



COLORADO LOTTERY
FINANCIAL AND COMPLIANCE AUDIT
June 30, 2022 and 2021

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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, 2022 and 2021. 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.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Denver, Colorado
October 31, 2022

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COLORADO LOTTERY
Report Summary
Years Ended June 30, 2022 and 2021

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, 2022. 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, 2022 and 2021.

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, 2022 and 2021, 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, 2022.
- 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 91.

COLORADO LOTTERY

Background

Years Ended June 30, 2022 and 2021

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 2022, the Lottery employed 102 employees in its headquarters in Pueblo and branch offices in Denver, Fort Collins and Grand Junction.

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

Colorado Revised Statutes (C.R.S.) Section 44-40-111(9), requires that no less than 50 percent of the total revenue from sales of lottery tickets be for prizes. The legislation also provides guidelines for distribution of net proceeds to beneficiary agencies. Article XXVII of the Colorado Constitution states that “net lottery proceeds” (that is, proceeds after the payment of prizes and lottery expenses and a reserve for future operations) are to be distributed to the Conservation Trust Fund within the Department of Local Affairs, the Division of Parks and Wildlife within the Department of Natural Resources, and the Great Outdoors Colorado Trust Fund (GOCO). The amount distributed to GOCO is limited by a constitutional cap, which was calculated to be \$73.1 million for the year ended June 30, 2022.

Prior to 2002, amounts exceeding the GOCO cap (the spillover) were distributed to the State General Fund. For Fiscal Years 2002 through 2007, the spillover funds were distributed to the State Public School Fund Contingency Reserve. For Fiscal Year 2008, the spillover funds were transferred to the Lottery Proceeds Contingency Reserve Fund. For Fiscal Years 2009 through 2020, the spillover funds were required to be transferred to the State Public School Capital Construction Assistance Fund pursuant to Section 22-43.7-104, C.R.S. On June 21, 2021 House Bill 21-1318 concerning the creation and funding of the Outdoor Equity Grant Program was approved by Governor Jared Polis and established the distribution of the amounts exceeding the GOCO cap for Fiscal Year 2021 and beyond. The bill added Part 2 to article 9 of title 33, specifically Sections 33-9-201 through 33-9-206, C.R.S and Subsection (12) to Section 44-40-111, C.R.S., changing the distribution of any excess amounts over the statutory limit for Fiscal Year 2021 and beyond. According to Sections 33-9-201(1)(a) and 33-9-203, the Outdoor Equity Program will be governed by the newly created Outdoor Equity Board in the Division of Parks and Wildlife. The purpose of the program is to increase access and opportunity for underserved youth and their families to experience Colorado’s open spaces, state parks, public lands, and other outdoor areas through programs with a focus on conservation, the environment, outdoor education, or outdoor recreation. The spillover amount for Fiscal Year 2022 shall be transferred as follows: the first \$1,500,000 to the Outdoor Equity Fund, the next \$3 million to the State Public School Capital Construction Assistance Fund, and any remaining amounts divided to: 25 percent to the Wildlife Cash Fund, 25 percent to the Parks and Outdoor Recreation Cash Fund, and 50 percent to the State Public School Capital Construction Assistance Fund.



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 Audit of the Financial Statements

Opinions

We have audited the financial statements of the Colorado Lottery, an enterprise fund of the State of Colorado, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Colorado Lottery's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Colorado Lottery as of June 30, 2022 and 2021, 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.

Basis for Opinions

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

Adoption of New Accounting Standard

As discussed in Note 14 to the financial statements, the Colorado Lottery has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended June 30, 2022. Accordingly, a restatement has been made as of July 1, 2021, to restate beginning net position. Our opinions are not modified with respect to this matter.

Relationship with the State of Colorado

As discussed in Note 1 – Nature of Operations and Summary of Significant Accounting Policies, the financial statements of the Colorado Lottery are intended to present the financial position and cash flows for only that portion of the financial reporting entity, the State of Colorado, which is attributable to the transactions of the Colorado Lottery. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2022 and 2021, and the changes in its financial position, or, where applicable, its cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Colorado Lottery's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Colorado Lottery's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 27, 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 78 through 79, 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 80 through 81 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2022, 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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Denver, Colorado
October 31, 2022

COLORADO LOTTERY

Management's Discussion and Analysis

June 30, 2022 and 2021

This discussion and analysis of the Colorado Lottery's financial performance provides an overview of financial activities for the Fiscal Years ended June 30, 2022 and 2021. Please read it in conjunction with the Lottery's financial statements, which begin on page 28. These financial statements reflect only activities of the Colorado Lottery.

Games Offered by the Colorado Lottery

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

Financial Highlights

The Colorado Lottery achieved another record-breaking year with overall ticket sales for Fiscal Year 2022 reaching nearly \$826.9 million, the highest in the Lottery's history. In comparison to the previous highest sales record of \$794.9 million set in the previous fiscal year, sales increased by over \$31.9 million or 4.0 percent. Scratch and jackpot sales both contributed to this achievement, hitting all time record-breaking marks. Scratch sales set a new record high in the current fiscal year with sales reaching \$590.3 million, or 3.0 percent higher than the previous record set in Fiscal Year 2021. Fiscal Year 2022 jackpot sales of \$236.6 million narrowly edged the previous record of \$236.4 million set in Fiscal Year 2019, with an increase of \$221 thousand over that fiscal year.

COLORADO LOTTERY

Management's Discussion and Analysis

June 30, 2022 and 2021

Funds distributed or available for distribution from Fiscal Year 2022 sales were \$180.3 million, another record-breaking mark in the Lottery's history. The previous record of nearly \$169.4 million in Fiscal Year 2021 dropped to the second highest mark. With a 6.5 percent increase in distributions from Fiscal Year 2021 to Fiscal Year 2022, distributions hit the Great Outdoors Colorado (GOCO) proceeds cap of \$73.1 million and included a \$17.0 million spill-over of funds. With a legislative change made to the distribution calculation of spill-over funds starting in Fiscal Year 2021, nearly \$9.3 million went to the State Public School Capital Construction Assistance Fund, \$1.5 million, an increase of \$750 thousand from the previous year, to the Outdoor Equity Fund, and over \$3.1 million each to both the Wildlife Cash Fund and to the Parks and Outdoor Recreation Fund. This was the twenty-first year in a row the Lottery successfully reached the GOCO cap, ranging from \$46.5 million in Fiscal Year 2002 to the \$73.1 million in the current fiscal year.

Gross profit (Lottery product sales minus costs tied directly to those sales) as a percentage of sales increased by 0.1 percent from the previous fiscal year (from 25.1 percent, restated for the adoption of GASB Statement No. 87, to 25.2 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). A slight increase of just over 0.1 percent in prize expense as a percentage of sales was more than offset by decreases in all the other categories, except vendor fees, and was the chief reason for the overall increase in the gross profit percentage. Total prize expense as a percentage of sales for all Lottery products increased slightly from 65.0 percent to nearly 65.2 percent in Fiscal Years 2021 and 2022, respectively. This increase as a percentage of sales, however, was offset by a total decrease as a percentage of sales of retailer commissions and bonuses and scratch ticket costs from 8.1 percent in Fiscal Year 2021 to nearly 7.9 percent in Fiscal Year 2022. Vendor fees as a percentage of sales remained the same fiscal year over fiscal year at nearly 1.8 percent.

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, 2022 and 2021. 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, 2022 and 2021. 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, 2022 and 2021.

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2022 and 2021

Statements of Net Position

The Statements of Net Position present a financial snapshot of the Lottery at June 30, 2022 and 2021. 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, 2022 and 2021

Condensed Statements of Net Position
June 30, 2022, 2021 and 2020

	2022	2021 (Restated)	2020
Assets			
Current assets	\$ 112,711,549	\$ 98,292,452	\$ 78,861,753
Restricted assets	7,903,109	7,841,425	8,330,893
Capital assets	<u>4,099,257</u>	<u>3,212,861</u>	<u>363,310</u>
Total assets	<u>\$ 124,713,915</u>	<u>\$ 109,346,738</u>	<u>\$ 87,555,956</u>
Deferred Outflows			
Pensions	\$ 1,218,978	\$ 2,346,754	\$ 1,419,332
Other postemployment benefits	<u>50,239</u>	<u>50,669</u>	<u>60,798</u>
Total deferred outflows	<u>\$ 1,269,217</u>	<u>\$ 2,397,423</u>	<u>\$ 1,480,130</u>
Liabilities			
Current liabilities	\$ 122,057,529	\$ 103,496,190	\$ 82,396,939
Long-term liabilities	3,833,989	2,659,411	761,706
Net pension liability	14,118,170	18,450,021	20,589,605
Net other postemployment benefits liability	<u>567,129</u>	<u>650,065</u>	<u>829,761</u>
Total liabilities	<u>\$ 140,576,817</u>	<u>\$ 125,255,687</u>	<u>\$ 104,578,011</u>
Deferred Inflows			
Pensions	\$ 5,686,351	\$ 5,730,759	\$ 9,550,273
Other postemployment benefits	<u>327,542</u>	<u>337,191</u>	<u>238,628</u>
Total deferred inflows	<u>\$ 6,013,893</u>	<u>\$ 6,067,950</u>	<u>\$ 9,788,901</u>
Net Position			
Investment in Capital Assets	\$ 246,710	\$ 271,018	\$ 363,310
Restricted – Licensed Agent Recovery Reserve	917,360	833,351	766,783
Restricted – Operating Reserve	1,900,000	1,700,000	1,800,000
Unrestricted - Unrealized Gain/Loss on Investments	(4,241,673)	386,768	1,467,218
Unrestricted - Unfunded Pension Liability	(19,593,135)	(22,841,618)	(29,752,722)
Unrestricted - Other Postemployment Benefits Asset	<u>163,160</u>	<u>71,005</u>	<u>24,585</u>
Total net position	<u>\$ (20,607,578)</u>	<u>\$ (19,579,476)</u>	<u>\$ (25,330,826)</u>

COLORADO LOTTERY

Management's Discussion and Analysis

June 30, 2022 and 2021

The Lottery's total assets at June 30, 2022 were \$124.7 million. Assets consisted primarily of cash and investments of \$79.4 million, including restricted balances of \$2.8 million, receivables from Lottery retailers for the sales of Lottery products of nearly \$34.3 million, prepaid prize expense with Multi-State Lottery Association (MUSL) of nearly \$5.1 million, scratch ticket inventory of nearly \$1.8 million, a net investment in capital assets of over \$0.2 million, and a net investment in leases of nearly \$3.9 million.

Comparable figures at June 30, 2021 were over \$109.3 million in total assets, restated for the adoption of Governmental Accounting Standards Board (GASB) Statement No. 87. This principally included cash and investments of \$63.7 million, including restricted balances of over \$2.5 million, receivables from retailers of nearly \$34.5 million, prepaid prize expense with MUSL of \$5.3 million, scratch ticket inventory of \$2.6 million, a net investment in capital assets of nearly \$0.3 million, and a net investment in leases of over \$2.9 million.

Comparable figures at June 30, 2020 were over \$87.5 million in total assets, principally including cash and investments of \$48.8 million, including restricted balances of nearly \$2.6 million, receivables from retailers of nearly \$30.8 million, prepaid prize expense with MUSL of \$5.8 million, scratch ticket inventory of \$1.7 million and a net investment in capital assets of nearly \$0.4 million.

The Lottery's total assets increased by over \$15.4 million from Fiscal Year 2021 to Fiscal Year 2022. The increase in total assets was primarily made up of the increases in cash and investments of \$15.7 million, offset by decreases in receivables from Lottery retailers of nearly \$0.2 million, prepaid prize expense with MUSL of \$0.2 million, scratch ticket inventory of over \$0.8 million, and net investment in leases of over \$0.9 million. The increase in cash of \$15.7 million can chiefly be attributed to the increase in net cash provided by operating activities tied to increased sales seen in Fiscal Year 2022, offset by an increase in the associated distribution of net proceeds and an increase in the loss in the fair market value of investments tied to the recording of GASB 31.

The Lottery's total assets increased by nearly \$21.8 million from Fiscal Year 2020 to Fiscal Year 2021. The increase in total assets was primarily made up of the increases in cash and investments of \$14.9 million, in receivables from retailers of \$3.6 million, in net investment of capital assets of nearly \$2.9 million, and in scratch ticket inventory of \$0.9 million; offset by a decrease in prepaid prize expense with MUSL of \$0.5 million. The increase in cash of \$14.9 million can chiefly be attributed to the increase in net cash provided by operating activities tied to increased sales seen in Fiscal Year 2021 offset by an increase in the associated distribution of net proceeds.

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2022 and 2021

The Lottery's total liabilities at June 30, 2022 totaled \$140.6 million, which consisted primarily of prize liability on all Lottery products of \$73.4 million, proceeds distributions due to recipients of nearly \$43.1 million, net pension liability of \$14.1 million recorded in accordance with GASB Statement No. 68, \$2.7 million due to retailers for bonuses, lease liability of nearly \$3.9 million recorded in accordance with GASB Statement No. 87, wages and benefits due to Lottery employees of \$0.9 million, net other postemployment benefits (OPEB) liability of nearly \$0.6 million recorded in accordance with GASB Statement No. 75, nearly \$0.7 million due to Lottery vendors, nearly \$0.8 million due to Lottery employees for annual and sick leave, and \$0.4 million due to MUSL.

Comparable figures at June 30, 2021 were nearly \$125.3 million in total liabilities restated for the implementation of GASB Statement No. 87. Liabilities consisted primarily of prize liability on all Lottery products of nearly \$56.5 million, proceeds distributions due to recipients of over \$39.4 million, net pension liability of nearly \$18.5 million, nearly \$3.9 million due to retailers for bonuses, over \$2.9 million in lease liability, wages and benefits due to Lottery employees of \$1.0 million, net OPEB liability of nearly \$0.7 million, \$1.0 million due to Lottery vendors, nearly \$0.8 million due to Lottery employees for annual and sick leave, and \$0.6 million due to MUSL.

