Colleges and Universities beginning on January 1, 2019. 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 CAFR as referred to above.

Funding Policy

All participating employees in the PERA DC Plan and the Lottery are required to contribute a percentage of the participating employees’ PERA-includable salary to the PERA DC Plan. The employee and employer contribution rates are summarized in the table below:

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NOTE 8 – OTHER RETIREMENT PLANS (Continued)

Additionally, the employers are required to contribute AED and SAED to the SDTF as follows:

	Fiscal Year 2018		Fiscal Year 2019		Fiscal Year 2020	
	<i>CY2017</i>	<i>CY2018</i>	<i>CY2018</i>	<i>CY2019</i>	<i>CY2019</i>	<i>CY2020</i>
	<i>7/1/17 - 12/31/17</i>	<i>1/1/18 - 6/30/18</i>	<i>7/1/18 - 12/31/18</i>	<i>1/1/19 - 6/30/19</i>	<i>7/1/19 - 12/31/19</i>	<i>1/1/20 - 6/30/20</i>
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411*	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Total Additional Employer Contribution Rate to the SDTF	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%

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

Contribution requirements are established under Title 24, Article 51, Section 1505 of the C.R.S., as amended. Participating employees of the PERA DC Plan are immediately vested in their own contributions and investment earnings and are immediately 50 percent vested in the amount of employer contributions made on their behalf. For each full year of participation, vesting of employer contributions increases by 10 percent. Forfeitures are used to pay expenses of the PERA DC Plan in accordance with PERA Rule 16.80 as adopted by the PERA Board of Trustees in accordance with Title 24, Article 51, Section 204 of the C.R.S. As a result, forfeitures do not reduce pension expense. The Lottery made contributions to other retirement plans totaling \$10,382 during Fiscal Year 2020 and \$19,036 during Fiscal Year 2019.

Voluntary Investment Program

Plan Description

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

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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS

Defined Benefit Other Post Employment Benefit (OPEB) Plan

Plan description

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

Benefits provided

The HCTF provides a health care premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA health care plans, however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The health care premium subsidy is based upon the benefit structure under which the member retires and the member's years of service credit. For members who retire having service credit with employers in the Denver Public Schools (DPS) Division and one or more of the other four Divisions (State, School, Local Government and Judicial), the premium subsidy is allocated between the HCTF and the Denver Public Schools Health Care Trust Fund (DPS HCTF). The basis for the amount of the premium subsidy funded by each trust fund is the percentage of the member contribution account balance from each division as it relates to the total member contribution account balance from which the retirement benefit is paid.

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

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS AND LIFE INSURANCE (CONTINUED)

PERA Benefit Structure

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

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

For retirees who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, the HCTF or the DPS HCTF pays an alternate service-based premium subsidy. Each individual retiree meeting these conditions receives the maximum \$230 per month subsidy reduced appropriately for service less than 20 years, as described above. Retirees who do not have Medicare Part A pay the difference between the total premium and the monthly subsidy.

Contributions

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

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the Lottery is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the Lottery for the Fiscal Years ending June 30, 2020, 2019, and 2018 were \$65,251, \$75,412, and \$68,826.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS AND LIFE INSURANCE (CONTINUED)

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

At June 30, 2020, the Lottery reported a liability of \$829,761 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2018. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2019. The Lottery's proportion of the net OPEB liability was based on the Lottery's contributions to the HCTF for the calendar year 2019 relative to the total contributions of participating employers to the HCTF.

At December 31, 2019, the Lottery proportion was .0738222796 percent, which was a decrease of .0052451708 percent from its proportion of .0790674504 percent measured as of December 31, 2018. For the year ended June 30, 2020, the Lottery recognized OPEB expense of \$40,666. At June 30, 2020, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Year ended June 30, 2020		Year ended June 30, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 2,754	\$ 139,430	\$ 3,904	\$ 1,637
Changes of assumptions or other inputs	6,884	-	7,546	-
Net difference between projected and actual earnings on OPEB plan investments	-	13,850	6,186	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	18,866	85,348	20,535	33,244
Contributions subsequent to the measurement date	32,294	N/A	40,279	N/A
Total	\$ 60,798	\$ 238,628	\$ 78,450	\$ 34,881

The amount of \$32,294 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:

2021	\$ (41,979)
2022	(41,978)
2023	(37,968)
2024	(47,691)
2025	(38,229)
2026	(2,279)
Thereafter	-

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS AND LIFE INSURANCE (CONTINUED)

