



COLORADO LOTTERY
FINANCIAL AND COMPLIANCE AUDIT
June 30, 2021 and 2020

LEGISLATIVE AUDIT COMMITTEE

Representative Dafna Michaelson Jenet
Chair

Senator Jim Smallwood
Vice-Chair

Representative Rod Bockenfeld
Senator Julie Gonzales
Representative Colin Larson

Representative Dylan Roberts
Senator Robert Rodriguez
Senator Rob Woodward

OFFICE OF THE STATE AUDITOR

Kerri L. Hunter

State Auditor

Marisa Edwards

Deputy State Auditor

Brad Walcher

Contract Monitor

Eide Bailly

Contractor

AN ELECTRONIC VERSION OF THIS REPORT IS AVAILABLE AT
WWW.COLORADO.GOV/AUDITOR

A BOUND REPORT MAY BE OBTAINED BY CALLING THE
OFFICE OF THE STATE AUDITOR
303.869.2800

PLEASE REFER TO REPORT NUMBER 2021F WHEN REQUESTING THIS REPORT



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, 2021 and 2020. 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 7, 2021

Table of Contents

Contents Page

Report Summary	1	
Background	2	
Independent Auditor’s Report	3	
Management’s Discussion and Analysis	6	
Basic Financial Statements		
Statements of Net Position.....	23	
Statements of Revenues, Expenses and Changes in Fund Net Position.....	25	
Statements of Cash Flows.....	27	
Notes to Financial Statements.....	29	
Required Supplementary Information		
Schedule of the Colorado Lottery’s Proportionate Share of the Net Pension Liability.....	70	
Schedule of the Colorado Lottery’s Contributions.....	71	
Schedule of the Colorado Lottery’s Proportionate Share of the Net OPEB Liability.....	72	
Schedule of the Colorado Lottery’s Contributions.....	73	
Notes to the Required Supplementary Information.....	74	
Supplementary Information		
Schedule of Revenue and Costs for Scratch and Jackpot Games.....	77	
Schedule of Percent of Prize Expense to Gross Ticket Sales.....	78	
Budgetary Comparison.....	79	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on the Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		80
Independent Auditor’s Required Communication to Legislative Audit Committee	82	

COLORADO LOTTERY
Report Summary
Years Ended June 30, 2021 and 2020

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, 2021. 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, 2021 and 2020.

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, 2021 and 2020, 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, 2021.
- 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 82.

COLORADO LOTTERY
Background
Years Ended June 30, 2021 and 2020

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 2021, the Lottery employed 95 employees in its headquarters in Pueblo and branch offices in Denver, Fort Collins and Grand Junction.

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

Colorado Revised Statutes (C.R.S.) Section 44-40-111(9), requires that no less than 50% of the total revenue from sales of lottery tickets be for prizes. The legislation also provides guidelines for distribution of net proceeds to beneficiary agencies. Article XXVII of the Colorado Constitution states that “net lottery proceeds” (that is, proceeds after the payment of prizes and lottery expenses and a reserve for future operations) are to be distributed to the Conservation Trust Fund within the Department of Local Affairs, the Division of Parks and Wildlife within the Department of Natural Resources, and the Great Outdoors Colorado Trust Fund (GOCO). The amount distributed to GOCO is limited by a constitutional cap, which was calculated to be \$71.7 million for the year ended June 30, 2021.

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. 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. 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 2021 shall be transferred as follows: the first \$750,000 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% to the Wildlife Cash Fund, 25% to the Parks and Outdoor Recreation Cash Fund, and 50% 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 Financial Statements

We have audited the accompanying financial statements of the Colorado Lottery, an enterprise fund of the State of Colorado, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Colorado Lottery's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Colorado Lottery as of June 30, 2021 and 2020, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Relationship with the State of Colorado

As discussed in Note 1 – Nature of Operations and Summary of Significant Accounting Policies, the financial statements of the Colorado Lottery are intended to present the financial position and cash flows for only that portion of the financial reporting entity, the State of Colorado, which is attributable to the transactions of the Colorado Lottery. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2021 and 2020, and the changes in its financial position, or, where applicable, its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 22, 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 70 through 71, 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 72 through 73 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2021 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 cursive script that reads "Eide Bailly LLP".

Denver, Colorado

October 7, 2021

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2021 and 2020

This discussion and analysis of the Colorado Lottery's financial performance provides an overview of financial activities for the Fiscal Years ended June 30, 2021 and 2020. Please read it in conjunction with the Lottery's financial statements, which begin on page 23. These financial statements reflect only activities of the Colorado Lottery.

Games Offered by the Colorado Lottery

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

Financial Highlights

The Colorado Lottery's overall ticket sales for Fiscal Year 2021 reached over \$794.9 million, the highest revenue year in the Lottery's history. This record-breaking sales achievement was reached despite the ongoing COVID-19 pandemic. In comparison to the previous highest sales record set in Fiscal Year 2019 of \$679.8 million, sales increased by \$115.1 million or 16.9 percent. The Fiscal Year 2020 sales mark of \$658.8 million moved down to the third spot. On another positive note, scratch sales set a new record high in the current fiscal year with sales reaching \$573.0 million, or 16.8 percent higher than the previous record set in Fiscal Year 2020. Jackpot sales increased by \$53.8 million or 32.0 percent from the previous fiscal year.

Funds distributed or available for distribution from Fiscal Year 2021 sales were \$169.4 million, which became the highest distribution mark in the Lottery's history. The previous record of nearly \$166.5 million in Fiscal Year 2019 dropped to the second highest in the Lottery's history. With a 15.9 percent increase in distributions from Fiscal Year 2020 to Fiscal Year 2021, distributions hit the Great Outdoors Colorado (GOCO) proceeds cap of \$71.7 million and included a \$13.0 million spill-over of funds. With a June 2021 legislative change made to the distribution calculation of spill-over funds for the current fiscal year, \$7.6 million went to the State Public School Capital Construction Assistance Fund, \$750 thousand to the Outdoor Equity Fund, \$2.3 million to the Wildlife Cash Fund, and \$2.3 million to the Parks and Outdoor Recreation Fund. This was the twentieth year in a row the Lottery successfully reached the GOCO cap, ranging from \$46.5 million in Fiscal Year 2002 to the \$71.7 million in the current fiscal year.

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2021 and 2020

Gross profit (Lottery product sales minus costs tied directly to those sales) as a percentage of sales decreased by 0.8 percent from the previous fiscal year (from 25.8 percent to 25.0 percent). Costs tied directly to sales include prize expense, retailer commissions and bonuses, scratch ticket costs and vendor fees charged for the use of the jackpot gaming systems provided by the third party vendor International Game Technology (IGT). An increase of 0.6 percent in prize expense as a percentage of sales was the chief reason for the overall decrease in the gross profit percentage. Scratch sales carry a higher prize expense as a percentage of sales than do jackpot sales; and with the current fiscal year's continued strong showing in scratch sales, prize expense as a percentage of sales moved up. Total prize expense as a percentage of sales for all Lottery products increased from 64.4 percent to 65.0 percent in Fiscal Years 2020 and 2021, respectively, due to the shift. This was combined with an increase as a percentage of sales in retailer bonuses, scratch ticket costs, and vendor fees. These increases were offset by slight decreases as a percentage of sales of retailer commissions from Fiscal Year 2020 to Fiscal Year 2021.

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, 2021 and 2020. 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, 2021 and 2020. 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, 2021 and 2020.

Statements of Net Position

The Statements of Net Position present a financial snapshot of the Lottery at June 30, 2021 and 2020. 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, 2021 and 2020

Condensed Statements of Net Position
June 30, 2021, 2020, and 2019

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Assets			
Current assets	\$ 98,292,452	\$ 78,861,753	\$ 77,974,884
Restricted assets	7,841,425	8,330,893	8,435,637
Capital assets	<u>271,018</u>	<u>363,310</u>	<u>422,552</u>
Total assets	<u>\$ 106,404,895</u>	<u>\$ 87,555,956</u>	<u>\$ 86,833,073</u>
Deferred Outflows			
Pensions	\$ 2,346,754	\$ 1,419,332	\$ 4,283,041
Other postemployment benefits	<u>50,669</u>	<u>60,798</u>	<u>78,450</u>
Total deferred outflows	<u>\$ 2,397,423</u>	<u>\$ 1,480,130</u>	<u>\$ 4,361,491</u>
Liabilities			
Current liabilities	\$ 102,422,018	\$ 82,396,939	\$ 82,858,225
Long-term liabilities	791,740	761,706	798,751
Net pension liability	18,450,021	20,589,605	25,422,465
Net other postemployment benefits liability	<u>650,065</u>	<u>829,761</u>	<u>1,075,746</u>
Total liabilities	<u>\$ 122,313,844</u>	<u>\$ 104,578,011</u>	<u>\$ 110,155,187</u>
Deferred Inflows			
Pensions	\$ 5,730,759	\$ 9,550,273	\$ 13,761,517
Other postemployment benefits	<u>337,191</u>	<u>238,628</u>	<u>34,881</u>
Total deferred inflows	<u>\$ 6,067,950</u>	<u>\$ 9,788,901</u>	<u>\$ 13,796,398</u>
Net Position			
Investment in Capital Assets	\$ 271,018	\$ 363,310	\$ 422,552
Restricted – Licensed Agent Recovery Reserve	833,351	766,783	688,356
Restricted – Operating Reserve	1,700,000	1,800,000	1,800,000
Unrestricted - Unrealized Gain/Loss on Investments	386,768	1,467,218	265,189
Unrestricted - Unfunded Pension Liability	(22,841,618)	(29,752,722)	(35,921,437)
Unrestricted - Unfunded Other Postemployment Benefits Asset/(Liability)	<u>71,005</u>	<u>24,585</u>	<u>(11,681)</u>
Total net position	<u>\$ (19,579,476)</u>	<u>\$ (25,330,826)</u>	<u>\$ (32,757,021)</u>

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2021 and 2020

The Lottery's total assets at June 30, 2021 were \$106.4 million. Assets consisted primarily of cash and investments of nearly \$63.7 million, including restricted balances of \$2.5 million, receivables from Lottery retailers for the sales of Lottery products of nearly \$34.5 million, prepaid prize expense with Multi-State Lottery Association (MUSL) of \$5.3 million, scratch ticket inventory of nearly \$2.6 million and a net investment in capital assets of nearly \$0.3 million.