Comparable figures at June 30, 2020 were nearly \$104.6 million in total liabilities, 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, nearly \$2.4 million due to retailers for bonuses, \$0.8 million due to Lottery vendors, nearly \$0.5 million due to MUSL, wages and benefits due to Lottery employees of nearly \$0.9 million, net OPEB liability of \$0.8 million, and annual and sick leave due to Lottery employees of over \$0.7 million.

The Lottery's total liabilities at June 30, 2022 increased by \$15.3 million from the previous fiscal year chiefly due to the increase of over \$16.9 million in prize liability. The increase in prize liability in the current fiscal year was due to the increase in scratch game prize liability of nearly \$7.5 million, associated to the increase in scratch sales and accrued second chance prizes not yet awarded at year end, and to the over \$9.4 million increase in jackpot game prize liability due to a \$12.5 million Lotto jackpot claimed as an annuity prize in January 2022, for which the annuity at an estimated cost of \$9.1 million had not yet been purchased at the end of Fiscal Year 2022. Other liability increases included \$3.6 million in proceeds distributions due to proceeds recipients and \$2.9 million in leases liability; offset by decreases of \$4.3 million in net pension liability, nearly \$1.2 million in retailer bonuses, \$0.3 million due to Lottery vendors, and nearly \$0.2 million due to MUSL. Remaining liability categories showed much smaller changes from Fiscal Year 2021 to Fiscal Year 2022.

COLORADO LOTTERY

Management's Discussion and Analysis

June 30, 2022 and 2021

The Lottery's total liabilities at June 30, 2021 increased by \$20.7 million from the previous fiscal year chiefly due to the increase of over \$17.3 million in prize liability. The increase in prize liability in Fiscal Year 2021 from Fiscal Year 2020 was due to the increase in scratch game prize liability of \$14.5 million, associated to the increase in scratch sales and accrued second chance prizes not yet awarded at year end, and to the \$2.8 million increase in jackpot game prize liability due to larger jackpots compared to the prior fiscal year. Other liability increases include over \$2.9 million in leases liability, \$1.5 million in retailer bonuses, \$0.8 million in proceeds distributions, nearly \$0.2 million due to Lottery vendors, \$0.1 million in wages and benefits due to Lottery employees, and \$0.1 million due to MUSL; offset by decreases of \$2.1 million in net pension liability and nearly \$0.2 million of OPEB liability. Remaining liability categories showed much smaller changes from Fiscal Year 2020 to Fiscal Year 2021.

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, 2021 to June 30, 2022 consisted of a decrease in investment in capital assets of \$24 thousand due to a total depreciation expense of \$37 thousand recognized in Fiscal Year 2022, offset by current year additions of capital assets of nearly \$13 thousand, an increase in the bonding reserve from \$833 thousand to \$917 thousand, an increase of \$0.2 million in the operating reserve, an unrealized loss on investments of \$4.6 million resulting from a net decrease in the adjustments on State Treasury investments, a net decrease in unfunded pension liability and related deferrals of \$3.2 million, and a net increase in net OPEB asset of \$92 thousand; all resulting in a total net decrease in net position of \$1.0 million.

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Following is a schedule of net position for Fiscal Years 2022 and 2021:

	<u>2022</u>	<u>2021</u>	<u>Change</u>
Investment in Capital Assets Restricted - Licensed Agent	\$ 246,710	\$ 271,018	\$ (24,308)
Recovery Reserve	917,360	833,351	84,009
Restricted - Operating Reserve	1,900,000	1,700,000	200,000
Unrestricted - Unrealized Gain or Loss on Investments	(4,241,673)	386,768	(4,628,441)
Unrestricted - Unfunded Pension Liability	(19,522,130)	(22,841,618)	3,319,488
Unrestricted - Other Postemployment Benefits Asset	<u>92,155</u>	<u>71,005</u>	<u>21,150</u>
Total net position	<u>\$ (20,607,578)</u>	<u>\$ (19,579,476)</u>	<u>\$ (1,028,102)</u>

The change in net position from June 30, 2020 to June 30, 2021 consisted of a decrease in investment in capital assets of \$92 thousand due to a total depreciation expense of \$92 thousand recognized in Fiscal Year 2021, an increase in the bonding reserve from nearly \$767 thousand to \$833 thousand, an unrealized loss on investments of nearly \$1.1 million resulting from a net decrease in the adjustments on State Treasury investments, a net decrease in unfunded pension liability and related deferrals of \$6.9 million, and a net increase in unfunded net OPEB liability and related deferrals of \$46 thousand, combined with a decrease in the operating reserve of \$100 thousand; all resulting in a total net increase in net position of over \$5.7 million.

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Following is a schedule of net position for Fiscal Years 2021 and 2020:

	2021	2020	Change
Investment in Capital Assets	\$ 271,018	\$ 363,310	\$ (92,292)
Restricted - Licensed Agent			
Recovery Reserve	833,351	766,783	66,568
Restricted - Operating Reserve	1,700,000	1,800,000	(100,000)
Unrestricted - Unrealized Gain or			
Loss on Investments	386,768	1,467,218	(1,080,450)
Unrestricted - Unfunded Pension			
Liability	(22,841,618)	(29,752,722)	6,911,104
Unrestricted - Unfunded Other			
Postemployment Benefits			
Asset/(Liability)	71,005	24,585	46,420
Total net position	\$ (19,579,476)	\$ (25,330,826)	\$ 5,751,350

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

	2022	2021	2020
Total Net Position	\$ (20,607,578)	\$ (19,579,476)	(25,330,826)
Add back Unrestricted - Unfunded			
Pension Liability	19,593,135	22,841,618	29,752,722
Subtract Unrestricted - Other Postemployment			
Benefits Asset	(163,160)	(71,005)	(24,585)
Net position excluding pension			
and OPEB effect	<u>\$ (1,177,603)</u>	<u>\$ 3,191,137</u>	<u>4,397,311</u>

The Lottery's net position excluding the effects of GASB 68 and GASB 75 decreased by nearly \$4.4 million from June 30, 2021 to June 30, 2022 and decreased by \$1.2 million from June 30, 2020 to June 30, 2021. The decrease from June 30, 2021 to June 30, 2022 was mainly due to the \$4.6 million unrealized loss on investments, offset by an increase in the operating reserve of \$0.2 million. The decrease from June 30, 2020 to June 30, 2021 was mainly due to the \$1.1 million unrealized loss on investments and the decrease in the operating reserve of \$0.1 million.

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
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	2022	2021 (Restated)	2020
Operating Revenues	\$ 826,879,453	\$ 794,932,274	\$ 658,839,497
Direct Operating Expenses	618,792,324	595,643,383	489,117,826
Gross Profit on Sale of Tickets	208,087,129	199,288,891	169,721,671
Other Operating Expenses			
Marketing and communications	14,680,192	14,627,090	12,695,694
Wages and benefits	5,933,674	2,075,212	3,139,662
Other operating expenses	4,773,446	7,489,484	6,801,948
Total Other Operating Expenses	25,387,312	24,191,786	22,637,304
Other Operating Revenue	206,803	141,509	158,749
Total Operating Income	182,906,620	175,238,614	147,243,116
Nonoperating Revenue/(Loss)			
Investment Loss	(3,616,685)	(135,130)	2,599,311
Transfer in - pension direct distribution	-	-	9,273
Proceeds distributions	(180,318,037)	(169,352,134)	(142,425,505)
Total Nonoperating Expenses	(183,934,722)	(169,487,264)	(139,816,921)
Net Income/(Loss)	(1,028,102)	5,751,350	7,426,195

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**Condensed Statements of Revenues, Expenses and
Changes in Net Position (Continued)**
For the Fiscal Years Ended June 30, 2022, 2021 and 2020

	2022	2021 (Restated)	2020
Net Position, Beginning of Year	\$ (19,579,476)	\$ (25,330,826)	(32,757,021)
Net Change in Net Position	(1,028,102)	5,751,350	7,426,195
Net Position, End of Year	<u>\$ (20,607,578)</u>	<u>\$ (19,579,476)</u>	<u>\$ (25,330,826)</u>

Sales Activities

Fiscal Year 2022 revenues from the sales of Lottery products were up from the previous fiscal year, setting the all-time record high for total Lottery sales in a fiscal year, including record highs for both scratch and jackpot product sales. Fiscal Year 2022 revenues from the sales of Lottery products ended at nearly \$826.9 million, surpassing the previous fiscal year and previous sales record by over \$31.9 million, representing a 4.0 percent increase in overall sales.

Fiscal Year 2021 revenues from the sales of Lottery products were substantially up from Fiscal Year 2020, setting the all-time record high for Lottery sales at that time, including the continued record-setting pace of scratch product sales. Fiscal Year 2021 revenues from the sales of Lottery products ended at \$794.9 million, surpassing the previous first place sales spot of Fiscal Year 2019 by \$115.1 million. Sales revenues for the current fiscal year were up from the previous fiscal year by nearly \$136.1 million, representing a nearly 20.7 percent increase in overall sales.

Fiscal Year 2022 scratch sales hit an all-time high of nearly \$590.3 million, which represented a nearly \$17.3 million or 3.0 percent increase over Fiscal Year 2021 scratch sales of \$573.0 million. Over the last three fiscal years, scratch sales have steadily increased by a total of nearly \$146.9 million or 33.1 percent over Fiscal Year 2019 scratch sales. With the regularly scheduled launches of new and exciting scratch games including several "family of games", increasing the number of games available at one time, and the decision to keep two \$50 scratch games out in the market simultaneously, resulting in a \$41.4 million increase in sales at that price point in the current fiscal year, 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 2022 saw players continuing to shift to the higher priced tickets with an increase in sales of \$54.1 million of \$10, \$20 and \$50 priced tickets over Fiscal Year 2021, offset by the overall drop in sales of the \$1, \$2, \$3, and \$5 priced tickets of over \$36.8 million from the previous fiscal year.

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Fiscal Year 2021 scratch sales hit an all-time high of \$573.0 million, which represented a \$82.3 million or 16.8 percent increase from Fiscal Year 2020 scratch sales of \$490.7 million. With the regularly scheduled launches of new and exciting scratch games, the launch and virtual sell out of the third \$50 game, and the efforts of the Lottery's retailer network to provide Lottery products, scratch sales continued to remain at its high levels.

Fiscal Year 2022 combined jackpot sales ended at \$236.6 million, a nearly \$14.7 million or 6.6 percent increase over the previous fiscal year's jackpot sales of \$221.9 million. As stated earlier, Fiscal Year 2022 became the highest jackpot sales year in the history of the Lottery edging out Fiscal Year 2019 jackpot sales of \$236.4 million. The increase in jackpot game sales over the previous fiscal year could chiefly be attributed to higher jackpots seen throughout the year, combined with changes to two of the games. Continued excitement surrounding Colorado's own Lotto+ Plus game launched in Fiscal Year 2020, with the highest jackpot of \$25.0 million reached in January 2022 and since the new game started, resulted in an increase of \$18.4 million in sales over the previous fiscal year. Fiscal Year 2022 sales of Powerball increased by \$16.2 million over Fiscal Year 2021 with the addition of a third draw each week and the launch of Double Play Powerball in August 2021. For an extra dollar, players now have a chance to win \$10 million in an additional drawing, using their same numbers as in the Powerball draw. Finally, Lucky For Life went from a twice-weekly to a daily draw game in July 2021, increasing fiscal year sales from the previous one by nearly \$4.9 million. Mega Millions sales in the current fiscal year decreased by \$22.0 million from Fiscal Year 2021 with the drop in the average jackpot amounts seen during the fiscal year compared to the previous one. This was combined with a \$2.8 million drop in fiscal year sales of the remaining jackpot products (Cash 5, Cash 5 EZ Match, Pick 3) from Fiscal Year 2021 to Fiscal Year 2022.

Fiscal Year 2021 combined jackpot sales ended at \$221.9 million, a nearly \$53.8 million or 32.0 percent increase from the previous fiscal year's jackpot sales of \$168.1 million. The increase in jackpot game sales could chiefly be attributed to the higher sales of Powerball, Mega Millions and Lotto+ Plus (\$172.0 million combined), directly tied to the higher jackpots reached for each game throughout the fiscal year. These included the January 2021 jackpots of Mega Millions of \$1.0 billion, the second highest Mega Millions jackpot in history, and of Powerball of \$730 million and the December 2020 Lotto+ Plus jackpot of \$11.7 million, the highest jackpot since the change to the game in September of 2019. The increase in the sales of these three games made up \$50.3 million or nearly 94.0 percent of the total increase. Combined sales of nearly \$49.9 million from all other jackpot products (Cash 5, Cash 5 EZ Match, Pick 3 and Lucky for Life) was up by nearly \$3.5 million in sales of the same products from the previous fiscal year. Fiscal Year 2021 ended with all jackpot products showing a year over year sales increase compared to the sales of the same products in the prior fiscal year.

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The following tables compare Lottery product sales between fiscal years.