Actuarial assumptions

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 percent in aggregate
Long-term investment rate of return, net of OPEB plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent
Health care cost trend rates	
PERA benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	5.60 percent in 2019, gradually decreasing to 4.50 percent in 2029
Medicare Part A premiums	3.50 percent for 2019, gradually increasing to 4.50 percent in 2029
DPS benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	N/A
Medicare Part A premiums	N/A

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

The actuarial assumptions used in the December 31, 2018, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the November 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting. In addition, certain actuarial assumptions pertaining to per capita health care costs and their related trends are analyzed and reviewed by PERA's actuary, as discussed below.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS AND LIFE INSURANCE (CONTINUED)

In determining the additional liability for PERACare enrollees who are age sixty–five or older and who are not eligible for premium–free Medicare Part A, the following monthly costs/premiums are assumed for 2019 for the PERA Benefit Structure:

Medicare Plan	Cost for Members Without Medicare Part A	Premiums for Members Without Medicare Part A
Medicare Advantage/Self-Insured Prescription	\$601	\$240
Kaiser Permanente Medicare Advantage HMO	605	237

The 2019 Medicare Part A premium is \$437 per month.

In determining the additional liability for PERACare enrollees in the PERA Benefit Structure who are age sixty–five or older and who are not eligible for premium–free Medicare Part A, the following chart details the initial expected value of Medicare Part A benefits, age adjusted to age 65 for the year following the valuation date:

Medicare Plan	Cost for Members Without Medicare Part A
Medicare Advantage/Self-Insured Prescription	\$562
Kaiser Permanente Medicare Advantage HMO	\$571

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

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

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services. Effective December 31, 2018, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS AND LIFE INSURANCE (CONTINUED)

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

Year	PERACare Medicare Plans	Medicare Part A Premiums
2019	5.60%	3.50%
2020	8.60%	3.50%
2021	7.30%	3.50%
2022	6.00%	3.75%
2023	5.70%	3.75%
2024	5.50%	3.75%
2025	5.30%	4.00%
2026	5.10%	4.00%
2027	4.90%	4.25%
2028	4.70%	4.25%
2029+	4.50%	4.50%

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

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

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

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS AND LIFE INSURANCE (CONTINUED)

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

- Males: Mortality improvement projected to 2018 using the MP-2015 projection scale, a 93 percent factor applied to rates for ages less than 80, a 113 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- Females: Mortality improvement projected to 2020 using the MP-2015 projection scale, a 68 percent factor applied to rates for ages less than 80, a 106 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

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

The following health care costs assumptions were updated and used in the measurement of the obligations for the HCTF:

- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2019 plan year.
- The morbidity assumptions were updated to reflect the assumed standard aging factors.
- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

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

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS AND LIFE INSURANCE (CONTINUED)

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

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

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

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

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

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
Initial PERACare Medicare trend rate	4.60%	5.60%	6.60%
Ultimate PERACare Medicare trend rate	3.50%	4.50%	5.50%
Initial Medicare Part A trend rate	2.50%	3.50%	4.50%
Ultimate Medicare Part A trend rate	3.50%	4.50%	5.50%
Net OPEB Liability	\$810,050	\$829,761	\$852,538

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS AND LIFE INSURANCE (CONTINUED)

Discount rate

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

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2019, measurement date.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Benefit payments and contributions were assumed to be made at the middle of the year.

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

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

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	<u>\$ 938,212</u>	<u>\$ 829,761</u>	<u>\$ 737,013</u>

OPEB plan fiduciary net position

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NOTE 10 – CONTINGENCIES AND COMMITMENTS

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

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

Specified prize payments	\$58,327,078
Lifetime prize payments	30,788,000
Total guaranteed prize payments	\$89,115,078

Prize Commitment – The Lottery also acts as a transfer agent for the single Powerball Jackpot Winner on November 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 \$14,070,000 as of June 30, 2020.

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 re-evaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

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

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

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 enters into long-term contracts with certain significant vendors related to providing jackpot data processing services and the design, production, and promotion of scratch tickets in support of the Lottery's gaming operations. The Lottery entered into a contract with IGT formally GTECH for jackpot data processing services, effective November 9, 2014 through June 30, 2021. On June 7, 2019, upon approval of the State Controller, the Lottery exercised its option to extend the contract beginning July 11, 2021 and ending July 12, 2025 and its option to increase the quantity of the services provided by IGT. Effective June 7, 2019, Amendment #7 was also signed modifying the maximum amount payable under the contract, which includes a fixed amount plus the percentage of sales covering the contract period through July 12, 2025. Payments for the jackpot data processing contract were \$13,193,150 for Fiscal Year ended June 30, 2020 and \$12,147,826 for Fiscal Year ended June 30, 2019.