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

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

The Lottery's total assets increased by over \$18.8 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, and in scratch ticket inventory of \$0.9 million; offset by decreases in prepaid prize expense with MUSL of \$0.5 million and in net investment of capital assets of \$0.1 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.

The Lottery's total assets increased by \$0.7 million from Fiscal Year 2019 to Fiscal Year 2020. The increase in total assets was primarily made up of the increases in receivable from retailers of \$6.8 million and in scratch ticket inventory of \$0.1 million, offset by decreases in cash and investments of nearly \$6.0 million and in prepaid prize expense with MUSL of nearly \$0.2 million.

The Lottery's total liabilities at June 30, 2021 totaled over \$122.3 million, which 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 recorded in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, nearly \$3.9 million due to retailers for bonuses, wages and benefits due to Lottery employees of \$1.0 million, net other postemployment benefits (OPEB) liability of nearly \$0.7 million recorded in accordance with GASB Statement No. 75, \$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.

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

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2021 and 2020

The Lottery's total liabilities at June 30, 2021 increased by \$17.7 million from the previous fiscal year chiefly due to the increases of over \$17.3 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 \$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 \$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.

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

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, 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, a reduction on the unrealized gain 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.

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2021 and 2020

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

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

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

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

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2021 and 2020

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Total Net Position	\$ (19,579,476)	\$ (25,330,826)	\$ (32,757,021)
Add back Unrestricted - Unfunded Pension Liability	22,841,618	29,752,722	35,921,437
Add back Unrestricted - Unfunded Other Postemployment Benefits (Asset)/Liability	<u>(71,005)</u>	<u>(24,585)</u>	<u>11,681</u>
Net position excluding pension and OPEB effect	<u>\$ 3,191,137</u>	<u>\$ 4,397,311</u>	<u>\$ 3,176,097</u>

The Lottery's net position excluding the effects of GASB 68 and GASB 75 decreased by \$1.2 million from June 30, 2020 to June 30, 2021 and increased by nearly \$1.2 million from June 30, 2019 to June 30, 2020. The decrease from June 30, 2020 to June 30, 2021 was mainly due to the unrealized loss on investments, and the increase from June 30, 2019 to June 30, 2020 was mainly due to the unrealized gain on investments resulting from the net increase in the adjustment on State Treasury investments. The other three components of the Lottery's net position, as explained above, combined for a positive and relatively unchanged net position of \$2.8 million, \$2.9 million, and \$2.9 million at June 30, 2021, 2020, and 2019, respectively.

Statements of Revenues, Expenses and Changes in Net Position

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

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2021 and 2020

**Condensed Statements of Revenues, Expenses and
Changes in Net Position**
For the Fiscal Years Ended June 30, 2021, 2020, and 2019

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating Revenues	\$ 794,932,274	\$ 658,839,497	\$ 679,779,611
Direct Operating Expenses	<u>596,147,383</u>	<u>489,117,826</u>	<u>483,410,571</u>
Gross Profit on Sale of Tickets	<u>198,784,891</u>	<u>169,721,671</u>	<u>196,369,040</u>
Other Operating Expenses			
Marketing and communications	14,627,090	12,695,694	14,883,619
Wages and benefits	2,075,212	3,139,662	7,195,223
Other operating expenses	<u>6,985,484</u>	<u>6,801,948</u>	<u>5,980,644</u>
Total Other Operating Expenses	<u>23,687,786</u>	<u>22,637,304</u>	<u>28,059,486</u>
Other Operating Revenue	<u>141,509</u>	<u>158,749</u>	<u>185,141</u>
Total Operating Income	<u>175,238,614</u>	<u>147,243,116</u>	<u>168,494,695</u>
Nonoperating Revenues			
Investment income/(Loss)	(135,130)	2,599,311	2,318,941
Transfer in - pension direct distribution	<u>-</u>	<u>9,273</u>	<u>175,361</u>
Total Nonoperating Revenues	<u>(135,130)</u>	<u>2,608,584</u>	<u>2,494,302</u>
Proceeds distributions	<u>(169,352,134)</u>	<u>(142,425,505)</u>	<u>(166,461,160)</u>
Total Nonoperating Expenses	<u>(169,352,134)</u>	<u>(142,425,505)</u>	<u>(166,461,160)</u>
Net Income/(Loss)	<u>\$ 5,751,350</u>	<u>\$ 7,426,195</u>	<u>\$ 4,527,837</u>

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2021 and 2020

**Condensed Statements of Revenues, Expenses and
Changes in Net Position (Continued)**
For the Fiscal Years Ended June 30, 2021, 2020, and 2019

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Net Position, Beginning of Year	\$ (25,330,826)	\$ (32,757,021)	\$ (37,284,858)
Net Change in Net Position	<u>5,751,350</u>	<u>7,426,195</u>	<u>4,527,837</u>
Net Position, End of Year	<u><u>\$ (19,579,476)</u></u>	<u><u>\$ (25,330,826)</u></u>	<u><u>\$ (32,757,021)</u></u>

Sales Activities

Fiscal Year 2021 revenues from the sales of Lottery products were substantially up from the previous fiscal year, setting the all-time record high for Lottery sales in a fiscal year, 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 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. Over the last three fiscal years scratch sales have steadily increased by a total of \$165.5 million or 40.6 percent from Fiscal Year 2018. With the regularly scheduled launches of new and exciting scratch games including several "family of 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 throughout the entire fiscal year, scratch sales remained at its high levels.

Fiscal Year 2020 scratch sales of \$490.7 million represented a \$47.3 million or 10.7 percent increase from Fiscal Year 2019 scratch sales of \$443.4 million. As players continued the shift to the higher priced tickets, the increase in sales in Fiscal Year 2020 can be attributed to a \$49.5 million or 20.6 percent increase in sales of \$10, \$20 and \$50 priced tickets over the previous fiscal year. This was combined with smaller overall increases in the sales of the \$1 priced tickets of nearly \$3.0 million or 15.5 percent increase and of the \$5 priced tickets of \$1.0 million or 0.9 percent increase. These gains were offset by a drop in sales of \$4.3 million or 10.9 percent of \$3 priced tickets and \$1.9 million or 7.5 percent of \$2 priced ticket from Fiscal Year 2019.

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2021 and 2020

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. Fiscal Year 2021 became the second highest jackpot sales year in the history of the Lottery. 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 as described below. 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.

Fiscal Year 2020 combined jackpot sales ended at \$168.1 million, a \$68.2 million or 3.1 percent decrease from the previous record-breaking fiscal year. Powerball and Mega Millions jackpot levels were relatively low throughout the year compared to the record-breaking ones of the prior fiscal year, resulting in a combined drop in sales of \$70.0 million from Fiscal Year 2019. Drops in sales totaling \$3.5 million of the Cash 5 with Cash 5 EZ Match and Lucky For Life also added to the decline in jackpot sales in the current fiscal year. On the positive side, after 30 plus years Colorado's own Lotto game was changed and launched as the new Colorado Lotto+ Plus game in September 2019. Changes to the game included a matrix change in the possible draw numbers, better odds of winning, and a built-in random prize multiplier. These changes came with an increase in the price point from \$1 to \$2 per play, in line with the national games offered by the Lottery and a nearly \$4.9 million increase in sales over the previous fiscal year.

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2021 and 2020

The following tables compare Lottery product sales between fiscal years.

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 %

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

Other Operating Revenues

Other operating revenues for both the Fiscal Years ended June 30, 2021 and June 30, 2020 totaled nearly \$0.2 million with a slight decrease in the current fiscal year of \$17 thousand. Other operating revenues mainly represent the net change in the bonding reserve mentioned earlier, amounts collected from Lottery retailers for annual licensing fees, liquidated damages charged to the jackpot gaming vendor for failure to satisfy or perform the duties and obligations as outlined in their contract between them and the Lottery, and fees the Lottery is allowed to charge retailers for failure to clear their weekly sweep of amounts owed.