Product Sales	2022	2021	Difference	Change
Scratch	\$ 590,288,982	\$ 573,017,390	\$ 17,271,592	3.0 %
Powerball	83,117,675	66,889,633	\$ 16,228,042	24.3
Lotto +	66,403,730	47,970,863	\$ 18,432,867	38.4
Mega Millions	35,103,706	57,130,873	\$ (22,027,167)	(38.6)
Cash 5	14,093,529	15,890,538	\$ (1,797,009)	(11.3)
Cash 5 EZ Match	2,163,798	2,600,546	\$ (436,748)	(16.8)
Pick 3	15,315,871	15,920,621	\$ (604,750)	(3.8)
Lucky For Life	20,392,162	15,511,810	\$ 4,880,352	31.5
Total	<u>\$ 826,879,453</u>	<u>\$ 794,932,274</u>	<u>\$ 31,947,179</u>	4.0

Product Sales	2021	2020	Difference	Change
Scratch	\$ 573,017,390	\$ 490,695,434	\$ 82,321,956	16.8 %
Powerball	66,889,633	51,136,995	\$ 15,752,638	30.8
Lotto +	47,970,863	32,889,854	\$ 15,081,009	45.9
Mega Millions	57,130,873	37,685,155	\$ 19,445,718	51.6
Cash 5	15,890,538	15,582,864	\$ 307,674	2.0
Cash 5 EZ Match	2,600,546	2,563,667	\$ 36,879	1.4
Pick 3	15,920,621	13,403,086	\$ 2,517,535	18.8
Lucky For Life	15,511,810	14,882,442	\$ 629,368	4.2
Total	<u>\$ 794,932,274</u>	<u>\$ 658,839,497</u>	<u>\$ 136,092,777</u>	20.7

Other Operating Revenues

Other operating revenues for Fiscal Year 2022 totaled over \$0.2 million with a slight increase in the current fiscal year of \$65 thousand over the previous one. Other operating revenues for the Fiscal Year ended June 30, 2021 totaled nearly \$0.2 million with a slight decrease of \$17 thousand from the previous fiscal year. 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 restitution collected from individuals charged with crimes against the Lottery.

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Investment Income (Loss)

Investment income/loss for the years ended June 30, 2022 and June 30, 2021 totaled a \$3.6 million loss and a \$135 thousand loss, respectively. The recording of a \$4.6 million loss in Fiscal Year 2022 verses a \$1.1 million loss in Fiscal Year 2021 in the Lottery's share of the unrealized gains/losses on investments held by the Treasury tied to the GASB Statement No. 31 adjustment recording offset by a slight increase of \$66 thousand in nonoperating interest revenue earned on investments held by the Treasury and by the MUSL group made up the nearly \$3.5 million drop in nonoperating revenues.

Total Revenues

Total revenues were over \$823.4 million and \$794.9 million for the years ended June 30, 2022 and June 30, 2021, respectively. The major contributing factor to the \$28.5 million increase in total revenues was primarily due to the over \$31.9 million or 4.0 percent increase in Lottery product sales, combined with a slight increase in other operating revenue of \$65 thousand, offset by an increase in investment loss of nearly \$3.5 million in Fiscal Year 2022 over Fiscal Year 2021.

Major Expenses

The Lottery incurred \$618.8 million or nearly 96.1 percent of its total expenses of nearly \$644.2 million for Fiscal Year ended June 30, 2022 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 \$618.8 million spent in Fiscal Year 2022 for the direct support of the Lottery games, nearly \$538.9 million was for prize expense associated with those games.

In comparison, \$595.6 million, restated for the adoption of GASB Statement No. 87, or 96.1 percent of the Lottery's total expenses of over \$619.8 million for the Fiscal Year ended June 30, 2021 were game-related expenses. Of the over \$595.6 million spent in Fiscal Year 2021 for direct support of the Lottery games, over \$516.9 million was spent for prize expense associated with those games.

Total prize expense in Fiscal Year 2022 increased nearly \$22.0 million from Fiscal Year 2021. This increase was not only directly tied to the overall increase in sales of over \$31.9 million recorded in Fiscal Year 2022, but was also due to the increase in the prize expense as a percentage of sales from 65.0 percent in the prior fiscal year to 65.2 percent in the current fiscal year for all products. This 0.2 percent net increase was due to several factors, mainly on the scratch side. Prize expense as a percentage of scratch sales increased from 70.4 percent to 71.0 percent for Fiscal Year 2021 and Fiscal Year 2022, respectively. The current fiscal year saw a continued shift by Lottery players purchasing scratch games at the higher price points, resulting in an increase from 63.5 percent of total scratch sales dollars in Fiscal Year 2021 to 70.8 percent in Fiscal Year 2022 for the \$10, \$20 and \$50 priced tickets. Scratch game sales at the higher price point levels (\$10, 20 and \$50 tickets) carry a higher prize expense as a percentage of sales than do scratch games at the lower price point levels (\$1, \$2, \$3 and \$5).

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This increase as a percentage of sales due to the mix of scratch games was slightly offset by the decrease in the initial bookings of second chance prizes of new scratch games launched during Fiscal Year 2022 compared to Fiscal Year 2021 and the increase in the write off of unclaimed prizes (which reduces prize expense). Overall jackpot prize expense as a percentage of jackpot sales decreased slightly from 51.1 percent in Fiscal Year 2021 to 50.5 percent in Fiscal Year 2022 chiefly due to an increase in unclaimed jackpot prizes written off in the current fiscal year. An increase in the estimated additional cost of purchasing the Lotto annuity selected in Fiscal Year 2022 partially offset the drop in jackpot prize expense as a percentage of sales in Fiscal Year 2022 compared to the prior fiscal year.

Total prize expense in Fiscal Year 2021 increased nearly \$92.4 million from Fiscal Year 2020. This increase was not only directly tied to the overall increase in sales of \$136.1 million recorded in Fiscal Year 2021, but was also due to the increase in the prize expense as a percentage of sales from 64.4 percent in the prior fiscal year to 65.0 percent in the current fiscal year for all products. A change in the sales product mix in Fiscal Year 2021 from Fiscal Year 2020 offset the overall increase in the prize expense as a percentage of sales with a 2.4 percent shift from scratch sales (from 74.5 percent of total sales to 72.1 percent) to jackpot sales (from 25.5 percent of total sales to 27.9 percent) which possess a much lower overall prize expense percentage.

As a percentage of sales, the overall game-related expenses other than prize expense decreased to nearly 9.7 percent in Fiscal Year 2022 from 9.9 percent in Fiscal Year 2021, restated for the adoption of GASB No. 87. This decrease was due to the decrease in both retailer bonuses earned and in the cost of scratch tickets sold as a percentage of sales throughout the fiscal year.

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Following are tables comparing the game-related expenses between Fiscal Years 2022 and 2021:

Game-Related Expenses	2022	% of Sales	2021 (Restated)	% of Sales	Difference	Change in % of Sales
Prize Expense						
Scratch	\$ 419,363,787	70.4 %	\$ 403,513,576	69.3 %	\$ 15,850,211	1.1 %
Powerball	40,238,228	48.6	32,474,262	46.3	7,763,966	2.3
Lotto +	34,586,256	52.0	24,961,400	57.8	9,624,856	(5.8)
Mega Millions	16,740,562	49.1	28,044,799	49.0	(11,304,237)	0.1
Cash 5	7,373,617	52.5	8,345,179	50.3	(971,562)	2.2
Cash 5 EZ Match	1,237,397	58.3	1,514,797	57.8	(277,400)	0.5
Pick 3	7,179,580	49.5	7,882,019	47.9	(702,439)	1.6
Lucky For Life	12,169,903	65.7	10,195,573	52.1	1,974,330	13.6
Total prize expense	538,889,330	65.0	516,931,605	64.4	21,957,725	0.6
Retailer compensation						
Commissions	55,488,480	6.7	53,423,990	6.7	2,064,490	-
Bonuses	6,696,090	1.0	7,677,313	0.9	(981,223)	0.1
Ticket costs	2,988,167	0.4	3,467,449	0.4	(479,282)	-
Vendor fees	14,730,257	1.8	14,143,026	1.8	587,231	-
Total direct op. exp.	<u>\$ 618,792,324</u>	75.0 %	<u>\$ 595,643,383</u>	74.2 %	<u>\$ 23,148,941</u>	0.8 %

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Following are tables comparing the game-related expenses between Fiscal Years 2021 and 2020:

Game-Related Expenses	2021	% of Sales	2020	% of Sales	Difference	Change in % of Sales
Prize Expense						
Scratch	\$ 403,513,576	70.4 %	\$ 339,951,107	69.3 %	\$ 63,562,469	1.1 %
Powerball	32,474,262	48.6	23,655,012	46.3	8,819,250	2.3
Lotto +	24,961,400	52.0	19,004,192	57.8	5,957,208	(5.8)
Mega Millions	28,044,799	49.1	18,461,704	49.0	9,583,095	0.1
Cash 5	8,345,179	52.5	7,831,685	50.3	513,494	2.2
Cash 5 EZ Match	1,514,797	58.3	1,482,040	57.8	32,757	0.5
Pick 3	7,882,019	49.5	6,420,003	47.9	1,462,016	1.6
Lucky For Life	10,195,573	65.7	7,753,906	52.1	2,441,667	13.6
Total prize expense	516,931,605	65.0	424,559,649	64.4	92,371,956	0.6
Retailer compensation						
Commissions	53,423,990	6.7	44,361,989	6.7	9,062,001	-
Bonuses	7,677,313	1.0	5,606,981	0.9	2,070,332	0.1
Ticket costs	3,467,449	0.4	2,735,841	0.4	731,608	-
Vendor fees	14,647,026	1.8	11,853,366	1.8	2,793,660	-
Total direct op. exp.	<u>\$ 596,147,383</u>	75.0 %	<u>\$ 489,117,826</u>	74.2 %	<u>\$ 107,029,557</u>	0.8 %

Non game-related expenses totaled nearly \$25.4 million in Fiscal Year 2022 compared to \$24.2 million, restated for the implementation of GASB Statement No. 87, in Fiscal Year 2021, a \$1.2 million or over 4.9 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, office and warehouse lease expense and delivery expense of Lottery scratch tickets. Fiscal Year 2022 marketing and communication expenses were virtually the same at nearly \$14.7 million compared to over \$14.6 million in Fiscal Year 2021. Increases in sponsorships and website management costs were offset by corporate advertising, with costs in other areas remaining the same fiscal year over fiscal year. Fiscal Year 2022 net wages and benefits expense of \$5.9 million compared to nearly \$2.1 million in Fiscal Year 2021 included an over \$3.3 million reduction adjustment of GASB pension and OPEB expenses in Fiscal Year 2022, compared to an over \$6.9 million reduction adjustment in Fiscal Year 2021. The GASB adjustment is the income statement effect related to GASB 68 and 75 that is recorded against wages and benefits. 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 nearly \$1.1 million in Fiscal Year 2022 compared to over \$3.2 million in Fiscal Year 2021. The nearly \$2.2 million decrease in payments made to other state agencies was mainly due to the decrease in OIT costs charged to the Lottery.

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The costs for thirteen OIT employees, who were considered wholly dedicated and charged to the Lottery in Fiscal Year 2020, were reduced to the costs of only three employees in both Fiscal Years 2021 and 2022, and the associated credits issued to the Lottery in Fiscal Year 2022, essentially zeroing out all Fiscal Year 2022 OIT charges. In late Fiscal Year 2020, the Lottery converted its back office system, previously supported by OIT personnel, to a vendor-provided solution. The need for OIT support staff was, therefore, greatly reduced. Office and warehouse lease costs, including for both the amortization of the right to use lease assets recognized for GASB No. 87 and space rental charges excluded from GASB No. 87 recognition dropped by \$0.2 million from Fiscal Year 2021 to Fiscal Year 2022 due to the move of the Denver claims office to a Department of Revenue facility at a much lower cost at the beginning for Fiscal Year 2022. Scratch ticket delivery expense dropped from \$1 million to \$0.8 million over the two fiscal years.

Distributions to the Proceeds Recipients

The Lottery's proceeds distribution for Fiscal Year 2022 totaled \$180.3 million. This represented an increase of over \$10.9 million or nearly 6.5 percent over the Fiscal Year 2021 proceeds amount of nearly \$169.4 million. The current year's proceeds amount became the highest amount in Lottery history. As a percentage of total revenue, the Lottery returned nearly 21.8 percent in Fiscal Year 2022, an increase of 0.5 percent from the nearly 21.3 percent in Fiscal Year 2021. Of these total proceeds, \$73.1 million, the cap amount, was allocated to the Great Outdoors Colorado Trust Fund, \$72.1 million to the Conservation Trust Fund and over \$18.0 million to the Division of Parks and Outdoor Recreation per the distribution formula stated in Colorado Revised Statutes (C.R.S.) 44-40-111. According to the distribution changes introduced in House Bill 21-1318 as outlined earlier, the spill-over amount to be distributed is as follows for Fiscal Year 2022: \$1.5 million to the Outdoor Equity Fund, a total of nearly \$9.3 million to the School Assistance Fund (BEST), \$3.1 million to the Wildlife Cash Fund, and \$3.1 million to the Parks & Outdoor Recreation Fund.

Capital Assets and Leases

The Lottery's investment in net capital assets and leases at June 30, 2022, 2021, and 2020 amounted to \$4.1 million, \$3.2 million, and nearly \$0.4 million, respectively. The investment in capital assets include computer equipment, servers, drawing equipment, modular furniture, cameras, recorders and leasehold improvements net of accumulated depreciation. The capital asset value of equipment for Fiscal Year 2021 decreased by nearly \$4.7 million from Fiscal Year 2020 due to the write off of the fully depreciated back office system. Net leases recorded in accordance with the implementation of GASB No. 87 totaled over \$2.9 million and nearly \$3.9 million for fiscal years ending 2022 and 2021, respectively. The \$0.9 million increase from Fiscal Year 2021 to Fiscal Year 2022 was due to the approval of the Denver warehouse contract with up to a 15-year lease period, offset by the end of the contract period for the Pueblo office at June 30, 2022 and the removal of the fully amortized lease asset. Net leases increased by \$2.9 million from Fiscal Year 2020 to Fiscal Year 2021 due to the recording of GASB 87 leases starting in Fiscal Year 2021.