For scratch ticket production, the Lottery entered into new contracts with its three scratch ticket vendors beginning July 1, 2017 and ending June 30, 2023. The contracts each contain an option to extend for continued performance for up to a maximum of two (2) two-year extensions. The total costs of the new contracts under the initial term are not to exceed \$30,000,000. Payments under these contracts were \$2,876,575 for the Fiscal Year ended June 30, 2020.

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

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, 2020 was \$3,329,816 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, 2020, there were excess funds of \$6,069 held by MUSL over Colorado's required reserves balance of \$3,021,588 plus the allowed 10% of \$302,159.

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

MUSL immediately began collecting a percentage of sales to fund the newly formed Mega Millions prize reserve fund. On March 22, 2013, the MUSL Mega Millions Game Group set the maximum prize reserve fund at \$45 million. With the change to the Mega Millions game on November 25, 2017 the Group set the maximum prize reserve balance at \$100 million. The Group also determined to set the additional prize reserve contribution at 2 percent of sales effective beginning with the drawing of November 31, 2017. Additional contributions continued until maximum balance amounts were reached. On March 31, 2020 MUSL calculated a new required reserve balance for the Lottery of \$2,295,927. The Lottery's balance in the reserve held by MUSL as of June 30, 2020 was \$2,434,291; with a surplus of \$138,364 over Colorado's required reserve balance.

In addition, MUSL may deposit and hold any Unreserved Account Funds in trust for the benefit of member lotteries. These funds will not be comingled with any other funds held in trust and can be used only for authorized uses of the unreserved funds. MUSL held a nominal \$3 amount in the unreserved fund as of June 30, 2020.

Other Major Vendor Commitments –The Lottery entered into a long-term contract with an advertising agency to provide advertising services to promote the Lottery's products beginning on May 21, 2017 and expiring on June 30, 2020. The contract contains an option to extend for continued performance for up to a maximum of two (2) one-year extensions. The total compensation allowed for services performed under the initial term of the contract is \$44,850,000. Payments totaling \$12,340,822 were made in the Fiscal Year ended June 30, 2020.

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

NOTE 10 – CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

According to the 1st individual's plea agreement and resulting court order, a total restitution of \$2,222,864, with interest as applied at Iowa's standard statutory rate, will be paid to four states, with the Colorado Lottery's share being \$1,137,980. The 2nd plea agreement and resulting court order agrees to a total restitution of \$804,095, with interest as applied at Iowa's standard statutory rate, to two states, with the Colorado Lottery's share being \$568,990, joint and several with the 1st individual.

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

The likelihood of collecting any of the restitution from either individual is unknown. The Lottery collected \$390 in Fiscal Year 2020 and has not recorded any estimated revenue from possible future payments. If the Lottery receives any future restitution payments, the payments will be recorded as revenue in the period the payments are received.

NOTE 11 – TAX, SPENDING AND DEBT LIMITATIONS

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

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

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

NOTE 12 – RELATED PARTY TRANSACTIONS

The Lottery, as an agency of the State of Colorado, paid fees to other agencies of the state for auditing, legal and other services and vehicle and office rent. The Lottery also pays fees to the Department of Revenue for indirect costs and the Governor's Office of Information Technology for information and communications technology (ICT) services. Interagency charges were \$2,848,279 and \$2,140,530 for the Fiscal Years ended June 30, 2020 and 2019, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Last 10 Calendar Years*					
	2019	2018	2017	2016	2015	2014
Lottery's proportion of the net pension liability	0.2121807562%	0.2234220529%	0.2290545580%	0.2238160821%	0.2398382458%	0.2511816995%
Lottery's proportionate share of the net pension liability	\$ 20,589,605	\$ 25,422,465	\$ 45,852,060	\$ 41,110,831	\$ 25,257,445	\$ 23,627,442
Lottery's covered payroll	\$ 6,867,065	\$ 6,862,079	\$ 6,774,739	\$ 6,440,000	\$ 6,745,555	\$ 6,885,135
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	299.83%	370.48%	676.81%	638.37%	383.22%	354.03%
Plan fiduciary net position as a percentage of the total pension liability	62.24%	55.11%	43.20%	42.60%	56.10%	59.80%

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

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

	Last 10 Fiscal Years*					
	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 1,394,068	\$ 1,414,350	\$ 1,290,829	\$ 1,159,077	\$ 1,142,872	\$ 1,150,328
Contributions in relation to the contractually required contribution	<u>(1,394,068)</u>	<u>(1,414,350)</u>	<u>(1,290,829)</u>	<u>(1,159,077)</u>	<u>(1,142,872)</u>	<u>(1,150,328)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Lottery's covered payroll	\$ 6,444,337	\$ 7,191,084	\$ 6,821,281	\$ 6,594,985	\$ 6,520,365	\$ 6,917,645
Contributions as a percentage of covered payroll	21.63%	19.67%	18.92%	17.58%	17.53%	16.63%

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

* Fiscal year 2015 was the 1st year of implementation, therefore only six years are shown.