Nonoperating Revenues

Nonoperating revenues/loss for the years ended June 30, 2021 and June 30, 2020 totaled a \$135 thousand loss and a \$2.6 million revenue, respectively. The recording of a \$1.1 million reduction in unrealized gains in Fiscal Year 2021 verses a \$1.2 million increase in unrealized gains in Fiscal Year 2020 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 combined with a \$0.5 million net decrease in nonoperating interest revenue earned on investments held by the Treasury and by the MUSL group made up the over \$2.7 million drop in nonoperating revenues.

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2021 and 2020

Total Revenues

Total revenues were \$794.9 million and \$661.6 million for the years ended June 30, 2021 and June 30, 2020, respectively. The major contributing factor to the nearly \$133.3 million increase in total revenues was primarily due to the nearly \$136.1 million or 20.7 percent increase in Lottery product sales, offset by a slight decrease in other operating revenue and investment income of nearly \$2.8 million in Fiscal Year 2021 over Fiscal Year 2020.

Major Expenses

The Lottery incurred \$596.1 million or 96.2 percent of its total expenses of over \$619.8 million for Fiscal Year ended June 30, 2021 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 \$596.1 million spent in Fiscal Year 2021 for the direct support of the Lottery games, over \$516.9 million was for prize expense associated with those games.

In comparison, \$489.1 million or 95.6 percent of the Lottery's total expenses of nearly \$511.7 million for the Fiscal Year ended June 30, 2020 were game-related expenses. Of the over \$489.1 million spent in Fiscal Year 2019 for direct support of the Lottery games, \$424.6 million was spent for prize expense associated with those games.

Total prize expense in Fiscal Year 2021 increased nearly \$92.4 million from Fiscal Year 2020. This increase is not only directly tied to the overall increase in sales of \$136.1 million recorded in Fiscal Year 2021, but is 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. This 0.6 percent increase is due to several factors. On the scratch side, the prize expense as a percentage of scratch sales increased from 69.3 percent to 70.4 percent for Fiscal Year 2020 and Fiscal Year 2021, respectively. This 1.1 percent increase as a percentage of sales is tied to the increase in the initial bookings of second chance prizes of new scratch games launched during Fiscal Year 2021 compared to Fiscal Year 2020, the decrease in the write off of unclaimed prizes (which reduces prize expense) and the continued shift to the higher priced scratch games, which carry a higher prize expense as a percentage of sales. Jackpot prize expense as a percentage of jackpot sales increased slightly from 50.3 percent in Fiscal Year 2020 to 51.1 percent in Fiscal Year 2021 due to an increase in shared additional cost of purchasing annuities in the Lucky For Life national games and a drop in unclaimed prizes written off, offset by lower than expected prizes awarded in the jackpot draws. A change in the sales product mix in the current year 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.

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2021 and 2020

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

As a percentage of sales, the overall game-related expenses other than prize expense increased slightly to 9.9 percent in Fiscal Year 2021 from 9.8 percent in Fiscal Year 2020. This slight increase was due to the increase in retailer bonuses earned as a percentage of sales, due to the scratch sales increases seen in Fiscal Year 2021 over Fiscal Year 2020 on which the bonuses are based.

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 %

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2021 and 2020

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

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

Non game-related expenses totaled \$23.7 million in Fiscal Year 2021 compared to \$22.6 million in Fiscal Year 2020, a nearly \$1.1 million or 4.6 percent increase. Non game-related expenses chiefly consist of expenses for marketing and communication, wages and benefits, payments made to state agencies including costs allocations paid to the Department of Revenue, office and warehouse lease expense and delivery expense of Lottery scratch tickets. Fiscal Year 2021 marketing and communication expenses were \$14.6 million compared to nearly \$12.7 million in Fiscal Year 2020. Increases in scratch advertising, sponsorships, promotional, and public relations costs were offset by decreases in jackpot advertising, special events, and website management costs. Fiscal Year 2021 net wages and benefits expense of nearly \$2.1 million compared to \$3.1 million in Fiscal Year 2020 included an over \$6.9 million reduction adjustment of GASB pension and OPEB expenses, compared to a \$6.2 million reduction adjustment in Fiscal Year 2020. 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 \$3.2 million in Fiscal Year 2021 compared to \$2.9 million in Fiscal Year 2020. The \$0.3 million increase in payments made to other state agencies was mainly due to increased OIT charges. Additionally, office and warehouse lease costs and scratch ticket delivery expense totaled nearly \$2.0 million in Fiscal Year 2021, virtually the same as in Fiscal Year 2020.

Distributions to the Proceeds Recipients

The Lottery's proceeds distribution for Fiscal Year 2021 totaled nearly \$169.4 million. This represented an increase of over \$26.9 million or 15.9 percent over the Fiscal Year 2020 proceeds amount of \$142.4 million. The current year's proceeds amount became the highest amount in Lottery history. As a percentage of total revenue, the Lottery returned nearly 21.3 percent in Fiscal Year 2021, a slight decrease of 0.3 percent from the nearly 21.6 percent in Fiscal Year 2020. Of these total proceeds, \$71.7 million, the cap amount, was allocated to the Great Outdoors Colorado Trust Fund, \$67.7 million to the Conservation Trust Fund and over \$16.9 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

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2021 and 2020

changes introduced in House Bill 21-1318 as outlined earlier the spill-over amount to be distributed is as follows for Fiscal Year 2021: \$750,000 to the Outdoor Equity Fund, a total of over \$7.6 million to the School Assistance Fund (BEST), \$2.3 million to the Wildlife Cash Fund, and \$2.3 million to the Parks & Outdoor Recreation Fund.

Capital Assets

The Lottery's investment in net capital assets at June 30, 2021, 2020, and 2019 amounted to nearly \$0.3 million, \$0.4 million, and \$0.4 million, respectively. The investment in capital assets as of June 30, 2021, 2020, and 2019 included computer equipment, servers, back office computer system (in Fiscal Years 2020 and 2019 only), drawing equipment, modular furniture, cameras, recorders and leasehold improvements net of accumulated depreciation. The asset value of equipment for Fiscal Year 2021 decreased by nearly \$4.7 million in the current fiscal year from Fiscal Year 2020 due to the write off of the fully depreciated back office system, replaced by the use of the IGT vendor system in Fiscal Year 2021.

In Fiscal Year 2020 the capitalization of additional security camera equipment of \$47 thousand was offset by the surplus and/or disposal and write off of \$62 thousand of fully depreciated equipment, including servers and warehouse equipment, no longer used by the Lottery.

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

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

	2021	2020	2019
Capital Assets			
Equipment	\$ 1,610,408	\$ 6,262,894	\$ 6,278,097
Leasehold Improvements	64,711	64,711	64,711
Less: Accumulated Depreciation	<u>(1,404,101)</u>	<u>(5,964,295)</u>	<u>(5,920,256)</u>
Net capital assets	<u>\$ 271,018</u>	<u>\$ 363,310</u>	<u>\$ 422,552</u>

Budgetary Highlights

The Lottery's budget is determined by a variety of methods. The majority of the budget is set by the annual appropriations bill (the Long Bill), which determines budgets for every agency within the State. Many of the appropriation lines in the Long Bill are at the Department of Revenue (department) level, and the department has the discretion to allocate them among each agency within the department. The Long Bill and department level allocations are approved shortly before the start of each fiscal year. Agencies may also request a supplemental appropriation during the fiscal year to cover unexpected expenses (or a negative supplemental for less than expected expenses), as well as year-end transfers of spending authority, if needed. A supplemental appropriation was approved in June 2021 to cover the increase in retailer compensation expense necessitated by the substantial increase in sales in Fiscal Year 2021. Department level re-allocations were approved in leased space and OIT allocations.

The approved Lottery budget at the beginning of Fiscal Year 2021 was nearly \$594.4 million. Department level reallocations approved throughout the fiscal year increased the overall budget slightly by \$21 thousand. The supplemental appropriation mentioned above increased the overall budget by \$13.5 million. The non-appropriated prize expense budget was increased by \$35.0 million, also tied to the increase in sales, with only departmental approval needed to make the increase. The Lottery budget at

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2021 and 2020

the end of Fiscal Year 2021 was \$642.9 million. Total expenditures and roll-forwards for Fiscal Year 2021 on a budget basis came to \$627.4 million, resulting in under expended appropriations of nearly \$15.5 million.

Economic Outlook

The Colorado Lottery is a conservation organization and the only lottery in the world whose proceeds directly benefit outdoor conservation and recreation. Since our founding in 1983, we have steadily increased the proceeds amount given to our beneficiary partners to support the outdoors to over \$3.7 billion through Fiscal Year 2021. Approximately 22 to 24 cents of every dollar spent on Colorado Lottery games is reinvested in our state. Our focus in Fiscal Year 2022 is to continue to grow revenue to maximize Lottery proceeds for the people of Colorado. Our goal of reaching \$1 billion in sales by the end of Fiscal Year 2023 is clearly in sight, and it is critical we continue to build on the progress we've made on our brand and our record fiscal year sales in 2021.