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2022 and 2021

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

Capital Assets as of
June 30, 2022, 2021 and 2020

	2022	2021 (Restated)	2020
Capital Assets			
Equipment	\$ 1,575,068	\$ 1,610,408	\$ 6,262,894
Right-To-Use Equipment	2,484,541	2,484,541	-
Leasehold Improvements	64,711	64,711	64,711
Right-To-Use Buildings	2,882,851	1,528,994	-
Less: Accumulated Depreciation and Amortization	(2,907,914)	(2,475,793)	(5,964,295)
Net capital assets	\$ 4,099,257	\$ 3,212,861	\$ 363,310

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. A supplemental appropriation was approved in January 2022 to cover the increase in retailer compensation expense necessitated by the increase in sales in Fiscal Year 2022.

The approved Lottery budget at the beginning of Fiscal Year 2022 was nearly \$689.9 million. The supplemental appropriation mentioned previously, along with several appropriation adjustments, increased the overall budget by over \$11.0 million. The Lottery budget at the end of Fiscal Year 2022 was \$700.9 million. Total expenditures and roll-forwards for Fiscal Year 2022 on a budget basis came to \$648.3 million, resulting in under expended appropriations of over \$52.6 million.

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2022 and 2021

Economic Outlook

The Colorado Lottery is the only lottery in the world whose proceeds directly and almost exclusively benefit outdoor conservation and recreation. On January 24, 2023, the Colorado Lottery will celebrate 40 years of giving back to the people of the State of Colorado. Since its founding in 1983, the Colorado Lottery has steadily increased the amount of proceeds given to its beneficiary partners, now over \$3.9 billion through Fiscal Year 2022. Approximately 21 to 22 cents of every dollar spent on Colorado Lottery games is reinvested in Colorado. The focus in Fiscal Year 2023 is to continue to grow revenue to maximize Lottery proceeds for its beneficiaries and the people of Colorado. To help the Colorado Lottery achieve its goals in Fiscal Year 2023, an integrated and focused marketing plan that clearly lays out the strategies and tactics to be used has been created.

The overall sales goal for the Lottery in Fiscal Year 2023 is \$850 million, which represents 3% growth over the Fiscal Year 2022 target of \$825 million. To achieve its goal, the roadmap is clear and direct - **To grow the Lottery's player base and increase frequency of play through telling its own unique story and utilizing deeper knowledge of the Lottery, its players and the lottery industry to develop, deploy and promote a variety of entertaining games that engage core players and attract new and less frequent players in a responsible way.** Providing a variety of games, including a balance of both scratch and jackpot games, drives the overall financial health of the Colorado Lottery and allows it to maximize proceeds flowing to its beneficiaries. Both jackpot and scratch games are critical to the ongoing success and growth of the Colorado Lottery.

The scratch games sales goal for Fiscal Year 2023 is \$614 million, which represents a 2.3% increase over the lottery's scratch goal of \$600 million in Fiscal Year 2022. The focus of its scratch game offerings in Fiscal Year 2023 will be to sustain an optimum game product mix at retail at all times, with games that appeal to core players and attract new and infrequent players. The lottery currently offers approximately 45 different scratch games to retailers across the state at any point in time. In Fiscal Year 2023, the Colorado Lottery will implement an enhanced partnership with its scratch games vendor, Scientific Games, which will provide additional sales tools to help optimize the portfolio of games offered and further develop its price point and game launch strategy. The lottery will continue to build on the success of launching new scratch games every 6 weeks, which supports optimum inventory and availability at retail and creates both predictability and excitement among its player base. The Colorado Lottery is also in the middle of conducting a new player segmentation study, that will allow the lottery to gain even deeper understanding of player behavior and preferences to help guide game development and creative media strategies.

COLORADO LOTTERY

Management's Discussion and Analysis

June 30, 2022 and 2021

The jackpot games sales goal for Fiscal Year 2023 is \$236 million, which represents a 4.9% increase over the Fiscal Year 2022 jackpot goal of \$225 million. Growth in overall jackpot sales is typically driven by large jackpot runs for the two multi-state games Powerball and Mega Millions and the in-state Colorado Lotto+ game. With large jackpots out of the control of the lottery, jackpot game changes and other strategies must be used to keep games fresh and appealing to its players. The multi-state games Powerball and Lucky For Life underwent changes early in Fiscal Year 2022, and both games have enjoyed sales growth as a result. Mega Millions is working on a change to its game, expected in late Fiscal Year 2023 or early Fiscal Year 2024. The Colorado Lottery will continue to focus on building on the momentum of creating excitement with Colorado's own homegrown jackpot game, Colorado Lotto+. The lottery will also continue to drive increased purchase and consumer interest and to cross-sell and promote other jackpot games through trigger campaigns that alert casual and lapsed players when the larger jackpots occur.

While all lotteries faced economic headwinds in Fiscal Year 2022, the Colorado Lottery was one of a handful of lotteries that showed year over year revenue growth and anticipates the same being true in Fiscal Year 2023. Overall, Fiscal Year 2023 will present significant opportunity for the Lottery to grow and potentially some challenges as well. The lottery continues to face growing competition for share of wallet and voice from online sports betting, and inflation and higher consumer prices will continue to impact discretionary spending. Pending unforeseen circumstances, however, the Colorado Lottery is confident it will achieve its goals in Fiscal Year 2023.

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 2022 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, 2022 and 2021

	2022	2021 (Restated)
ASSETS		
Current Assets:		
Cash and Investments	\$ 76,597,460	\$ 61,163,791
Accounts Receivable, net of the allowance for doubtful accounts of \$128,870 in 2022 and \$136,515 in 2021	34,288,312	34,457,366
Consignment Inventory, at Cost	142,169	102,060
Warehouse Inventory, at Cost	1,619,109	2,489,926
Prepaid Expenses	64,499	79,309
	112,711,549	98,292,452
Reserved and Restricted Assets:		
Cash and Investments-Operating Reserve	1,900,000	1,700,000
Cash and Investments-Licensed Agent Recovery		
Reserve Receipts	917,360	833,351
Prepaid Prize Expense with MUSL	5,085,749	5,308,074
	7,903,109	7,841,425
Capital Assets:		
Equipment	1,575,068	1,610,408
Right-To-Use Equipment	2,484,541	2,484,541
Leasehold Improvements	64,711	64,711
Right-To-Use Buildings	2,882,851	1,528,994
Less Accumulated Depreciation and Amortization	(2,907,914)	(2,475,793)
	4,099,257	3,212,861
TOTAL ASSETS	124,713,915	109,346,738
DEFERRED OUTFLOWS		
Pensions	1,218,978	2,346,754
Other Postemployment Benefits	50,239	50,669
	1,269,217	2,397,423
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 125,983,132	\$ 111,744,161

COLORADO LOTTERY
Statements of Net Position
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u> (Restated)
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 661,867	\$ 977,912
Prize Liability	73,428,579	56,488,111
Payable to MUSL	430,572	599,006
Accrued Annual and Sick Leave	11,304	12,595
Wages and Benefits	942,818	1,027,770
Retailer Bonus Liability	2,705,162	3,873,433
Lease Liability	801,266	1,074,172
Funds Available for Distribution	43,075,961	39,443,191
	<u>122,057,529</u>	<u>103,496,190</u>
Long-Term Liabilities:		
Accrued Annual and Sick Leave	772,558	777,421
Expired Warrants Liability	10,150	14,319
Lease Liability	3,051,281	1,867,671
Net Pension Liability	14,118,170	18,450,021
Other Postemployment Benefits Liability	567,129	650,065
	<u>18,519,288</u>	<u>21,759,497</u>
	<u>140,576,817</u>	<u>125,255,687</u>
DEFERRED INFLOWS		
Pensions	5,686,351	5,730,759
Other Postemployment Benefits	327,542	337,191
	<u>6,013,893</u>	<u>6,067,950</u>
NET POSITION		
Investment in Capital Assets	246,710	271,018
Restricted-Licensed Agent Recovery Reserve	917,360	833,351
Restricted-Operating Reserve	1,900,000	1,700,000
Unrestricted (deficit)	(23,671,648)	(22,383,845)
	<u>(20,607,578)</u>	<u>(19,579,476)</u>
	<u>\$ 125,983,132</u>	<u>\$ 111,744,161</u>

COLORADO LOTTERY

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

For the Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021 (Restated)</u>
OPERATING REVENUES		
Gross Ticket Sales	\$ 826,879,453	\$ 794,932,274
DIRECT OPERATING EXPENSES		
Prize Expense	538,889,330	516,931,605
Retailer Commissions and Bonuses	62,184,570	61,101,303
Cost of Tickets and Vendor Fees	<u>17,718,424</u>	<u>17,610,475</u>
Total Direct Operating Expenses	<u>618,792,324</u>	<u>595,643,383</u>
GROSS PROFIT ON SALE OF TICKETS	<u>208,087,129</u>	<u>199,288,891</u>
OTHER OPERATING EXPENSES		
Marketing and Communications	14,680,192	14,627,090
Administration Fees Paid to MUSL	90,879	156,370
Wages and Benefits	5,933,674	2,075,212
Professional Services	277,331	404,139
State Agencies Services	345,932	2,598,875
Department of Revenue Services	729,711	636,572
Travel	66,975	21,161
Equipment	152,897	242,933
Depreciation and Amortization	1,250,307	1,163,983
Space Rental	70,443	389,387
Lease Interest	42,187	11,143
Rents for Equipment	20,506	21,995
Motor Pool Leasing	273,200	197,300
Materials and Supplies	125,131	110,870
Telephone	101,661	176,922
Equipment Maintenance	148,569	150,977
Printing	67,924	32,038
Delivery Expense	774,505	1,007,177
Other	<u>235,288</u>	<u>167,642</u>
Total Other Operating Expenses	25,387,312	24,191,786
OTHER OPERATING REVENUE	<u>206,803</u>	<u>141,509</u>

COLORADO LOTTERY

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

(Continued)

For the Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021 (Restated)</u>
TOTAL OPERATING INCOME	\$ 182,906,620	\$ 175,238,614
NONOPERATING REVENUES (EXPENSES)		
Investment Income (Loss)	(3,616,685)	(135,130)
Funds Distributed for Current Year	(137,242,076)	(129,908,943)
Funds Available for Distribution for Current Year	<u>(43,075,961)</u>	<u>(39,443,191)</u>
Total Nonoperating Expenses	<u>(183,934,722)</u>	<u>(169,487,264)</u>
NET INCOME (LOSS)	<u>(1,028,102)</u>	<u>5,751,350</u>
NET POSITION, BEGINNING OF YEAR	(19,579,476)	(25,330,826)
Net Change in Net Position	<u>(1,028,102)</u>	<u>5,751,350</u>
NET POSITION, END OF YEAR	<u><u>\$ (20,607,578)</u></u>	<u><u>\$ (19,579,476)</u></u>

COLORADO LOTTERY
Statements of Cash Flows
For the Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u> (Restated)
Cash Flows from Operating Activities		
Cash received from retailers	\$ 827,220,655	\$ 792,875,069
Cash paid in prizes	(522,125,973)	(499,459,437)
Cash paid in retailer commissions	(55,488,480)	(53,413,646)
Cash payments to suppliers	(35,129,741)	(40,268,584)
Cash payments to employees for services	(9,365,418)	(8,848,959)
Cash paid in retailer bonus	(7,865,414)	(6,187,091)
	<u>197,245,629</u>	<u>184,697,352</u>
Cash Flows from Noncapital Financing Activities		
Distribution of net proceeds	<u>(176,685,267)</u>	<u>(168,557,741)</u>
	<u>(176,685,267)</u>	<u>(168,557,741)</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	(12,707)	-
Right-To-Use capital assets-leases	<u>(1,213,292)</u>	<u>(1,071,692)</u>
	<u>(1,225,999)</u>	<u>(1,071,692)</u>
Cash Flows from Investing Activities		
Interest received	1,011,756	945,320
Change in fair market value of investments	<u>(4,628,441)</u>	<u>(1,080,450)</u>
	<u>(3,616,685)</u>	<u>(135,130)</u>
Increase (Decrease) in Cash and Investments	15,717,678	14,932,789
Cash and Investments, Beginning of Year (including \$2,533,351 and \$2,566,783 in restricted accounts for 2022 and 2021, respectively)	<u>63,697,142</u>	<u>48,764,353</u>
Cash and Investments, End of Year, (including \$2,817,360 and \$2,533,351 in restricted accounts for 2022 and 2021, respectively)	<u>\$ 79,414,820</u>	<u>\$ 63,697,142</u>

COLORADO LOTTERY
Statements of Cash Flows
(Continued)

For the Years Ended June 30, 2022 and 2021

	2022	2021 (Restated)
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 182,906,620	\$ 175,238,614
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and Amortization	1,250,305	1,163,983
Wages and Benefits - Pension and OPEB Adjustment	(3,340,638)	(6,957,524)
Transfer-In Pension Direct Distribution	-	-
Change in:		
Accounts Receivable	169,056	(3,619,462)
Warehouse and Consignment Inventory	830,708	(860,194)
Prepaid Expenses	14,810	15,178
Prepaid Prize Expense with MUSL	222,325	456,036
Liabilities (excluding funds available for distribution)	15,192,443	19,260,721
	<u>\$ 197,245,629</u>	<u>\$ 184,697,352</u>
Reconciliation of Cash and Investments		
Cash and investments	\$ 76,597,460	\$ 61,163,791
Restricted cash and investments- Licensed Agent		
Recovery Reserve	917,360	833,351
Restricted cash and investments- Operating Reserve	1,900,000	1,700,000
	<u>\$ 79,414,820</u>	<u>\$ 63,697,142</u>
Cash and Investments, End of Year		

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

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, 2022 and 2021. 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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

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

Enterprise Fund

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

Pensions

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

Other Postemployment Benefits (OPEB)

The Lottery participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB fund administered by 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 (FNP) and additions to/deductions from the FNP of the HCTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefits paid on behalf of health care participants are recognized when due and/or payable in accordance with the benefit terms. Investments are reported at fair value.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

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

Basis of Accounting

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

Budget

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

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

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

Accounts Receivable and Allowance for Doubtful Accounts

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

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

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

The Lottery uses the specific identification method to determine expected uncollectibles. Under the provisions of Section 44-40-121, C.R.S., licensed agent recovery reserve receipts are collected from the retailers to cover uncollectible accounts. The accounts receivable and the licensed agent recovery reserve are shown net of estimated uncollectible receivables of \$128,870 and \$136,515 as of June 30, 2022 and 2021, respectively.