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

Last 10 Calendar Years*

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Lottery's proportion of the net OPEB liability	0.0738222796%	0.0790674504%	0.0820966264%
Lottery's proportionate share of the net OPEB liability	\$ 829,761	\$ 1,075,746	\$ 1,066,928
Lottery's covered payroll	\$ 6,867,065	\$ 6,862,079	\$ 6,774,739
Lottery's proportionate share of the net OPEB liability as a percentage of its covered payroll	12.08%	15.68%	15.75%
Plan fiduciary net position as a percentage of the total OPEB liability	24.49%	17.03%	17.53%

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

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

Last 10 Fiscal Years*

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 65,251	\$ 75,412	\$ 68,826
Contributions in relation to the contractually required contribution	<u>(65,251)</u>	<u>(75,412)</u>	<u>(68,826)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Lottery's covered payroll	\$ 6,444,337	\$ 7,191,084	\$ 6,821,281
Contributions as a percentage of covered payroll	1.01%	1.05%	1.01%

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

* Fiscal year 2018 was the 1st year of implementation, therefore only three years are shown.

COLORADO LOTTERY
Notes to Required Supplementary Information
Years Ended June 30, 2020 and 2019

Changes of pension benefit terms:

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

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

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

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

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

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

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

- The investment return assumption was lowered from 7.50% to 7.25%.
- The price inflation assumption was lowered from 2.80% to 2.40%.
- The real rate of investment return assumption increased from 4.70% per year, net of investment expenses, to 4.85% per year, net of investment expenses.
- The wage inflation assumption was lowered from 3.90% to 3.50%.
- The mortality tables were changed from RP-2000 Combined Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on a projection scale of Scale AA to 2020 to RP-2014 White Collar Employee Mortality for active employees, RP2014 Healthy Annuitant Mortality tables projected to 2020 using the MP-2015 projection scale for retirees, or RP-2014 Disabled Retiree Mortality Table for disabled retirees.
- The discount rate was lowered from 7.50% to 5.26%.

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

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

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

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

COLORADO LOTTERY
Notes to Required Supplementary Information
Years Ended June 30, 2020 and 2019

Changes of OPEB benefit terms:

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

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

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

SUPPLEMENTARY INFORMATION

COLORADO LOTTERY
Schedule of Revenue and Costs for Scratch and Jackpot Games
For the Fiscal Year Ended June 30, 2020

	FY 2020							FY 2019		
	Scratch	Lotto	Powerball	Cash 5	Jackpot Games Cash 5 EZ Match	Mega Millions	Pick 3	Lucky For Life	Total	Scratch and Jackpot Games
TICKET SALES	\$490,695,434	\$32,889,854	\$51,136,995	\$15,582,864	\$2,563,667	\$37,685,155	\$13,403,086	\$14,882,442	\$ 658,839,497	\$679,779,611
PRIZE EXPENSE	(339,951,107)	(19,004,192)	(23,655,012)	(7,831,685)	(1,482,040)	(18,461,704)	(6,420,003)	(7,753,906)	(424,559,649)	(416,939,144)
NET REVENUE AFTER PRIZES	150,744,327	13,885,662	27,481,983	7,751,179	1,081,627	19,223,451	6,983,083	7,128,536	234,279,848	262,840,467
COMMISSIONS, BONUSES, TICKET COSTS & VENDOR FEES (Note 1)										
Retailer Commission	(34,289,744)	(1,970,399)	(3,063,220)	(933,557)	(153,530)	(2,257,848)	(802,600)	(891,091)	(44,361,989)	(45,128,159)
Retailer Bonus	(4,640,778)	(225,007)	(235,283)	(127,177)	(22,998)	(154,816)	(99,993)	(100,929)	(5,606,981)	(6,446,362)
Cost of Tickets Sold	(2,735,841)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(2,735,841)	(3,672,836)
Telecomm Reimbursements	583,615	39,118	60,821	18,534	3,049	44,821	15,941	17,701	783,600	774,270
On-Line Vendor Fees	(9,633,417)	(583,934)	(910,411)	(278,686)	(43,117)	(683,475)	(233,554)	(270,372)	(12,636,966)	(11,998,340)
TOTAL	(50,716,165)	(2,740,222)	(4,148,093)	(1,320,886)	(216,596)	(3,051,318)	(1,120,206)	(1,244,691)	(64,558,177)	(66,471,427)
GROSS PROFIT ON SALE OF TICKETS	\$ 100,028,162	\$ 11,145,440	\$ 23,333,890	\$ 6,430,293	\$ 865,031	\$ 16,172,133	\$ 5,862,877	\$ 5,883,845	\$ 169,721,671	\$ 196,369,040
AVERAGE DAILY TICKET SALES	\$ 1,340,698	\$ 89,863	\$ 139,719	\$ 42,576	\$ 7,005	\$ 102,965	\$ 36,620	\$ 40,662	\$ 1,800,108	\$ 1,862,410