The fiscal year sales goal for the Lottery in 2022 is \$825 million in total sales, which represents 12% growth over our Fiscal Year 2021 target of \$736.1 million and just under 4% growth over our actual Fiscal Year 2021 record-breaking sales of \$795 million. To achieve our goal, the roadmap is clear and direct - To develop, deploy and promote a variety of scratch and jackpot games that satisfy our core players, encourage less frequent players to play more often and attract new players and keep them excited and engaged with the Colorado Lottery. Scratch and jackpot games, Powerball, Mega Millions, Lucky For Life, Colorado Lotto+ Plus, Cash 5 and Pick 3, are distinct profit centers and play-types that drive the financial health of the Colorado Lottery and allow us to maximize proceeds flowing to our beneficiaries. Currently, scratch games account for roughly 73% of our topline revenue, while jackpot games make up approximately 27% of our revenue. Generally, jackpot games are more profitable than scratch games, although scratch drives higher topline revenue. Both are critical to the ongoing success and growth of the Colorado Lottery.

The scratch games sales goal for Fiscal Year 2022 is \$600 million, which represents a 12 percent increase over our goal of \$535 million in Fiscal Year 2021. To achieve this goal, we must attain average weekly sales of at least \$11,538,462. Our focus for scratch games in Fiscal Year 2022 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. We currently offer approximately 45 different scratch games to retailers across the state. In Fiscal Year 2022, we will continue to build on the momentum we generated in Fiscal Year 2021 with our Family of Games launch strategy and we will also build on the success we have seen in launching new scratch games every 6 weeks. The 6 week launch cadence supports optimum inventory and availability at retail and creates excitement among our player base on new game launches. We will also continue to gain deeper understanding of player behavior and perceptions on scratch games utilizing market research and industry best practices.

The jackpot games sales goal for Fiscal Year 2022 is \$225 million which represents an 8.6 percent increase over our Fiscal Year 2021 jackpot goal of \$201.1 million. Growth in jackpot sales will be driven on a few different fronts. The multi-state games Powerball and Lucky For Life will undergo significant changes early in Fiscal Year 2022, which should drive higher sales of both games. Powerball adds a new Monday draw and a new feature, Double Play. The new \$1 Double Play add-on feature gives

COLORADO LOTTERY
Management's Discussion and Analysis
June 30, 2021 and 2020

Powerball players an opportunity to win up to \$10 million by having their numbers entered into a secondary drawing after the main draw. Lucky For Life will expand to a daily draw game, giving players more chances to win. We will continue to focus on building on the momentum we created in Fiscal Year 2021 for Colorado's homegrown jackpot game, Colorado Lotto+ Plus. We will also continue to drive increased purchase and consumer interest surrounding large Powerball and Mega Millions jackpots and cross-sell our other draw games through trigger campaigns when jackpots reach \$350 million. The overall growth of the jackpot category is dependent on the large multi-state games Powerball and Mega Millions growing jackpots in excess of \$500 million at least twice during Fiscal Year 2022, which lies outside the control of the Colorado Lottery.

Overall, Fiscal Year 2022 will present significant opportunity for the Lottery to grow and potentially some challenges. We will continue to face growing competition for share of wallet from online sports betting and with restaurants, movie theaters, casinos and other entertainment venues reopened for in-person business. Where the Lottery was the "only game in town" during the shut-down, that is no longer the case in Fiscal Year 2022. The great unknown is how the rapidly emerging Delta variant of the coronavirus will impact our economy, potentially slowing the reemergence of Colorado's economy and slowing growth if prior restrictions are put back in place. Pending unforeseen circumstances, we are confident we will achieve our goals for Fiscal Year 2022.

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 2021 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, 2021 and 2020

	2021	2020
ASSETS		
Current Assets:		
Cash and Investments	\$ 61,163,791	\$ 46,197,570
Accounts Receivable, net of the allowance for doubtful accounts of \$136,515 in 2021 and \$125,546 in 2020	34,457,366	30,837,904
Consignment Inventory, at Cost	102,060	119,928
Warehouse Inventory, at Cost	2,489,926	1,611,864
Prepaid Expenses	79,309	94,487
Total Current Assets	98,292,452	78,861,753
Reserved and Restricted Assets:		
Cash and Investments-Operating Reserve	1,700,000	1,800,000
Cash and Investments-Licensed Agent Recovery Reserve Receipts	833,351	766,783
Prepaid Prize Expense with MUSL	5,308,074	5,764,110
Total Reserved and Restricted Assets	7,841,425	8,330,893
Capital Assets:		
Equipment	1,610,408	6,262,894
Leasehold Improvements	64,711	64,711
Less Accumulated Depreciation and Amortization	(1,404,101)	(5,964,295)
Total Capital Assets	271,018	363,310
TOTAL ASSETS	106,404,895	87,555,956
DEFERRED OUTFLOWS		
Pensions	2,346,754	1,419,332
Other Postemployment Benefits	50,669	60,798
TOTAL DEFERRED OUTFLOWS	2,397,423	1,480,130
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 108,802,318	\$ 89,036,086

COLORADO LOTTERY
Statements of Net Position
June 30, 2021 and 2020

	2021	2020
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 977,912	\$ 812,695
Prize Liability	56,488,111	39,165,132
Payable to MUSL	599,006	496,874
Accrued Annual and Sick Leave	12,595	17,759
Wages and Benefits	1,027,770	873,376
Retailer Bonus Liability	3,873,433	2,382,305
Funds Available for Distribution	39,443,191	38,648,798
Total Current Liabilities	102,422,018	82,396,939
Long-Term Liabilities:		
Accrued Annual and Sick Leave	777,421	742,874
Expired Warrants Liability	14,319	18,832
Net Pension Liability	18,450,021	20,589,605
Other Postemployment Benefits Liability	650,065	829,761
Total Long-Term Liabilities	19,891,826	22,181,072
TOTAL LIABILITIES	122,313,844	104,578,011
DEFERRED INFLOWS		
Pensions	5,730,759	9,550,273
Other Postemployment Benefits	337,191	238,628
TOTAL DEFERRED INFLOWS	6,067,950	9,788,901
NET POSITION		
Investment in Capital Assets	271,018	363,310
Restricted-Licensed Agent Recovery Reserve	833,351	766,783
Restricted-Operating Reserve	1,700,000	1,800,000
Unrestricted (deficit)	(22,383,845)	(28,260,919)
TOTAL NET POSITION	(19,579,476)	(25,330,826)
TOTAL LIABILITIES AND NET POSITION	\$ 108,802,318	\$ 89,036,086

COLORADO LOTTERY
Statements of Revenues, Expenses, and Changes in Fund Net Position
For the Years Ended June 30, 2021 and 2020

	2021	2020
OPERATING REVENUES		
Gross Ticket Sales	\$ 794,932,274	\$ 658,839,497
DIRECT OPERATING EXPENSES		
Prize Expense	516,931,605	424,559,649
Retailer Commissions and Bonuses	61,101,303	49,968,970
Cost of Tickets and Vendor Fees	18,114,475	14,589,207
Total Direct Operating Expenses	596,147,383	489,117,826
GROSS PROFIT ON SALE OF TICKETS	198,784,891	169,721,671
OTHER OPERATING EXPENSES		
Marketing and Communications	14,627,090	12,695,694
Administration Fees Paid to MUSL	156,370	157,515
Wages and Benefits	2,075,212	3,139,662
Professional Services	404,139	296,099
State Agencies Services	2,598,875	2,254,800
Department of Revenue Services	636,572	655,953
Travel	21,161	65,096
Equipment	242,933	62,407
Depreciation	92,291	106,157
Space Rental	968,222	939,701
Rents for Equipment	21,995	30,055
Motor Pool Leasing	197,300	236,396
Materials and Supplies	110,870	107,788
Telephone	176,922	191,668
Equipment Maintenance	150,977	421,379
Printing	32,038	34,418
Delivery Expense	1,007,177	1,033,301
Other	167,642	209,215
Total Other Operating Expenses	23,687,786	22,637,304
OTHER OPERATING REVENUE	141,509	158,749

COLORADO LOTTERY
Statements of Revenues, Expenses, and Changes in Fund Net Position
(Continued)
For the Years Ended June 30, 2021 and 2020

	2021	2020
TOTAL OPERATING INCOME	\$ 175,238,614	\$ 147,243,116
NONOPERATING REVENUES (EXPENSES)		
Investment Income (Loss)	(135,130)	2,599,311
Transfer-In Pension Direct Distribution	-	9,273
Funds Distributed for Current Year	(129,908,943)	(103,776,707)
Funds Available for Distribution for Current Year	(39,443,191)	(38,648,798)
Total Nonoperating Expenses	(169,487,264)	(139,816,921)
NET INCOME	5,751,350	7,426,195
NET POSITION, BEGINNING OF YEAR	(25,330,826)	(32,757,021)
Net Change in Net Position	5,751,350	7,426,195
NET POSITION, END OF YEAR	\$ (19,579,476)	\$ (25,330,826)