Warehouse Inventory

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

Consignment Inventory

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

Supplies Inventory

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

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

Prepaid Prize Expense

As part of the Lottery's agreement with the Multi-State Lottery Association (MUSL), for both the Powerball and Mega Millions games, a certain percentage of sales must be paid to MUSL, when required, to bring the set prize and grand prize reserves up to the reserve requirement amounts as determined by MUSL. During Fiscal Year 2022, there were no transfers made from the Powerball Set Prize Reserve to cover the payment of low-tier prizes. These transfers result in an increase to the game's prize expense, when made. Net transfers of \$73,102 from the Powerball Grand Prize Reserve to the Powerball Set Prize Reserve along with a refund of \$36,396 of excess reserves held by MUSL were made to meet the rebalanced reserve requirements of the Lottery. At fiscal year-end, a surplus of \$260,911 existed between the total set prize and grand prize reserve requirements of \$2.6 million and the amount held by MUSL. During Fiscal Year 2021, a total of \$192,433 was transferred from the Powerball Set Prize Reserve to cover the payment of low-tier prizes. In addition, net transfers of \$128,053 from the Powerball Grand Prize Reserve to the Powerball Set Prize Reserve along with a refund of \$230,952 of excess reserves held by MUSL were made to meet the rebalanced reserve requirements of the Lottery.

During Fiscal Year 2022, a total of \$181,659 was transferred from the Mega Millions Prize Reserve to cover the payment of low-tier prizes, increasing the game's prize expense. A refund of \$4,271 representing excess reserves held by MUSL was also made. At fiscal year end, a surplus of \$185,935 existed between the total reserve requirement of \$2.0 million and the amount held by MUSL. During Fiscal Year 2021, a total of \$11,974 was transferred from the Mega Millions Prize Reserve to cover the payment of low-tier prizes. A refund of \$20,668 representing excess reserves held by MUSL was also made. At June 30, 2021, a surplus of \$160,272 existed between the total reserve requirement of over \$2.2 million and the amount held by MUSL.

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, 2022 and 2021

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

Implementation of GASB Statement No. 87

As of July 1, 2020, the Lottery implemented GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The effect of the implementation of this standard on beginning net position is disclosed in Note 14, and the additional disclosures required by this standard are included in Note 2, 4, and Note 5.

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, 2021 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 payroll accruals, this created a liability for accrued wages and benefits at June 30, 2022 and 2021 of \$942,818 and \$1,027,770, respectively.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

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

Prize Liability and Prize Expense

Under the provisions of Section 44-40-111 (9), C.R.S., the Lottery must pay no less than fifty percent (50%) of total ticket sales as prizes. The Lottery continued to meet this requirement with nearly 65.2% and 65.0% of ticket sales of all Lottery products paid as prizes in Fiscal Years 2022 and 2021, respectively. Additional prize expense and corresponding liability may be incurred as a result of market fluctuations in the cost of annuities used to pay various jackpots (see Note 11).

All scratch, jackpot games and special drawing prizes are accounted for using the accrual basis of accounting. Scratch prize liability and expense are recognized at the point of ticket pack activation. The liability and expense for jackpot game prizes are recognized at the point of retail sale and are adjusted as the jackpot game draws occur and actual prize liability is determined. The liability for special drawing prizes is accrued on the first day of sales of the associated game. Prize liability for all games is reduced as prizes are paid to winners. The net prize liability at June 30, 2022 and 2021 was \$73,428,579 and \$56,488,111, respectively.

Payments of scratch prize amounts of \$150 or less may be made at the Lottery or at the retail outlet; payment of scratch prize amounts of \$151 to \$599 may be made at the retailer level at the option of the retailer or at the Lottery. Scratch prizes of \$600 or more are paid by the Lottery. Retailer accounts are credited for any prize payments retailers make on a daily basis. Prizes may be claimed up to 180 days after game-end. After the final claim date, any unclaimed scratch prizes accrued as a liability will result in a decrease to prize expense and any prizes claimed in excess of the liability accrued will result in an increase to prize expense. Net unclaimed scratch prizes resulted in a decrease to prize expense of \$8,267,284 for Fiscal Year ended June 30, 2022 and \$7,577,820 for Fiscal Year ended June 30, 2021.

Payments of cumulative jackpot game prize amounts of \$150 or less on a single ticket may be made at the Lottery or at the retail outlet; payment of cumulative prize amounts of \$151 to \$599 on a single ticket may be made at the retailer level at the option of the retailer or at the Lottery. Payment of cumulative prize amounts of \$600 or more on a single ticket must be made at the Lottery. Retailer accounts are credited for any prize payments retailers make on a daily basis. Jackpot game prizes may be claimed up to 180 days after the date of the drawing. After the final claim date, unclaimed jackpot game prizes will result in a decrease to prize expense so long as the aggregate prize expense of all games exceeds or equals the statutory 50% of sales. In the event that the expiration of an unclaimed prize would result in the aggregate prize expense of all games to fall below the statutory 50% level, the unclaimed prize amount would remain in prize expense and be paid out to players as a guaranteed additional prize. Unclaimed jackpot game prizes resulted in a decrease to prize expense of \$4,989,101 for Fiscal Year ended 2022 and \$3,342,081 for Fiscal Year ended 2021.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

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

Retailer Bonus Liability

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

The cashing bonus is accrued as tickets are sold and paid as winning tickets are redeemed. The write off of the accrued cashing bonus liability tied to unclaimed prizes at the end of the 180-day claim period in Fiscal Years 2022 and 2021 is recorded as a reduction of bonus expense.

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

Licensed Agent Recovery Reserve

Under the provisions of Section 44-40-121, C.R.S., a Licensed Agent Recovery Reserve, established on January 1, 1988, is used to maintain surety bond receipts collected from Lottery retailers. Billing rates are established by the Executive Director of the Department of Revenue and are reviewed on an annual basis. Retailers have the option to obtain private surety bond coverage at a rate of \$2,000 surety coverage per outlet at their discretion. As of June 30, 2022, and June 30, 2021, the Lottery had reserved \$917,360 and \$833,351, 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, 2022, and June 30, 2021, the Lottery had reported \$246,710 and \$271,018, respectively.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

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

In April 2005, the Lottery set up a separate operating reserve independent of the net operating reserve in the amount of \$1.7 million. The amount held in this operating reserve is reviewed annually and adjusted accordingly. The current annual reviews were completed in January 2022 and January 2021. The reserve increased to \$1.9 million in Fiscal Year 2022 from \$1.7 million in Fiscal Year 2021.

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 percent of accrued amount only to employees who are retiring. In addition, for employees who are classified as non-exempt from overtime pay and have accumulated overtime hours, pay must be taken as compensatory time or paid out to the employees.

Promotional Activity

The Lottery engages in three types of promotional activities in an attempt to enhance sales, to increase player awareness and to increase the player base: special promotions and drawings, direct giveaways, and buy x-get-y. The number and amount of promotional activities can and do vary year over year due to such factors as budget availability, retailer and special events participation, and new product introductions. Specific promotional tickets/cash/prizes are distributed/awarded to players through special promotions and drawings and can be redeemed/claimed at any lottery office. Specific promotional tickets/cash/prizes with a total value of \$38,325 and \$234,661 were awarded in Fiscal Years ended June 30, 2022 and June 30, 2021, respectively. These costs were included in Marketing and Communications expense in the statements of revenues, expenses and changes in fund net position.

Scratch and jackpot game tickets for specific games are given away as a more direct approach to introduce players to lottery games. During the Fiscal Years ended June 30, 2022 and June 30, 2021, scratch tickets with a total face value of \$94,646 and \$29,134, respectively, were given away.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

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

For the “buy x-get-y” promotions, players are given the opportunity to receive a “free” jackpot ticket when a qualifying purchase is made, for instance buy five Lotto+ Plus tickets receive a free Pick 3 ticket. During the Fiscal Year ended June 30, 2022, free promotional tickets from a variety of jackpot games with a total face value of \$163,136 were given away with several different buy x qualifiers. During the Fiscal Year ended June 30, 2021, free promotional tickets from a variety of jackpot games with a total face value of \$297,601 were given away.

Scratch and jackpot game tickets and promotions are valued at cost. For the Fiscal Years ended June 30, 2022 and June 30, 2021, \$160,640 and \$191,778, respectively, were recorded as costs related to direct giveaways and free tickets. These costs were included in Marketing and Communications expense in the statements of revenues, expenses and changes in fund net position.

NOTE 2 – CHANGE IN ACCOUNTING POLICY

Implementation of GASB Statement No. 87

As of July 1, 2020, the Lottery adopted *GASB Statement No. 87, Leases*. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

NOTE 3 – 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, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Petty cash	\$ 1,550	\$ 1,550
Imprest account - Front Counters	78,000	78,000
Imprest account	195,000	195,000
Depository accounts	123,009	50,000
Cash on deposit with State Treasurer	<u>76,199,901</u>	<u>60,839,241</u>
 Total unrestricted cash and investments	 <u>76,597,460</u>	 <u>61,163,791</u>
 Restricted cash and investments - Licensed Agent		
Recovery Reserve Receipts on deposit with State Treasurer	917,360	833,351
Operating Reserve on deposit with State Treasurer	<u>1,900,000</u>	<u>1,700,000</u>
 Total restricted cash and investments	 <u>2,817,360</u>	 <u>2,533,351</u>
 Total cash and investments	 <u>\$ 79,414,820</u>	 <u>\$ 63,697,142</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 2022 and 2021 was 1.12% and 1.23%, respectively.

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, 2022, the Lottery had cash on deposit with the State Treasurer of \$83,258,934, which represented approximately 0.40 percent of the total \$21,060.9 million fair value of deposits in the State Treasurer's Pool (Pool). As of June 30, 2021, the Pool's resources included \$47.2 million of cash on hand and \$21,013.7 million of investments.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

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

Additional information on investments of the State Treasurer's Pool may be obtained in the State's Comprehensive Annual Financial Report for the year ended June 30, 2022.

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, 2022 and 2021

NOTE 4 – SCHEDULE OF CHANGES IN CAPITAL ASSETS

	July 1, 2021	Increases	Decreases	June 30, 2022
Capital assets being depreciated:				
Equipment and software	\$ 1,610,408	\$ 12,707	\$ (48,047)	\$ 1,575,068
Right-To-Use Equipment	2,484,541	-	-	2,484,541
Right-To-Use Buildings	1,528,994	2,123,996	(770,139)	2,882,851
Leasehold improvements	64,711	-	-	64,711
	<u>5,688,654</u>	<u>2,136,703</u>	<u>(818,186)</u>	<u>7,007,171</u>
Total historical costs				
Less accumulated depreciation and amortization for equipment, software, and buildings	(2,411,082)	(1,250,307)	818,186	(2,843,203)
Less accumulated depreciation for leasehold improvements	(64,711)	-	-	(64,711)
	<u>(2,475,793)</u>	<u>(1,250,307)</u>	<u>818,186</u>	<u>(2,907,914)</u>
Total accumulated depreciation				
Total capital assets, being depreciated, net	<u>\$ 3,212,861</u>	<u>\$ 886,396</u>	<u>\$ -</u>	<u>\$ 4,099,257</u>
	July 1, 2020			June 30, 2021
	(Restated)	Increases	Decreases	(Restated)
Capital assets being depreciated:				
Equipment and software	\$ 6,262,894	\$ -	\$ (4,652,486)	\$ 1,610,408
Right-To-Use Equipment	2,484,541	-	-	2,484,541
Right-To-Use Buildings	1,528,994	-	-	1,528,994
Leasehold improvements	64,711	-	-	64,711
	<u>10,341,140</u>	<u>-</u>	<u>(4,652,486)</u>	<u>5,688,654</u>
Total historical costs				
Less accumulated depreciation and amortization for equipment, software, and buildings	(5,899,584)	(1,163,984)	4,652,486	(2,411,082)
Less accumulated depreciation for leasehold improvements	(64,711)	-	-	(64,711)
	<u>(5,964,295)</u>	<u>(1,163,984)</u>	<u>4,652,486</u>	<u>(2,475,793)</u>
Total accumulated depreciation				
Total capital assets, being depreciated, net	<u>\$ 4,376,845</u>	<u>\$ (1,163,984)</u>	<u>\$ -</u>	<u>\$ 3,212,861</u>

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

NOTE 5 – LONG TERM DEBT

A schedule of Long-Term Debt (including the current portion) for the Fiscal Years ended June 30, 2022 and 2021 follows:

	<u>July 1, 2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2022</u>	<u>June 30, 2022 Current Portion</u>
Accrued Annual and Sick Leave	\$ 790,016	\$ 571,023	\$ (577,177)	\$ 783,862	\$ 11,304
Expired Warrants	14,319	-	(4,169)	10,150	-
Leases	2,941,843	2,123,998	(1,213,294)	3,852,547	801,266
Total Long Term Debt	<u>\$ 3,746,178</u>	<u>\$ 2,695,021</u>	<u>\$ (1,794,640)</u>	<u>\$ 4,646,559</u>	<u>\$ 812,570</u>
	<u>July 1, 2020 (Restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2021 (Restated)</u>	<u>June 30, 2021 Current Portion (Restated)</u>
Accrued Annual and Sick Leave	\$ 760,633	\$ 557,191	\$ (527,808)	\$ 790,016	\$ 12,595
Expired Warrants	18,832	-	(4,513)	14,319	-
Leases	4,013,535	-	(1,071,692)	2,941,843	1,074,172
Total Long Term Debt	<u>\$ 4,793,000</u>	<u>\$ 557,191</u>	<u>\$ (1,604,013)</u>	<u>\$ 3,746,178</u>	<u>\$ 1,086,767</u>

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

LEASES

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

Pueblo

Office – The Lottery entered into an agreement with Midtown RLLL on October 18, 2016 with the lease expiring on June 30, 2022. The lease contains an option to renew for two additional five-year terms commencing on July 1, 2022, with no other provisions for extension or renewal. No extension agreement was reached prior to June 30, 2022, therefore, converting to a month to month agreement.