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, 2020

	Scratch	Jackpot Games							FY 2020	FY 2019
		Lotto	Powerball	Cash 5	Cash 5	Mega Millions	Pick 3	Pick 3	Total	Total
Prize Expense	\$ 339,951,107	\$ 19,004,192	\$ 23,655,012	\$ 7,831,685	\$ 1,482,040	\$ 18,461,704	\$ 6,420,003	\$ 7,753,906	\$ 424,559,649	\$ 416,939,144
(/)Ticket Sales	\$ 490,695,434	\$ 32,889,854	\$ 51,136,995	\$ 15,582,864	\$ 2,563,667	\$ 37,685,155	\$ 13,403,086	\$ 14,882,442	\$ 658,839,497	\$ 679,779,611
Prize %	69.28%	57.78%	46.26%	50.26%	57.81%	48.99%	47.90%	52.10%	64.44%	61.33%



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 and Lottery Commission
State of Colorado, Department of Revenue, Lottery Division
Denver, Colorado

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Colorado Lottery, an enterprise fund of the State of Colorado as of and for the year ended June 30, 2020, 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 November 19, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Denver, Colorado
November 19, 2020



November 19, 2020

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

We have audited the financial statements of the Colorado Lottery as of and for the year ended June 30, 2020, and have issued our report thereon dated November 19, 2020. Professional standards require that we advise you of the following matters relating to our audit.

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

As communicated in our letter dated June 17, 2020 our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

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

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

We have provided our comments regarding internal controls during our audit in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated November 19, 2020.

Planned Scope and Timing of the Audit

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

Compliance with All Ethics Requirements Regarding Independence

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

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Colorado Lottery is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during Fiscal Year 2020. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

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

The most sensitive accounting estimates affecting the financial statements are:

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

Management's estimates of the net pension liability and net other postemployment benefits liability and related deferrals are based on the actuarial valuations as of December 31, 2019. We evaluated the key factors and assumptions used to develop the net pension and other postemployment benefits liabilities and related deferrals and determined that they are reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

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

The disclosure of Distributions of Net Proceeds in Note 6, as this disclosure presents information regarding performance of the Lottery's commitment to funding beneficiaries throughout the State of Colorado.

The disclosure of Pension Plans in Note 7, which presents the Colorado Lottery's deferred inflows and outflows of resources related to the defined benefit pension plan, as well as summarizes actuarial assumptions used in determining the Colorado Lottery's estimated total pension liability.

The disclosure of Other Postemployment Benefits and Life Insurance in Note 9, which presents the Colorado Lottery's deferred inflows and outflows of resources related to other postemployment benefits, as well as summarizes actuarial assumptions used in determining the Colorado Lottery's estimated total other postemployment benefits liability.

The disclosure of Contingencies and Commitments in Note 10, which summarize the Colorado Lottery's commitments to pay annuities to prior Lotto jackpot winners, as well as gaming operations and major vendor commitments.

The disclosure of Tax, Spending, and Debt Limitations in Note 11, which discloses that the net proceeds from the Colorado Lottery are excluded from the scope of TABOR.

The disclosure of Related Party Transactions in Note 12, which discloses the nature of the Colorado Lottery's relationship with the State of Colorado and interdepartmental fees paid as a result of this relationship.

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

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

Disagreements with Management

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

Representations Requested from Management

We have requested certain written representations from management that are included in the management representation letter dated November 19, 2020.

Management's Consultations with Other Accountants

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

Other Significant Matters, Findings, or Issues

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

Modification of the Auditor's Report

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

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, 2020 and 2019, and the changes in its financial position, or, where applicable, its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.



Denver, Colorado