COLORADO LOTTERY
Statements of Cash Flows
For the Years Ended June 30, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Cash received from retailers	\$ 792,875,069	\$ 652,966,629
Cash paid in prizes	(499,459,437)	(422,280,472)
Cash paid in retailer commissions	(53,413,646)	(44,361,989)
Cash payments to suppliers	(41,340,276)	(38,252,930)
Cash payments to employees for services	(8,848,959)	(9,598,101)
Cash paid in retailer bonus	(6,187,091)	(6,742,303)
Net cash provided by operating activities	183,625,660	131,730,834
Cash Flows from Noncapital Financing Activities		
Distribution of net proceeds	(168,557,741)	(140,234,966)
Net cash used by noncapital financing activities	(168,557,741)	(140,234,966)
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	-	(46,915)
Net cash used by capital and related financing activities	-	(46,915)
Cash Flows from Investing Activities		
Interest received	945,320	1,397,282
Change in fair market value of investments	(1,080,450)	1,202,029
Net cash provided (used) by investing activities	(135,130)	2,599,311
Increase (Decrease) in Cash and Investments	14,932,789	(5,951,736)
Cash and Investments, Beginning of Year (including \$2,566,783 and \$2,488,356 in restricted accounts for 2021 and 2020, respectively)	48,764,353	54,716,089
Cash and Investments, End of Year, (including \$2,533,351 and \$2,566,783 in restricted accounts for 2021 and 2020, respectively)	\$ 63,697,142	\$ 48,764,353

COLORADO LOTTERY
Statements of Cash Flows
(Continued)
For the Years Ended June 30, 2021 and 2020

	2021	2020
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 175,238,614	\$ 147,243,116
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	92,291	106,157
Wages and Benefits - Pension and OPEB Adjustment	(6,957,524)	(6,204,980)
Transfer-In Pension Direct Distribution	-	9,273
Change in:		
Accounts Receivable	(3,619,462)	(6,821,971)
Warehouse and Consignment Inventory	(860,194)	(122,301)
Prepaid Expenses	15,178	27,240
Prepaid Prize Expense with MUSL	456,036	183,171
Liabilities (excluding funds available for distribution)	19,260,721	(2,688,871)
	<u>\$ 183,625,660</u>	<u>\$ 131,730,834</u>
Reconciliation of Cash and Investments		
Cash and investments	\$ 61,163,791	\$ 46,197,570
Restricted cash and investments- Licensed Agent		
Recovery Reserve	833,351	766,783
Restricted cash and investments- Operating Reserve	1,700,000	1,800,000
	<u>\$ 63,697,142</u>	<u>\$ 48,764,353</u>
Cash and Investments, End of Year		

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

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, 2021 and 2020. The Lottery is an agency of the State of Colorado. The financial statements are intended to present the financial position and results of operations and cash flows of only that portion of the State of Colorado that is attributable to the transactions of the Lottery in accordance with accounting principles generally accepted in the United States of America.

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

Use of Estimates

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

Fund Accounting

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

Enterprise Fund

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

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

Pensions

The Lottery participates in the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position (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.

The Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. The bill was signed into law by Governor Hickenlooper on June 4, 2018. SB 18-200 made changes to certain benefit provisions. Most of these changes were in effect as of June 30, 2021.

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.

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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

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

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

Accounts Receivable and Allowance for Doubtful Accounts

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

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

The Lottery uses the specific identification method to determine expected uncollectibles. Under the provisions of Section 44-40-121, C.R.S., licensed agent recovery reserve receipts are collected from the retailers to cover uncollectible accounts. The accounts receivable and the licensed agent recovery reserve are shown net of estimated uncollectible receivables of \$136,515 and \$125,546 as of June 30, 2021 and 2020, 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, 2021 and 2020

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 2021, a net total of \$192,443 was transferred 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. 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. At fiscal year-end, a surplus of \$78,002 existed between the total set prize and grand prize reserve requirements of \$2.8 million and the amount held by MUSL. During Fiscal Year 2020, a total of \$103,996 was transferred from the Powerball Set Prize Reserve to cover the payment of low-tier prizes. Repayments of \$38,342 to the Powerball Set Prize Reserve and a transfer of \$100,236 to the Powerball Grand Prize Reserve were made to meet the rebalanced reserve requirements of the Lottery.

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 fiscal year-end, a surplus of \$160,272 existed between the total reserve requirement of over \$2.2 million and the amount held by MUSL. During Fiscal Year 2020, the Mega Millions Prize Reserve requirement dropped to approximately \$2.3 million from \$2.7 million of the previous fiscal year. Including payments of \$17,705 made to MUSL in Fiscal Year 2020 early in the fiscal year, \$235,458 was transferred from the reserve to cover the payment of low-tier prizes. At fiscal year-end, a surplus of \$138,364 existed between the total reserve requirement and the amount held by MUSL.

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, 2021 and 2020

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statements of Net Position includes a separate section for deferred outflows of resources. This separate element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Lottery's Deferred Outflows for Pensions and OPEB represents the amount of pension and health care trust fund contributions made to the State plans subsequent to the December 31, 2020 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, 2021 and 2020 of \$1,027,770 and \$873,376, respectively.

Prize Liability and Prize Expense

Under the provisions of Section 44-40-111 (9), C.R.S., the Lottery must pay no less than fifty percent (50%) of total ticket sales as prizes. The Lottery continued to meet this requirement with 65.0% and 64.4% of ticket sales of all Lottery products paid as prizes in Fiscal Years 2021 and 2020, 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, 2021 and 2020 was \$56,488,111 and \$39,165,132, respectively.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

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

Payments of scratch prize amounts of \$150 or less may be made at the Lottery or at the retail outlet; payment of scratch prize amounts of \$151 to \$599 may be made at the retailer level at the option of the retailer or at the Lottery. Scratch prizes of \$600 or more are paid by the Lottery. Retailer accounts are credited for any prize payments retailers make on a daily basis. Prizes may be claimed up to 180 days after game-end. After the final claim date, any unclaimed scratch prizes accrued as a liability will result in a decrease to prize expense and any prizes claimed in excess of the liability accrued will result in an increase to prize expense. Net unclaimed scratch prizes resulted in a decrease to prize expense of \$7,577,820 for Fiscal Year ended June 30, 2021 and \$7,899,839 for Fiscal Year ended June 30, 2020.

Payments of cumulative jackpot game prize amounts of \$150 or less on a single ticket may be made at the Lottery or at the retail outlet; payment of cumulative prize amounts of \$151 to \$599 on a single ticket may be made at the retailer level at the option of the retailer or at the Lottery. Payment of cumulative prize amounts of \$600 or more on a single ticket must be made at the Lottery. Retailer accounts are credited for any prize payments retailers make on a daily basis. Jackpot game prizes may be claimed up to 180 days after the date of the drawing. After the final claim date, unclaimed jackpot game prizes will result in a decrease to prize expense so long as the aggregate prize expense of all games exceeds or equals the statutory 50% of sales. In the event that the expiration of an unclaimed prize would result in the aggregate prize expense of all games to fall below the statutory 50% level, the unclaimed prize amount would remain in prize expense and be paid out to players as a guaranteed additional prize. Unclaimed jackpot game prizes resulted in a decrease to prize expense of \$3,342,081 for Fiscal Year ended 2021 and \$3,789,227 for Fiscal Year ended 2020.

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 2021 and 2020 is recorded as a reduction of bonus expense.

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

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

Licensed Agent Recovery Reserve

Under the provisions of Section 44-40-121, C.R.S., a Licensed Agent Recovery Reserve, established on January 1, 1988, is used to maintain surety bond receipts collected from Lottery retailers. Billing rates are established by the Executive Director of the Department of Revenue and are reviewed on an annual basis. Retailers have the option to obtain private surety bond coverage at a rate of \$2,000 surety coverage per outlet at their discretion. As of June 30, 2021, and June 30, 2020, the Lottery had reserved \$833,351 and \$766,783, 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, 2021 and June 30, 2020, the Lottery had reported \$271,018 and \$363,310, respectively.

In April 2005, the Lottery set up a separate operating reserve independent of the net operating reserve in the amount of \$1.7 million. The amount held in this operating reserve is reviewed annually and adjusted accordingly. The current annual reviews were completed in January 2021 and January 2020. The reserve decreased to \$1.7 million in Fiscal Year 2021 from \$1.8 million in Fiscal Year 2020.

Equipment Expense

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

Compensated Leave

All permanent employees of the Lottery may accrue annual and sick leave based on length of service subject to certain limitations on the amount that will be paid upon termination. Annual leave is paid out upon any termination of employment, while sick leave is paid out at 25% of accrued amount only to employees who are retiring. In addition, employees who are classified as non-exempt from overtime pay have accumulated overtime which must be taken as compensatory time or paid. The estimated cost of compensated absences for which employees are vested is as follows:

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

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

	<u>June 30, 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2021</u>
Annual leave	\$ 649,892	\$ 512,467	\$ (497,893)	\$ 664,466
Sick leave	109,746	42,257	(26,732)	125,271
Total annual and sick leave	<u>759,638</u>	<u>554,724</u>	<u>(524,625)</u>	<u>789,737</u>
Compensatory time	<u>995</u>	<u>2,467</u>	<u>(3,183)</u>	<u>279</u>
Total compensated leave	<u>\$ 760,633</u>	<u>\$ 557,191</u>	<u>\$ (527,808)</u>	<u>\$ 790,016</u>
	<u>June 30, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2020</u>
Annual leave	\$ 684,630	\$ 499,801	\$ (534,539)	\$ 649,892
Sick leave	134,396	38,879	(63,529)	109,746
Total annual and sick leave	<u>819,026</u>	<u>538,680</u>	<u>(598,068)</u>	<u>759,638</u>
Compensatory time	<u>1,006</u>	<u>13,405</u>	<u>(13,416)</u>	<u>995</u>
Total compensated leave	<u>\$ 820,032</u>	<u>\$ 552,085</u>	<u>\$ (611,484)</u>	<u>\$ 760,633</u>

The short-term portion of the above accrued annual and sick leave at June 30, 2021 and June 30, 2020 is \$12,595 and \$17,759, respectively. This represents the amount to be paid out to known current employees planning to retire and cash in their leave balances within the next twelve months.