Warehouse – The Lottery leases primary warehouse space from Santa Fe 250 LLC. 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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

NOTE 5 – LONG TERM DEBT (Continued)

Denver

Warehouse – The Lottery entered into a new lease agreement with BKM Valley BC 243 LLC (formerly Valley Business Corp) effective on July 19, 2021 and expiring on June 30, 2026. The lease contains a holdover provision, whereby if the Lottery fails to vacate the premises upon the expiration or sooner termination of the lease, the Lottery will continue making monthly payments for the first three (3) months increasing to 125% of rate paid as of the date of expiration or sooner termination thereafter. BKM Valley BC 243 LLC and the Lottery both agree to give each other thirty (30) days written notice prior to the termination of a holdover tenancy period. The lease contains an option to renew for two additional five-year terms each, commencing on July 1, 2026.

Denver

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

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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

NOTE 5 – LONG TERM DEBT (Continued)

Schedule of Future Lease Payments

LOCATION	FY 2023		FY 2024		FY 2025		FY 2026		FY 2027		FY 2028 - FY2032		FY 2033 - FY2036	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Pueblo Warehouse	\$ 190,062	\$ 1,302	\$ 190,905	\$ 459	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Denver Warehouse	113,831	27,151	120,261	25,535	126,781	23,830	133,739	22,031	140,303	20,138	736,223	70,798	642,695	18,324
In-store signage	496,652	7,348	499,531	4,469	500,777	1,574	-	-	-	-	-	-	-	-
	\$ 800,545	\$ 35,801	\$ 810,697	\$ 30,463	\$ 627,558	\$ 25,404	\$ 133,739	\$ 22,031	\$ 140,303	\$ 20,138	\$ 736,223	\$ 70,798	\$ 642,695	\$ 18,324

NOTE 6 – OTHER REVENUE

A schedule of other revenue for the Fiscal Years ended June 30, 2022 and 2021 follows:

	<u>2022</u>	<u>2021</u>
License fees	\$ 59,294	\$ 59,783
Fines and penalties	53,200	7,055
Assignment fees	300	600
Net licensed agent recovery reserve receipts	84,009	66,568
Other	10,000	7,503
	<u>206,803</u>	<u>141,509</u>
Total	<u>\$ 206,803</u>	<u>\$ 141,509</u>

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

NOTE 7 – 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 \$73.1 million for the year ended June 30, 2022. On June 21, 2021 House Bill 21-1318 concerning the creation and funding of the Outdoor Equity Grant Program was approved by Governor Jared Polis and established the distribution of the amounts exceeding the GOCO cap for Fiscal Year 2021 and beyond. The bill added Part 2 to article 9 of title 33, specifically Sections 33-9-201 through 33-9-206, C.R.S and Subsection (12) to Section 44-40-111, C.R.S, changing the distribution of any excess amounts over the statutory limit for Fiscal Year 2021 and beyond. Any excess over the limit to the extent available shall be transferred as follows for Fiscal Year 2022: the first \$1.5 million to the Outdoor Equity Fund, the next \$3 million to the State Public School Capital Construction Assistance Fund and any remaining as twenty-five percent (25%) to the Wildlife Cash Fund, twenty-five percent (25%) to the Parks and Outdoor Recreation Cash Fund, and fifty percent (50%) to the State Public School Capital Construction Assistance Fund. The amount transferred to the Outdoor Equity Grant Program, to the extent available, increases annually to \$2.25 million and \$3 million for Fiscal Years 2023 and 2024, respectively, with the remaining distributed the same as in Fiscal Year 2021.

Income available for distribution at June 30:

	<u>2022</u>	<u>2021</u>
Net Income before distributions	\$ 179,289,935	\$ 175,103,484
Changes in Net Position:		
Change in licensed agent recovery reserve	(84,009)	(66,568)
Change in fair market value of investments	4,628,441	1,080,450
Change in operating reserve	(200,000)	100,000
Change in investment in capital assets	24,308	92,292
Change in unfunded pension and OPEB	<u>(3,340,638)</u>	<u>(6,957,524)</u>
Income available for distribution	180,318,037	169,352,134
Less distributions prior to year-end	<u>(137,242,076)</u>	<u>(129,908,943)</u>
Income available for distribution	<u>\$ 43,075,961</u>	<u>\$ 39,443,191</u>

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

NOTE 7 – DISTRIBUTION OF NET PROCEEDS (CONTINUED)

	<u>Accrued at June 30, 2021</u>	<u>Proceed Distribution Expenses</u>	<u>Distributions Paid</u>	<u>Accrued at June 30, 2022</u>
Great Outdoors Colorado	\$ 6,764,369	\$ 73,117,767	\$ (75,385,408)	\$ 4,496,728
Public School Capital				
Construction Assistance Fund	7,603,614	9,270,625	(7,603,614)	9,270,625
Conservation Trust Fund	15,777,278	72,127,214	(70,674,108)	17,230,384
Division of Parks and				
Outdoor Recreation	3,944,318	18,031,803	(17,668,525)	4,307,596
Outdoor Equity Fund	750,000	1,500,000	(750,000)	1,500,000
Wildlife Cash Fund	2,301,806	3,135,314	(2,301,806)	3,135,314
Parks & Outdoor Recreation Cash Fund	2,301,806	3,135,314	(2,301,806)	3,135,314
	<u>\$ 39,443,191</u>	<u>\$ 180,318,037</u>	<u>\$ (176,685,267)</u>	<u>\$ 43,075,961</u>

	<u>Accrued at June 30, 2020</u>	<u>Proceed Distribution Expenses</u>	<u>Distributions Paid</u>	<u>Accrued at June 30, 2021</u>
Great Outdoors Colorado	\$ 18,476,420	\$ 71,718,841	\$ (83,430,892)	\$ 6,764,369
Public School Capital				
Construction Assistance Fund	847,978	7,603,614	(847,978)	7,603,614
Conservation Trust Fund	15,459,520	67,740,855	(67,423,097)	15,777,278
Division of Parks and				
Outdoor Recreation	3,864,880	16,935,212	(16,855,774)	3,944,318
Outdoor Equity Fund	-	750,000	-	750,000
Wildlife Cash Fund	-	2,301,806	-	2,301,806
Parks & Outdoor Recreation Cash Fund	-	2,301,806	-	2,301,806
	<u>\$ 38,648,798</u>	<u>\$ 169,352,134</u>	<u>\$ (168,557,741)</u>	<u>\$ 39,443,191</u>

NOTE 8 – PENSION PLANS

Defined Benefit Pension Plan

Plan Description

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

NOTE 8 – PENSION PLANS (CONTINUED)

Benefits Provided as of December 31, 2021

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

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

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

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

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

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

NOTE 8 – PENSION PLANS (CONTINUED)

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the lifetime retirement benefit formula(s) shown above considering a minimum 20 years of service credit, if deemed disabled.

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

Contributions provisions as of June 30, 2022

Eligible employees of the Lottery and the State are required to contribute to the SDTF at a rate set by Colorado statute. The contribution requirements for the SDTF are established under C.R.S. § 24-51-401, et seq. and § 24-51-413. For the period of July 1, 2021 through June 30, 2022 eligible employees are required to contribute 10.5 percent of their PERA-includable salary. Contribution rates for the SDTF are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42). Employer contribution rates for the period of July 1, 2021 through June 30, 2022 are summarized in the table below:

	Fiscal Year 2021		Fiscal Year 2022	
	CY2020	CY2021	CY2021	CY2022
	7/1/20 - 12/31/20	1/1/21 - 6/30/21	7/1/21 - 12/31/21	1/1/22 - 6/30/22
Employer Contribution Rate	10.90%	10.90%	10.90%	10.90%
Amount of Employer Contribution Apportioned to the Health Care Trust Fund as specified in C.R.S. Section 24-51-208(1)(f)	-1.02%	-1.02%	-1.02%	-1.02%
Amount Apportioned to the SDTF	9.88%	9.88%	9.88%	9.88%
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411*	5.00%	5.00%	5.00%	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411	5.00%	5.00%	5.00%	5.00%
Defined Contribution Supplement as specified in C.R.S. § 24-51-415	N/A	0.05%	0.05%	0.10%
Total Employer Contribution Rate to the SDTF	19.88%	19.93%	19.93%	19.98%

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

NOTE 8 – 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 \$1,408,428 and \$1,252,131 for the Fiscal Years ended June 30, 2022 and 2021, respectively.

As specified in C.R.S. § 24-51-414, the State is required to contribute \$225 million (actual dollars) direct distribution each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SDTF based on the proportionate amount of annual payroll of the SDTF to the total annual payroll of the SDTF, School Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund. In addition to the \$225 million (actual dollars) direct distribution due July 1, 2022, House Bill (HB) 22-1029, instructs the State treasurer to issue a warrant to PERA in the amount of \$380 million (actual dollars), upon enactment, with reductions to future direct distributions scheduled to occur July 1, 2023, and July 1, 2024.

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

The net pension liability for the SDTF was measured as of December 31, 2021, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2020. Standard update procedures were used to roll-forward the total pension liability to December 31, 2021. The Lottery's proportion of the net pension liability was based on the Lottery's contributions to the SDTF for the calendar year 2021 relative to the total contributions of participating employers and the State as a non-employer contributing entity.

At June 30, 2022 and 2021, the Lottery reported a liability of \$14,118,170 and \$18,450,021, respectively, for its proportionate share of the net pension liability.

At December 31, 2021, the Lottery proportion was .1914317953 percent, which was a decrease of .00030903295 percent from its proportion of .1945221248 percent measured as of December 31, 2020.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

NOTE 8 – PENSION PLANS (CONTINUED)

For the Fiscal Year ended June 30, 2022, the Lottery recognized pension revenue of \$1,840,055 and for Fiscal Year ended June 30, 2021, the Lottery recognized pension revenue of \$5,634,388. At June 30, 2021, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Year ended June 30, 2022</u>		<u>Year ended June 30, 2021</u>	
	<u>Outflows of</u>	<u>Inflows of</u>	<u>Outflows of</u>	<u>Inflows of</u>
Difference between expected and actual experience	\$ 96,064	\$ 19,641	\$ 455,952	\$ -
Changes of assumptions or other inputs	503,366	-	1,252,789	-
Net difference between projected and actual earnings on pension plan investments	-	4,858,439	-	3,776,227
Changes in proportion and differences between contributions recognized and proportionate share of contributions	-	808,271	15,629	1,954,532
Contributions subsequent to the measurement date	<u>619,548</u>	<u>-</u>	<u>622,384</u>	<u>-</u>
Total	<u>\$ 1,218,978</u>	<u>\$ 5,686,351</u>	<u>\$ 2,346,754</u>	<u>\$ 5,730,759</u>

The amount of \$619,548 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, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30:</u>	
2023	(1,387,860)
2024	(1,940,852)
2025	(1,170,301)
2026	(587,908)
2027	-
Thereafter	<u>-</u>
Total	<u>(5,086,921)</u>

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

NOTE 8 – PENSION PLANS (CONTINUED)

Actuarial assumptions

The TPL in the December 31, 2020 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

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

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

The TPL as of December 31, 2021, includes the anticipated adjustments to contribution rates and the AI cap, resulting from the 2020 AAP assessment, statutorily recognized July 1, 2021, and effective July 1, 2022.

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

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

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

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

NOTE 8 – PENSION PLANS (CONTINUED)

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

The actuarial assumptions used in the December 31, 2020 valuation were based on the results of the 2020 experience analysis for the periods January 1, 2016, through December 31, 2019, were reviewed and adopted by the PERA Board at their November 20, 2020, meeting.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four to five years for PERA. Recently this assumption has been reviewed more frequently. The most recent analyses were outlined in the Experience Study report dated October 28, 2020.

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

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

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

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

NOTE 8 – 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 3.00%.
- 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, requiring adjustments resulting from the 2018 AAP assessment, and the additional 0.50% resulting from the 2020 AAP assessment, statutorily recognized July 1, 2021, and effective July 1, 2022. 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, required adjustments resulting from the 2018 AAP assessment, and the additional 0.50% resulting from the 2020 AAP assessment, statutorily recognized July 1, 2021, and effective July 1, 2022. Employer contributions also include current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions reflect reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- As specified in law, the State, as a non-employer contributing entity, will provide an annual direct distribution of \$225 million (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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

NOTE 8 – PENSION PLANS (CONTINUED)

- The AIR balance was excluded from the initial FNP, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. AIR transfers to the FNP and the subsequent AIR benefit payments were estimated and included in the projections.
- The projected benefit payments reflect the lowered AI cap, from 1.25% to 1.00%, resulting from the 2020 AAP assessment, statutorily recognized July 1, 2021, and effective July 1, 2022.
- Benefit payments and contributions were assumed to be made at the middle of the year.