Promotional Activity

The Lottery engages in three types of promotional activities in an attempt to enhance sales, to increase player awareness and to increase the player base: special promotions and drawings, direct giveaways, and buy x-get-y. The number and amount of promotional activities can and do vary year over year due to such factors as budget availability, retailer and special events participation, and new product introductions. Specific promotional 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 \$234,661 and \$2,400 were awarded in Fiscal Years ended June 30, 2021 and June 30, 2020, respectively, with a significant increase in player promotions presented and entered through the Lottery website due to COVID restrictions. 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, 2021 and June 30, 2020, scratch tickets with a total face value of \$29,134 and \$120,807, respectively, were given away.

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, 2021, free promotional tickets from a variety of jackpot games with a total face value of \$297,601 were given away with several different buy x qualifiers. During the Fiscal Year ended June 30, 2020, free promotional tickets from a variety of jackpot games with a total face value of \$41,903 were given away.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

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

Scratch and jackpot game tickets and promotions are valued at cost. For the Fiscal Years ended June 30, 2021 and June 30, 2020, \$191,778 and \$83,834, 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 – 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, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Petty cash	\$ 1,550	\$ 1,550
Imprest account - Front Counters	78,000	78,000
Imprest account	195,000	195,000
Depository accounts	50,000	50,000
Cash on deposit with State Treasurer	<u>60,839,241</u>	<u>45,873,020</u>
 Total unrestricted cash and investments	 <u>61,163,791</u>	 <u>46,197,570</u>
 Restricted cash and investments - Licensed Agent		
Recovery Reserve Receipts on deposit with State Treasurer	833,351	766,783
Operating Reserve on deposit with State Treasurer	<u>1,700,000</u>	<u>1,800,000</u>
 Total restricted cash and investments	 <u>2,533,351</u>	 <u>2,566,783</u>
 Total cash and investments	 <u>\$ 63,697,142</u>	 <u>\$ 48,764,353</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 2021 and 2020 was 1.23% and 2.01%, respectively.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

In addition, the State Treasurer pools these deposits and invests them in securities approved by Section 24-75-601.1, C.R.S. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2021, the Lottery had cash on deposit with the State Treasurer of \$62,985,824, which represented approximately 0.36 percent of the total \$17,744.6 million fair value of deposits in the State Treasurer's Pool (Pool). As of June 30, 2021, the Pool's resources included \$36.1 million of cash on hand and \$17,708.5 million of investments.

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

Additional information on investments of the State Treasurer's Pool may be obtained in the State's Comprehensive Annual Financial Report for the year ended June 30, 2021.

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, 2021 and 2020

NOTE 3 – SCHEDULE OF CHANGES IN CAPITAL ASSETS

	<u>June 30, 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2021</u>
Capital assets being depreciated:				
Equipment and software	\$ 6,262,894	\$ -	\$ (4,652,486)	\$ 1,610,408
Leasehold improvements	64,711	-	-	64,711
Total historical costs	<u>6,327,605</u>	<u>-</u>	<u>(4,652,486)</u>	<u>1,675,119</u>
Less accumulated depreciation for equipment and software	<u>(5,899,584)</u>	<u>(92,292)</u>	<u>4,652,486</u>	<u>(1,339,390)</u>
Less accumulated depreciation for leasehold improvements	<u>(64,711)</u>	<u>-</u>	<u>-</u>	<u>(64,711)</u>
 Total accumulated depreciation	<u>(5,964,295)</u>	<u>(92,292)</u>	<u>4,652,486</u>	<u>(1,404,101)</u>
Total capital assets, being depreciated, net	<u>\$ 363,310</u>	<u>\$ (92,292)</u>	<u>\$ -</u>	<u>\$ 271,018</u>

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 4 – OPERATING LEASES

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

Pueblo

Office – The Lottery entered into an agreement with Midtown RLLLP on April 19, 2005 and the lease agreement began on June 27, 2005. The original lease was superseded July 31, 2012 when a new lease agreement was executed. A lease amendment was signed on April 9, 2013 to provide the Lottery with funds to offset the costs of equipment and cabling, moving/relocation, and security equipment connected with acquiring the first and mezzanine floors of the building. A new lease amendment was signed on October 18, 2016 to clarify the Lottery’s use of landlord owned equipment, and to agree to share the cost of a new uninterruptable power supply and a new power distribution system. The lease expires on June 30, 2022. The lease contains an option to renew for two additional five-year terms commencing on July 1, 2022. There are no other provisions for extension or renewal.

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

Denver

Office – During Fiscal Year 2021, the Lottery continued to occupy office space in the Galleria Towers Building in Denver. The Lottery entered into this lease agreement, which began July 1, 2009 and expired June 30, 2019. The State Controller’s Office signed an extension to this lease on May 22, 2019, which became effective on July 1, 2019 and expires on June 30, 2024. Subsequently, the lease agreement for the Galleria Towers Building office space was terminated June 30, 2021. The Lottery moved their Denver offices to 1881 Pierce St. Suite #136, Denver, with occupancy effective July 1, 2021. The Lottery occupies this space leased by the Department of Revenue and is responsible for reimbursing the Department of Revenue for monthly lease payments.

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. There are no other provisions for extension or renewal.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 4 – OPERATING LEASES (CONTINUED)

Fort Collins

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

Grand Junction

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

Wireless Jackpot Signage

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

Schedule of future lease payments:

LOCATION	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	Later Years
Pueblo Office	\$ 397,261	\$ -	\$ -	\$ -	\$ -	\$ -
Pueblo Warehouse	191,364	191,364	191,364	-	-	-
Denver Warehouse	128,470	140,983	145,797	150,611	155,769	-
In-store signage	840,250	940,075	1,049,882	1,170,670	38,488	-
	\$ 1,557,345	\$ 1,272,422	\$ 1,387,043	\$ 1,321,281	\$ 194,257	\$ -

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 5 – OTHER REVENUE

A schedule of other revenue for the Fiscal Years ended June 30, 2021 and 2020 follows:

	<u>2021</u>	<u>2020</u>
License fees	\$ 59,783	\$ 66,040
Fines and penalties	7,055	5,666
Assignment fees	600	1,800
Net licensed agent recovery reserve receipts	66,568	78,427
Other	<u>7,503</u>	<u>6,816</u>
 Total	 <u>\$ 141,509</u>	 <u>\$ 158,749</u>

NOTE 6 – DISTRIBUTION OF NET PROCEEDS

The net proceeds amount is equal to the Lottery's net income plus or minus the changes in the components of net position as described earlier. In accordance with Section 33-60-104, C.R.S., distributions of net proceeds shall be made on a quarterly basis. The State Treasurer shall distribute net lottery proceeds as follows: forty percent (40%) to the Conservation Trust Fund, ten percent (10%) to the Division of Parks and Wildlife and all the remaining net lottery proceeds in trust to the State Board of the Great Outdoors Colorado Trust Fund up to the statutory limit. Under Section 33-60-104(2), C.R.S., the limit is \$35 million in 1992 dollars and is adjusted annually based on the consumer price index, which was calculated to be \$71.7 million for the year ended June 30, 2021. 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. 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. Any excess over the limit to the extent available shall be transferred as follows: the first \$750 thousand 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 first transferred to the Outdoor Equity Grant Program, to the extent available, increases annually to \$1.5 million, \$2.25 million, and \$3 million for Fiscal Years 2022, 2023 and 2024, respectively with the remaining distributed the same as in Fiscal Year 2021.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 6 – DISTRIBUTION OF NET PROCEEDS (CONTINUED)

Income available for distribution at June 30:

	<u>2021</u>	<u>2020</u>
Net Income before distributions	\$ 175,103,484	\$ 149,851,700
Changes in Net Position:		
Change in licensed agent recovery reserve	(66,568)	(78,427)
Change in fair market value of investments	1,080,450	(1,202,029)
Change in operating reserve	100,000	-
Change in investment in capital assets	92,292	59,242
Change in unfunded pension and OPEB revenue/expense	<u>(6,957,524)</u>	<u>(6,204,980)</u>
Income available for distribution	169,352,134	142,425,506
Less distributions prior to year-end	<u>(129,908,943)</u>	<u>(103,776,707)</u>
Income available for distribution	<u>\$ 39,443,191</u>	<u>\$ 38,648,799</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>

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 7 – PENSION PLANS

Defined Benefit Pension Plan

Plan Description

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

Benefits Provided As of December 31, 2020

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

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

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

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

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

As of December 31, 2020, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S., once certain criteria are met. Pursuant to SB 18-200, eligible benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007, and all eligible benefit recipients of the DPS benefit structure will receive an annual increase of 1.25 percent unless adjusted by the automatic adjustment provision (AAP) pursuant C.R.S. § 24-51-413. 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 1.25 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the SDTF. The AAP may raise or lower the aforementioned annual increase by up to 0.25 percent based on the parameters specified in C.R.S. § 24-51-413

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 7 – PENSION PLANS (CONTINUED)

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability.

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, 2021

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 07/01/2020 through 06/30/2021 eligible employees with the exception of State Troopers are required to contribute 10.0 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, 2020 through June 30, 2021 are summarized in the table below:

	Fiscal Year 2019		Fiscal Year 2020		Fiscal Year 2021	
	CY2018	CY2019	CY2019	CY2020	CY2020	CY2021
	7/1/18 - 12/31/18	1/1/19 - 6/30/19	7/1/19 - 12/31/19	1/1/20 - 6/30/20	7/1/20 - 12/31/20	1/1/21 - 6/30/21
Employer Contribution Rate	10.15%	10.15%	10.40%	10.40%	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%	-1.02%	-1.02%
Amount Apportioned to the SDTF	9.13%	9.13%	9.38%	9.38%	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%	5.00%	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Defined Contribution Supplement as specified in C.R.S. § 24-51-415	N/A	N/A	N/A	N/A	N/A	0.05%
Total Employer Contribution Rate to the SDTF	19.13%	19.13%	19.38%	19.38%	19.88%	19.93%

*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, 2021 and 2020

NOTE 7 – PENSION PLANS (CONTINUED)

As specified in C.R.S. § 24-51-414, the State is required to contribute \$225 million (actual dollars) 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. House Bill (HB) 20-1379 suspended the \$225 million (actual dollars) direct distribution payable on July 1, 2020 for the State's 2020-21 fiscal year.

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 \$1,252,131, \$1,239,774, and \$1,414,350 for the Fiscal Years ended June 30, 2021, 2020, and 2019, respectively.

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, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019. Standard update procedures were used to roll-forward the total pension liability to December 31, 2020. The Lottery's proportion of the net pension liability was based on the Lottery's contributions to the SDTF for the calendar year 2020 relative to the total contributions of participating employers and the State as a non-employer contributing entity.

Due to the aforementioned suspension of the July 1, 2020, direct distribution payment, the non-employer contributing entity's proportion is zero percent. Pursuant to C.R.S. § 24-51-414, the direct distribution payment from the State of Colorado is to recommence annually starting on July 1, 2021. For purposes of GASB 68 paragraph 15, a circumstance exists in which a non-employer contributing entity is legally responsible for making contributions to the SDTF and is considered to meet the definition of a special funding situation.

At June 30, 2021 and 2020, the Lottery reported a liability of \$18,450,021 and \$20,589,605 respectively, for its proportionate share of the net pension liability.

At December 31, 2020, the Lottery proportion was .1945221248 percent, which was a decrease of .0176586314 percent from its proportion of .2121807562 percent measured as of December 31, 2019.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 7 – PENSION PLANS (CONTINUED)

For the Fiscal Year ended June 30, 2021, the Lottery recognized pension revenue of \$5,634,388 and for Fiscal Year ended June 30, 2020, the Lottery recognized pension revenue of \$4,777,054. At June 30, 2020, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Year ended June 30, 2021		Year ended June 30, 2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 455,952	\$ -	\$ 769,272	\$ -
Changes of assumptions or other inputs	1,252,789	-	-	5,905,542
Net difference between projected and actual earnings on pension plan investments	-	3,776,227	-	2,218,286
Changes in proportion and differences between contributions recognized and proportionate share of contributions	15,629	1,954,532	36,468	1,426,445
Contributions subsequent to the measurement date	622,384	-	613,592	-
Total	<u>\$ 2,346,754</u>	<u>\$ 5,730,759</u>	<u>\$ 1,419,332</u>	<u>\$ 9,550,273</u>

The amount of \$622,384 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30:

2022	\$ (1,467,422)
2023	(663,299)
2024	(1,283,871)
2025	(591,797)
2026	-
Thereafter	-
Total	<u>\$ (4,006,389)</u>

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 7 – PENSION PLANS (CONTINUED)

Actuarial assumptions

The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40%
Real wage growth	1.10%
Wage inflation	3.50%
Salary increases, including wage inflation	3.50 – 9.17%
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)	1.25%
PERA benefit structure hired after 12/31/06 ¹	Financed by the AIR

¹Post-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.

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

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

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

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

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by PERA's Board during the November 18, 2016, Board meeting.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 7 – PENSION PLANS (CONTINUED)

Based on the 2020 experience analysis, dated October 28, 2020, for the period January 1, 2016, through December 31, 2019, revised economic and demographic assumptions were adopted by PERA’s Board on November 20, 2020, and were effective as of December 31, 2020. The assumptions shown below were reflected in the roll forward calculation of the total pension liability from December 31, 2019, to December 31, 2020.

Actuarial cost method	Entry age
Price inflation	2.30%
Real wage growth	0.70%
Wage inflation	3.00%
Salary increases, including wage inflation:	
Members other than State Troopers	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)	1.25%
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.

Salary scale assumptions were revised to align with 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.

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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 7 – PENSION PLANS (CONTINUED)

Post-retirement non-disabled mortality assumptions for Members other than State Troopers were based upon the PubG-2010 Healthy 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.

Post-retirement non-disabled beneficiary mortality assumptions were based upon 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.

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

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

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 the Experience Study report dated October 28, 2020. As a result of the November 20, 2020, PERA Board meeting, the following economic assumptions were changed, effective December 31, 2020:

- Price inflation assumption decreased from 2.40 percent per year to 2.30 percent per year.
- Real rate of investment return assumption increased from 4.85 percent per year, net of investment expenses to 4.95 percent per year, net of investment expenses.
- Wage inflation assumption decreased from 3.50 percent per year to 3.00 percent per year.

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 percentage and then adding expected inflation.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 7 – PENSION PLANS (CONTINUED)

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

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

* The Opportunity Fund's name changed to Alternatives, effective January 1, 2020.

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 percent

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. 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. 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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 7 – PENSION PLANS (CONTINUED)

- 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. HB 20-1379 suspended the \$225 million (actual dollars) direct distribution payable on July 1, 2020, for the State’s 2020-21 fiscal year.
- Employer contributions and the amount of total service costs for future plan members were based upon a process to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial FNP, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. AIR transfers to the FNP and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the middle of the year.

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 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability	\$ 24,409,920	\$ 18,450,021	\$ 13,445,856

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, 2021 and 2020

NOTE 8 – OTHER RETIREMENT PLANS

Defined Contribution Plan (PERA DC Plan)

Plan Description

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

Pursuant to C.R.S. § 24-51-1501(4), the PERA DC Plan eligibility was extended to certain new classified employees at State Colleges and Universities beginning on January 1, 2019. The PERA DC Plan is an Internal Revenue Code Section 401(a) governmental profit-sharing defined contribution plan. Title 24, Article 51, Part 15 of the C.R.S., as amended, assigns the authority to establish Plan provisions to the PERA Board of Trustees. The DC Plan is also included in PERA’s 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 2020		Fiscal Year 2021	
	<i>CY2019</i>	<i>CY2020</i>	<i>CY2020</i>	<i>CY2021</i>
	7/1/19 - 12/31/19	1/1/20 - 6/30/20	7/1/20 - 12/31/20	1/1/21 - 6/30/21
Employee Contribution Rates	8.75%	8.75%	10.00%	10.00%
Employer Contribution Rates	10.15%	10.15%	10.15%	10.15%

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 8 – OTHER RETIREMENT PLANS (Continued)

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

	Fiscal Year 2019		Fiscal Year 2020		Fiscal Year 2021	
	<i>CY2018</i>	<i>CY2019</i>	<i>CY2019</i>	<i>CY2020</i>	<i>CY2020</i>	<i>CY2021</i>
	7/1/18 - 12/31/18	1/1/19 - 6/30/19	7/1/19 - 12/31/19	1/1/20 - 6/30/20	7/1/20 - 12/31/20	1/1/21 - 6/30/21
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411*	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Automatic Adjustment Provision (AAP), as specified in C.R.S. § 24-51-413*	N/A	N/A	N/A	N/A	0.50%	0.50%
Defined Contribution statutory contribution as specified in C.R.S. § 24-51-1505*	N/A	N/A	0.25%	0.25%	0.25%	0.25%
Defined Contribution Supplement as specified in C.R.S. § 24-51-415	N/A	N/A	N/A	N/A	N/A	0.05%
Total employer contribution rate to the SDTF*	10.00%	10.00%	10.25%	10.25%	10.75%	10.80%

*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 pension expense for employer contributions of \$9,921 for the PERA DC Plan during Fiscal Year 2021 and \$10,382 during Fiscal Year 2020.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 8 – OTHER RETIREMENT PLANS (Continued)

Voluntary Investment Program

Plan Description

Employees of the Lottery that are also members of the SDTF may voluntarily contribute to the Voluntary Investment Program, 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.