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

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

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

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability	<u>\$ 19,913,172</u>	<u>\$ 14,118,170</u>	<u>\$ 9,246,447</u>

Pension plan fiduciary net position

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

NOTE 9 – OTHER RETIREMENT PLANS

Defined Contribution Plan (PERA DC Plan)

Plan Description

Employees of the State of Colorado that were hired on or after January 1, 2006 and employees of certain community colleges that were hired on or after January 1, 2008, and certain classified employees of State Colleges and Universities hired on or after January 1, 2019, have the option to participate in the SDTF, a cost-sharing multiple-employer defined benefit pension plan, or the Defined Contribution Retirement Plan (PERA DC Plan).

The PERA DC Plan is an Internal Revenue Code Section 401(a) governmental profit-sharing defined contribution plan. Title 24, Article 51, Part 15 of the C.R.S., as amended, assigns the authority to establish Plan provisions to the PERA Board of Trustees. The DC Plan is also included in PERA’s Annual Report 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 for the period July 1, 2020 through June 30, 2021 are summarized in the tables below:

	Fiscal Year 2021		Fiscal Year 2022	
	<i>CY2020</i>	<i>CY2021</i>	<i>CY2021</i>	<i>CY2022</i>
	7/1/20 - 12/31/20	1/1/21 - 6/30/21	7/1/21 - 12/31/21	1/1/22 - 6/30/22
Employee Contribution Rates	10.00%	10.00%	10.50%	10.50%
Employer Contribution Rates	10.15%	10.15%	10.15%	10.15%

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

NOTE 9 – OTHER RETIREMENT PLANS (Continued)

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

	Fiscal Year 2021		Fiscal Year 2022	
	<i>CY2020</i>	<i>CY2021</i>	<i>CY2021</i>	<i>CY2022</i>
	<i>7/1/20 - 12/31/20</i>	<i>1/1/21 - 6/30/21</i>	<i>7/1/21 - 12/31/21</i>	<i>1/1/22 - 6/30/22</i>
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411	5.00%	5.00%	5.00%	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411*	5.00%	5.00%	5.00%	5.00%
Automatic Adjustment Provision (AAP), as specified in C.R.S. § 24-51-413*	0.50%	0.50%	0.50%	0.50%
Defined Contribution statutory contribution as specified in C.R.S. § 24-51-1505*	0.25%	0.25%	0.25%	0.25%
Defined Contribution Supplement as specified in C.R.S. § 24-51-415	N/A	0.05%	0.05%	0.10%
Total employer contribution rate to the SDTF*	10.75%	10.80%	10.80%	10.85%

*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 recognized no pension expense for employer contributions for the PERA DC Plan during Fiscal Year 2022 and \$9,921 during Fiscal Year 2021.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

NOTE 9 – OTHER RETIREMENT PLANS (Continued)

Voluntary Investment Program

Plan Description

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

Funding Policy

The 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
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NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS

Defined Benefit Other Post Employment Benefit (OPEB) Plan

Plan description

Eligible employees of the Lottery are provided with OPEB through the Health Care Trust Fund (HCTF)—a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended, and sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of the premium subsidies. Colorado State law provisions may be amended by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report (Annual 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, 2022 and 2021

NOTE 10 – 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 maximum service-based subsidy, in each case, is for benefit recipients with retirement benefits based on 20 or more years of service credit. There is a 5 percent reduction in the subsidy for each year less than 20. The benefit recipient pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

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

Contributions

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

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the Lottery is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the Lottery for the Fiscal Years ending June 30, 2022 and 2021 were \$61,637 and \$62,119, respectively.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

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

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

At June 30, 2022, the Lottery reported a liability of \$567,129 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2021, and the total OPEB liability (TOL) used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2020. Standard update procedures were used to roll-forward the TOL to December 31, 2021. The Lottery's proportion of the net OPEB liability was based on the Lottery's contributions to the HCTF for the calendar year 2021 relative to the total contributions of participating employers to the HCTF.

At December 31, 2021, the Lottery proportion was .0657689945 percent, which was a decrease of .0026426748 percent from its proportion of .0684116693 percent measured as of December 31, 2020.

For the year ended June 30, 2022, the Lottery recognized OPEB revenue of \$30,788. At June 30, 2022, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Year ended June 30, 2022		Year ended June 30, 2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 864	\$ 134,473	\$ 1,725	\$ 142,915
Changes of assumptions or other inputs	\$ 11,742	30,763	\$ 4,857	39,861
Net difference between projected and actual earnings on OPEB plan investments	\$ -	35,106	\$ -	26,562
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$ 7,555	127,199	\$ 13,210	127,853
Contributions subsequent to the measurement date	\$ 30,078	-	\$ 30,877	-
Total	<u>\$ 50,239</u>	<u>\$ 327,541</u>	<u>\$ 50,669</u>	<u>\$ 337,191</u>

COLORADO LOTTERY
Notes to Financial Statements
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NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS AND LIFE INSURANCE (CONTINUED)

The amount of \$30,078 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, 2023. 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:	
2023	(80,550)
2024	(89,699)
2025	(80,638)
2026	(43,189)
2027	(11,565)
2028	(1,739)
Thereafter	<u>-</u>
Total	<u><u>(307,380)</u></u>

Actuarial assumptions

The TOL in the December 31, 2020 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.30%
Real wage growth	0.70%
Wage inflation	3.00%
Salary increases, including wage inflation	3.30%-10.90%
Long-term investment rate of return, net of OPEB	
plan investment expenses, including price inflation	7.25%
Discount rate	7.25%
Health care cost trend rates	
PERA benefit structure:	
Service-based premium subsidy	0.00%
PERACare Medicare plans	4.50% in 2021, 6.00% in 2022 gradually decreasing to 4.50% in 2029
Medicare Part A premiums	3.75% in 2021, gradually increasing to 4.50% in 2029

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

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

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.

In determining the additional liability for PERACare enrollees who are age 65 or older and who are not eligible for premium-free Medicare Part A in the December 31, 2020, valuation, the following monthly costs/premiums (actual dollars) are assumed for 2020 for the PERA Benefit Structure:

Medicare Plan	Initial Costs for Members without Medicare Part A		
	Monthly Cost	Monthly Premium	Monthly Cost Adjusted to Age 65
Medicare Advantage/Self-Insured Rx	\$633	\$230	\$591
Kaiser Permanente Medicare Advantage HMO	596	199	562

The 2021 Medicare Part A premium is \$471 (actual dollars) per month.

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

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

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and industry methods developed by health plan actuaries and administrators. In addition, projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services are referenced in the development of these rates. Effective December 31, 2020, 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, 2022 and 2021

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

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

<u>Year</u>	<u>PERACare Medicare Plans</u>	<u>Medicare Part A Premiums</u>
2021	4.50%	3.75%
2022	6.00%	3.75%
2023	5.80%	4.00%
2024	5.60%	4.00%
2025	5.40%	4.00%
2026	5.10%	4.25%
2027	4.90%	4.25%
2028	4.70%	4.25%
2029+	4.50%	4.50%

Mortality assumptions used in the December 31, 2020 valuation for the determination of the total pension liability for each of the Division Trust Funds as shown below, reflect generational mortality and were applied, as applicable, in the determination of the TOL for the HCTF, but developed using a headcount-weighted basis. Affiliated employers of the State, School, Local Government, and Judicial Divisions participate in the HCTF.

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

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

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

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

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

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

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

- 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 2021 plan year.
- 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.

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

The actuarial assumptions used in the December 31, 2020, valuations were based on the results of the 2020 experience analysis for the periods January 1, 2016, through December 31, 2019, and were reviewed and adopted by the PERA Board at their November 20, 2020, 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 Experience Study report dated October 28, 2020.

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

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

As of the most recent reaffirmation of the long-term rate of return, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the table as follows:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
Global Equity	54.00%	5.60%
Fixed Income	23.00%	1.30%
Private Equity	8.50%	7.10%
Real Estate	8.50%	4.40%
Alternatives ¹	6.00%	4.70%
Total	100.00%	

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

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	3.50%	4.50%	5.50%
Ultimate PERACare Medicare trend rate	3.50%	4.50%	5.50%
Initial Medicare Part A trend rate	2.75%	3.75%	4.75%
Ultimate Medicare Part A trend rate	3.50%	4.50%	5.50%
Net OPEB Liability	\$550,843	\$567,129	\$585,996

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

NOTE 10 – 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, 2021, measurement date.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.00%.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Estimated transfers of dollars into the HCTF representing a portion of purchase service agreements intended to cover the costs associated with OPEB benefits.
- Benefit payments and contributions were assumed to be made at the middle of the year.

Based on the above assumptions and methods, the HCTF's FNP 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. There was no change in the discount rate from the prior measurement date.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

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

Sensitivity of the Lottery’s proportionate share of the net OPEB liability to changes in the 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	Current Discount	1% Increase
Proportionate share of the net OPEB liability	<u>\$ 658,661</u>	<u>\$ 567,129</u>	<u>\$ 488,945</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.

NOTE 11 – CONTINGENCIES AND COMMITMENTS

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

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

Specified prize payments	\$ 47,001,845
Lifetime prize payments	<u>28,723,000</u>
Total guaranteed prize payments	<u>\$ 75,724,845</u>

Prize Commitment – The Lottery also acts as a transfer agent for the single Powerball Jackpot Winner on October 10, 2007. These funds are held in trust at the MUSL in securities deemed appropriate by the Grand Prize Trust Agreement. The future value of this prize was \$12,859,000 as of June 30, 2022.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

NOTE 11 – CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

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

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

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

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

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

NOTE 11 – CONTINGENCIES AND COMMITMENTS (CONTINUED)

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 \$15,488,416 for Fiscal Year ended June 30, 2022 and \$15,363,446 for Fiscal Year ended June 30, 2021.

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 \$2,157,460 for the Fiscal Year ended June 30, 2022.

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, 2022 and 2021

NOTE 11 – 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, 2022 was \$2,870,025 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, 2022, there were excess funds of \$260,911 held by MUSL over Colorado's required reserves balance of \$2,609,114, with an allowed 10% surplus of \$260,911.

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

MUSL immediately began collecting a percentage of sales to fund the newly formed Mega Millions prize reserve fund. On March 22, 2013, the MUSL Mega Millions Game Group set the maximum prize reserve fund at \$45 million. With the change to the Mega Millions game on October 25, 2017 the Group set the maximum prize reserve balance at \$100 million. The Group also determined to set the additional prize reserve contribution at 2 percent of sales effective beginning with the drawing of October 31, 2017. Additional contributions continued until maximum balance amounts were reached. On March 31, 2022 MUSL calculated a new required reserve balance for the Lottery of \$2,029,784. The Lottery's balance in the reserve held by MUSL as of June 30, 2022 was \$2,215,720, with a surplus of \$185,935 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, 2021.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

NOTE 11 – CONTINGENCIES AND COMMITMENTS (CONTINUED)

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. Option Letter 1 was executed on July 15, 2020 extending the contract for one extension term of one year with a new expiration date of June 30, 2021. Option Letter 2 was executed on March 17, 2021 extending the contract for the final extension term of one year with a new expiration date of June 30, 2022. The extension term was reduced from \$14,950,00 per year to \$13,750,000. Contract Amendment #3 was executed on June 13, 2022 increasing that amount to \$13,850,000. Payments totaling \$13,848,899 were made in the Fiscal Year ended June 30, 2022.

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

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

According to the 1st individual’s plea agreement and resulting court order, a total restitution of \$2,222,864, 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 \$1,441 in Fiscal Year 2022 and has not recorded any estimated revenue from possible future payments. If the Lottery receives any future restitution payments, the payments will be recorded as revenue in the period the payments are received.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2022 and 2021

NOTE 12 – TAX, SPENDING AND DEBT LIMITATIONS

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

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

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

NOTE 13 – RELATED PARTY TRANSACTIONS

The Lottery, as an agency of the State of Colorado, paid fees to other agencies of the state for auditing, legal and other services, and vehicle and office rent. The Lottery also pays fees to the Department of Revenue for indirect costs and the Governor’s Office of Information Technology for information and communications technology (ICT) services. Interagency charges were \$1,510,526 and \$3,240,555 for the Fiscal Years ended June 30, 2022 and 2021, respectively.

NOTE 14 – ADOPTION OF NEW STANDARD

As of July 1, 2020, the Lottery implemented GASB Statement No. 87, Leases. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

Beginning net position remained the same with the retroactive adoption of the provisions of GASB Statement No. 87 as follows:

Net position at June 30, 2021, as previously reported	\$ (19,579,476)
Add: Right-To-Use intangible asset, net amortization under GASB Statement No. 87, at June 30, 2021	2,941,843
Add: Lease liability under GASB Statement No. 87, at June 30, 2021	<u>(2,941,843)</u>
Net position at July 1, 2021, as restated	<u>\$ (19,579,476)</u>

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*							
	2021	2020	2019	2018	2017	2016	2015	2014
Lottery's proportion of the net pension liability	0.1914317953%	0.1945221248%	0.2121807562%	0.2234220529%	0.2290545580%	0.2238160821%	0.2398382458%	0.2511816995%
Lottery's proportionate share of the net pension liability	\$ 14,118,170	\$ 18,450,021	\$ 20,589,605	\$ 25,422,465	\$ 45,852,060	\$ 41,110,831	\$ 25,257,445	\$ 23,627,442
Lottery's covered payroll	\$ 6,218,822	\$ 6,494,631	\$ 6,867,065	\$ 6,862,079	\$ 6,774,739	\$ 6,440,000	\$ 6,745,555	\$ 6,885,135
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	227.02%	284.08%	299.83%	370.48%	676.81%	638.37%	383.22%	354.03%
Plan fiduciary net position as a percentage of the total pension liability	73.05%	65.34%	62.24%	55.11%	43.20%	42.60%	56.10%	59.80%

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

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

Last 10 Fiscal Years*

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

* The amounts presented for each fiscal year were determined as of 6/30.
* Fiscal year 2015 was the 1st year of implementation, therefore only eight 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*				
	2021	2020	2019	2018	2017
Lottery's proportionate share of the net OPEB liability	0.0657689945%	0.0684116693%	0.0738222796%	0.0790674504%	0.0820966264%
Lottery's proportionate share of the net OPEB liability	\$ 567,129	\$ 650,065	\$ 829,761	\$ 1,075,746	\$ 1,066,928
Lottery's covered payroll	\$ 6,218,822	\$ 6,494,631	\$ 6,867,065	\$ 6,862,079	\$ 6,774,739
Lottery's proportionate share of the net OPEB liability as a percentage of its covered payroll	9.12%	10.01%	12.08%	15.68%	15.75%
Plan fiduciary net position as a percentage of the total OPEB liability	39.40%	32.78%	24.49%	17.03%	17.53%

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

COLORADO LOTTERY

Schedule of the Colorado Lottery's Contributions

Colorado Public Employees' Retirement Association – Healthcare Trust Fund

	Last 10 Fiscal Years*				
	2022	2021	2020	2019	2018
Contractually required contribution	\$ 61,367	\$ 62,119	\$ 65,251	\$ 75,412	\$ 68,826
Contributions in relation to the contractually required contribution	<u>(61,367)</u>	<u>(62,119)</u>	<u>(65,251)</u>	<u>(75,412)</u>	<u>(68,826)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Lottery's covered payroll	\$ 6,203,739	\$ 6,344,872	\$ 6,444,337	\$ 7,191,084	\$ 6,821,281
Contributions as a percentage of covered payroll	0.99%	0.98%	1.01%	1.05%	1.01%

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

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

COLORADO LOTTERY
Notes to Required Supplementary Information
Years Ended June 30, 2022 and 2021

Changes of pension benefit terms and actuarial assumptions:

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

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

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

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

COLORADO LOTTERY

Notes to Required Supplementary Information

Years Ended June 30, 2022 and 2021

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.

COLORADO LOTTERY

Notes to Required Supplementary Information

Years Ended June 30, 2022 and 2021

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

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

Changes of OPEB benefit terms and actuarial assumptions:

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

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

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

COLORADO LOTTERY

Notes to Required Supplementary Information

Years Ended June 30, 2022 and 2021

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

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

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

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

SUPPLEMENTARY INFORMATION

COLORADO LOTTERY

Schedule of Revenue and Costs for Scratch and Jackpot Games

For the Fiscal Year Ended June 30, 2022 and 2021

COLORADO LOTTERY
SCHEDULE OF REVENUE AND COSTS FOR SCRATCH AND JACKPOT GAMES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(With Comparative Totals for the Fiscal Year Ended June 30, 2021)

	Jackpot Games							FY 2022	FY 2021	
	Scratch	Lotto +	Powerball	Cash 5	Cash 5 EZ Match	Mega Millions	Pick 3	Lucky For Life	Total	Scratch and Jackpot Games
TICKET SALES	\$590,288,982	\$66,403,730	\$83,117,675	\$14,093,529	\$2,163,798	\$35,103,706	\$15,315,871	\$20,392,162	\$826,879,453	\$794,932,274
PRIZE EXPENSE	(\$419,363,787)	(\$34,586,256)	(\$40,238,228)	(\$7,373,617)	(\$1,237,397)	(\$16,740,562)	(\$7,179,580)	(\$12,169,903)	(538,889,330)	(516,931,605)
NET REVENUE AFTER PRIZES	170,925,195	31,817,474	42,879,447	6,719,912	926,401	18,363,144	8,136,291	8,222,259	287,990,123	278,000,669
COMMISSIONS, BONUSES, TICKET COSTS & VENDOR FEES (Note 1)										
Retailer Commission	(\$41,297,344)	(\$3,982,979)	(\$4,985,592)	(\$845,328)	(\$129,801)	(\$2,105,376)	(\$918,804)	(\$1,223,256)	(55,488,480)	(53,423,990)
Retailer Bonus	(\$5,467,167)	(\$379,675)	(\$335,683)	(\$112,821)	(\$18,480)	(\$127,447)	(\$107,532)	(\$147,285)	(6,696,090)	(7,677,313)
Cost of Tickets Sold	(\$2,988,167)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(2,988,167)	(3,467,449)
Telecomm Reimbursements	\$541,233	\$60,885	\$76,210	\$12,922	\$1,984	\$32,186	\$14,043	\$18,697	758,160	760,520
Vendor Fees	(11,055,126)	(1,244,245)	(1,556,414)	(264,086)	(40,518)	(657,778)	(286,825)	(383,425)	(15,488,417)	(14,903,546)
TOTAL	(60,266,571)	(5,546,014)	(6,801,479)	(1,209,313)	(186,815)	(2,858,415)	(1,299,118)	(1,735,269)	(79,902,994)	(78,711,778)
GROSS PROFIT ON SALE OF TICKETS	\$110,658,624	\$26,271,460	\$36,077,968	\$5,510,599	\$739,586	\$15,504,729	\$6,837,173	\$6,486,990	\$208,087,129	\$199,288,891
AVERAGE DAILY TICKET SALES	\$1,617,230	\$181,928	\$227,720	\$38,612	\$5,928	\$96,175	\$41,961	\$55,869	\$2,265,423	\$2,177,897

COLORADO LOTTERY
Schedule of Percent of Prize Expense to Gross Ticket Sales
For the Fiscal Year Ended June 30, 2022 and 2021

COLORADO LOTTERY
SCHEDULE OF PERCENTAGE OF PRIZE EXPENSE TO GROSS TICKET SALES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	Scratch	Lotto	Powerball	Cash 5	Cash 5 EZ Match	Mega Millions	Pick 3	Lucky For Life	FY 2022 Total	FY 2021 Total
Prize Expense	\$419,363,787	\$34,586,256	\$40,238,228	\$7,373,617	\$1,237,397	\$16,740,562	\$7,179,580	\$12,169,903	\$538,889,330	\$516,931,605
(/)Ticket Sales	590,288,982	66,403,730	83,117,675	14,093,529	2,163,798	35,103,706	15,315,871	20,392,162	826,879,453	794,932,274
Prize %	71.04%	52.08%	48.41%	52.32%	57.19%	47.69%	46.88%	59.68%	65.17%	65.03%

COLORADO LOTTERY
Budgetary Comparison
For the Fiscal Year Ended June 30, 2022

COLORADO LOTTERY
BUDGETARY COMPARISON
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	Fiscal Year 2022 Original Budget	Supplemental Allocations & Internal Transfers	Fiscal Year 2022 Final Budget	Fiscal Year 2022 Actual Expenditures	Under Expended	Percent Under Expended
Prize Payments	\$ 575,000,000	\$ -	\$ 575,000,000	\$ 538,889,330	\$ 36,110,670	6.28%
Retailer Compensation	60,845,933	9,154,067	70,000,000	62,184,570	7,815,430	11.16%
Vendor Fees & Ticket Costs-Scratch	26,123,699	-	26,123,699	19,832,699	6,291,000	24.08%
Multi-State Lottery Funds	177,433	-	177,433	90,879	86,554	48.78%
Personal Services (Includes AED, SAED, Health & Life, STD)	8,945,306	1,877,653	10,822,959	9,415,505	1,407,454	13.00%
Marketing, Communications & Sales	14,700,000	-	14,700,000	14,680,192	19,808	0.13%
Operating (Includes Travel)	1,540,533	18,193	1,558,726	896,328	662,398	42.50%
Payments to Other Agencies	239,410	-	239,410	134,212	105,198	43.94%
Indirect Costs Assessments	762,890	-	762,890	729,711	33,179	4.35%
Worker's Compensation	35,183	-	35,183	35,183	-	0.00%
Vehicle Lease Payments	213,604	-	213,604	124,150	89,454	41.88%
Variable Vehicle	145,550	-	145,550	143,169	2,381	1.64%
Leased Space-Grand Junction & Ft Collins	53,625	-	53,625	53,625	-	0.00%
Leased Space	774,006	-	774,006	768,092	5,914	0.76%
OIT Payments	-	-	-	-	-	0.00%
CORE Operations	66,026	-	66,026	66,026	-	0.00%
Risk Management	27,470	-	27,470	27,470	-	0.00%
Legal Services	91,490	-	91,490	91,490	-	0.00%
PERA Direct Distribution	137,820	-	137,820	137,817	3	0.00%
TOTAL	\$ 689,879,978	\$ 11,049,913	\$ 700,929,891	\$ 648,300,448	\$ 52,629,443	7.51%
FY2022 Staffing - FTE	<u>102.5</u> (Appropriated)		<u>98.5</u> (Actual)			

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

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

Prize Expense	\$ 538,889,330
Commissions and Bonuses	62,184,570
Cost of Tickets & Vendor Fees	17,718,424
Operating Expenses	<u>25,387,312</u>

Total Expenses per Statement of Revenues, Expenses and Changes in Net Position 644,179,636

Plus: Telecommunications offset classified as revenue 758,160

Plus/Less: Non-appropriated expenses/revenue and other adjustments	
Depreciation	(37,015)
Accrued Annual and Sick Leave	(6,183)
Unfunded Pension Revenue	3,248,483
OPEB Revenue	<u>92,155</u>

Sub-Total 648,235,236

Plus: Capitalized Fixed Assets 12,707
Bad Debt reclassified against bonding reserve 52,505

\$ 648,300,448



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, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Colorado Lottery’s basic financial statements, and have issued our report thereon dated October 31, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Colorado Lottery's internal control over financial reporting (internal control) as a basis for designing 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Denver, Colorado
October 31, 2022



October 31, 2022

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, 2022 and have issued our report thereon dated October 31, 2022. 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 24, 2022, 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.

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.

Significant Risks Identified

As stated in our auditor's report, professional standards require us to design our audit to provide reasonable assurance that the financial statements are free of material misstatement whether caused by fraud or error. In designing our audit procedures, professional standards require us to evaluate the financial statements and assess the risk that a material misstatement could occur. Areas that are potentially more susceptible to misstatements, and thereby require special audit considerations, are designated as "significant risks". We have identified the following as significant risks.

- Management override of controls – Professional standards require auditors to address the possibility of management overriding controls, which is inherent to every entity. Accordingly, we identified as a significant risk that management of the organization may have the ability to override controls that the organization has implemented.
- Implementation of GASB 87, *Leases* – There is a risk that right to use assets and corresponding lease liability balances are brought onto the balance sheet for an incorrect amount.
- Prize Expense and Liability – There is a risk surrounding the accuracy of the estimate of the prize liability and related expenses recorded at June 30, 2022.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. The significant accounting policies used by the Colorado Lottery are described in Note 2 to the financial statements. As described in Note 2, the Colorado Lottery changed accounting policies related to accounting for leases to adopt the provisions of GASB Statement No. 87, *Leases*. Accordingly, the accounting change has been retrospectively applied to the financial statements beginning July 1, 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, 2020. 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 7, as this disclosure presents information regarding performance of the Lottery's commitment to funding beneficiaries throughout the State of Colorado.

The disclosure of Pension Plans in Note 8, which presents the Colorado Lottery's deferred inflows and outflows of resources related to the defined benefit pension plan, as well as summarizes actuarial assumptions used in determining the Colorado Lottery's estimated total pension liability.

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

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

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

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

The disclosure of the adoption of a new standard in Note 14, which discloses the related restatement details related to the GASB 87 implementation.

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.

The following misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

- To correct balances related to lease assets, liabilities and related accounts as a result of testing procedures performed over GASB 87 implementation:

	<u>Debits:</u>	<u>Credits:</u>
Understatement of Lease liability		\$1,397,245
Overstatement of nonlease expense		\$ 17,135
Understatement of Right to Use Asset	\$1,244,045	
Overstatement of Amortization on Right to Use Asset	\$ 141,187	
Understatement of Interest Expense	\$ 29,148	

The following summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements:

- To record credits received from OIT in current Fiscal Year related to contract IT services for overpayments in prior years:

	<u>Debits:</u>	<u>Credits:</u>
Understatement of Prepaid Expense	\$ 577,214	
Understatement of Fiscal Year 2022 Expenditures	\$ 602,863	
Understatement of beginning Net Position		\$1,240,077

The effect of these uncorrected misstatements, including the effect of the reversal of prior year uncorrected misstatements as of and for the year ended June 30, 2022, is an overstatement of net income of approximately \$602,863, and understatement of net position of approximately \$577,214.

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 Colorado Lottery's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. As described in Note 14 to the financial statements, due to the adoption of GASB Statement 87, *Leases*, the Colorado Lottery restated opening balances as of July 1, 2021. We have included an emphasis of matter in our report regarding this restatement.

Additionally, we have made the following modification to our auditor's report, related to the Colorado Lottery's 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, 2022 and 2021 and the changes in its financial position, or, where applicable, its cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Representations Requested from Management

We have requested certain written representations from management that are included in the management representation letter dated October 31, 2022.

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, significant events or transactions that occurred during the year, operating 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 Colorado Lottery's auditors.

Other Matters

We applied certain limited procedures to the management's discussion and analysis and pension and OPEB schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Eide Bailly LLP

Denver, Colorado