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS

Defined Benefit Other Post Employment Benefit (OPEB) Plan

Plan description

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

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

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.

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.

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

Contributions

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

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the Lottery is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the Lottery for the Fiscal Years ending June 30, 2021, 2020, and 2019 were \$62,119, \$65,251, and \$75,412, respectively.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

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

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

At June 30, 2021, the Lottery reported a liability of \$650,065 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2019. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2020. The Lottery's proportion of the net OPEB liability was based on the Lottery's contributions to the HCTF for the calendar year 2020 relative to the total contributions of participating employers to the HCTF.

At December 31, 2020, the Lottery proportion was .0684116693 percent, which was a decrease of .0054106103 percent from its proportion of .0738222796 percent measured as of December 31, 2019.

For the year ended June 30, 2021, the Lottery recognized OPEB revenue of \$8,886. At June 30, 2021, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Year ended June 30, 2021		Year ended June 30, 2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,725	\$ 142,915	\$ 2,754	\$ 139,430
Changes of assumptions or other inputs	4,857	39,861	6,884	-
Net difference between projected and actual earnings on OPEB plan investments	-	26,562	-	13,850
Changes in proportion and differences between contributions recognized and proportionate share of contributions	13,210	127,853	18,866	85,348
Contributions subsequent to the measurement date	30,877	-	32,294	N/A
Total	\$ 50,669	\$ 337,191	\$ 60,798	\$ 238,628

The amount of \$30,877 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, 2022. 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:

2022	\$ (71,847)
2023	(68,130)
2024	(77,468)
2025	(68,276)
2026	(29,746)
Thereafter	(1,932)
Total	\$ (317,399)

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

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

Actuarial assumptions

The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40%
Real wage growth	1.10%
Wage inflation	3.50%
Salary increases, including wage inflation	3.50% in aggregate
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	8.10% in 2020, gradually decreasing to 4.50% in 2029
Medicare Part A premiums	3.50% in 2020, gradually increasing to 4.50% in 2029

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, 2019, 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	\$588	\$227	\$550
Kaiser Permanente Medicare Advantage HMO	621	232	586

The 2020 Medicare Part A premium is \$458 (actual dollars) per month.

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

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

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, 2019, 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.

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

Year	PERACare Medicare Plans	Medicare Part A Premiums
2020	8.10%	3.50%
2021	6.40%	3.75%
2022	6.00%	3.75%
2023	5.70%	3.75%
2024	5.50%	4.00%
2025	5.30%	4.00%
2026	5.10%	4.00%
2027	4.90%	4.25%
2028	4.70%	4.25%
2029+	4.50%	4.50%

Mortality assumptions used in the December 31, 2019 valuation for the determination of the total pension liability for each of the Division Trust Funds as shown below were applied, as applicable, in the determination of the total OPEB liability for the HCTF. Affiliated employers of the State, School, Local Government, and Judicial Divisions participate in the HCTF.

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

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

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

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

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

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

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

The actuarial assumptions used in the December 31, 2019, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting.

Based on the 2020 experience analysis, dated October 28, 2020, and November 4, 2020, for the period of January 1, 2016, through December 31, 2019, revised economic and demographic assumptions were adopted by PERA's Board on November 20, 2020, and were effective as of December 31, 2020. The assumptions shown below were reflected in the roll forward calculation of the total OPEB liability from December 31, 2019, to December 31, 2020.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

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

	Trust Fund			
	State Division	School Division	Local Government Division	Judicial Division
Actuarial cost method	Entry age	Entry age	Entry age	Entry age
Price inflation	2.30%	2.30%	2.30%	2.30%
Real wage growth	0.70%	0.70%	0.70%	0.70%
Wage inflation	3.00%	3.00%	3.00%	3.00%
Salary increases, including wage inflation:				
Members other than State Troopers	3.30%-10.90%	3.40%-11.00%	3.20%-11.30%	2.80%-5.30%

The long-term rate of return, net of OPEB plan investment expenses, including price inflation and discount rate assumptions were 7.25 percent.

Rates of termination/withdrawal, retirement, and disability were revised to more closely reflect actual experience.

Mortality assumptions used in the roll forward calculations for the determination of the total pension liability for each of the Division Trust Funds, as applicable, in the roll forward calculation for the HCTF, using a headcount-weighted basis.

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 upon the PubG-2010 Healthy Retiree Table, adjusted as follows:

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

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 9 – 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 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.

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

The mortality tables described above are generational mortality tables on a head-count weighted basis.

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

- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2020 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 the Board's actuary, as discussed above.

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. As a result of the November 20, 2020, PERA Board meeting, the following economic assumptions were changed, effective December 31, 2020:

- Price inflation assumption decreased from 2.40 percent per year to 2.30 percent per year.
- Real rate of investment return assumption increased from 4.85 percent per year, net of investment expenses to 4.95 percent per year, net of investment expenses.
- Wage inflation assumption decreased from 3.50 percent per year to 3.00 percent per year.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

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

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

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

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

¹The Opportunity Fund's name changed to Alternatives, effective January 1, 2020.

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	7.10%	8.10%	9.10%
Ultimate PERACare Medicare trend rate	3.50%	4.50%	5.50%
Initial Medicare Part A trend rate	2.50%	3.50%	4.50%
Ultimate Medicare Part A trend rate	3.50%	4.50%	5.50%
Net OPEB Liability	\$744,661	\$650,065	\$569,240

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

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

Discount rate

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

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2020, 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.

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

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	<u>\$ 744,661</u>	<u>\$ 650,065</u>	<u>\$ 569,240</u>

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

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

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 10 – CONTINGENCIES AND COMMITMENTS

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

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

Specified prize payments	\$44,881,667
Lifetime prize payments	\$29,736,000
Total guaranteed prize payments	\$74,617,667

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 \$13,476,000 as of June 30, 2021.

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.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 10 – CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

<u>Liability</u>	<u>Limits of Liability</u>
General and automobile	Each person \$350,000 Each occurrence \$990,000

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

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

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 \$15,363,446 for Fiscal Year ended June 30, 2021 and \$13,193,150 for Fiscal Year ended June 30, 2020.

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 \$4,820,063 for the Fiscal Year ended June 30, 2021.

COLORADO LOTTERY
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 10 – CONTINGENCIES AND COMMITMENTS (CONTINUED)

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.

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, 2021 was \$2,906,421 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, 2021, there were excess funds of \$78,002 held by MUSL over Colorado's required reserves balance of \$2,828,419, with an allowed 10% surplus of \$282,842.

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, 2021 MUSL calculated a new required reserve balance for the Lottery of \$2,241,377. The Lottery's balance in the reserve held by MUSL as of June 30, 2021 was \$2,401,650, with a surplus of \$160,273 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, 2021 and 2020

NOTE 10 – 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. In the option letter, the total compensation allowed for services performed under the initial term of the contract and under the extension terms was amended. The contract maximum amount for the initial term was reduced from \$44,850,000 to \$41,250,000 and the extension terms reduced from \$14,950,00 per year to \$13,750,000. Payments totaling \$13,748,886 were made in the Fiscal Year ended June 30, 2021.

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 \$1,073 in Fiscal Year 2021 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, 2021 and 2020

NOTE 11 – TAX, SPENDING AND DEBT LIMITATIONS

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

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

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

NOTE 12 – RELATED PARTY TRANSACTIONS

The Lottery, as an agency of the State of Colorado, paid fees to other agencies of the state for auditing, legal and other services, and vehicle and office rent. The Lottery also pays fees to the Department of Revenue for indirect costs and the Governor’s Office of Information Technology for information and communications technology (ICT) services. Interagency charges were \$3,240,555 and \$2,848,279 for the Fiscal Years ended June 30, 2021 and 2020, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Last 10 Calendar Years*						
	2020	2019	2018	2017	2016	2015	2014
Lottery's proportion of the net pension liability	0.1945221248%	0.2121807562%	0.2234220529%	0.2290545580%	0.2238160821%	0.2398382458%	0.2511816995%
Lottery's proportionate share of the net pension liability	\$ 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	\$ 6,494,631	\$ 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	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	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 seven years are shown.

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

	Last 10 Fiscal Years*						
	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 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>(1,252,131)</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>
Lottery's covered payroll	\$ 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	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 seven 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*			
	2020	2019	2018	2017
Lottery's proportion of the net OPEB liability	0.0684116693%	0.0738222796%	0.0790674504%	0.0820966264%
Lottery's proportionate share of the net OPEB liability	\$ 650,065	\$ 829,761	\$ 1,075,746	\$ 1,066,928
Lottery's covered payroll	\$ 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	10.01%	12.08%	15.68%	15.75%
Plan fiduciary net position as a percentage of the total OPEB liability	32.78%	24.49%	17.03%	17.53%

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

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

Last 10 Fiscal Years*

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 62,119	\$ 65,251	\$ 75,412	\$ 68,826
Contributions in relation to the contractually required contribution	<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>
Lottery's covered payroll	\$ 6,344,872	\$ 6,444,337	\$ 7,191,084	\$ 6,821,281
Contributions as a percentage of covered payroll	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 four years are shown.

COLORADO LOTTERY
Notes to Required Supplementary Information
Years Ended June 30, 2021 and 2020

Changes of pension benefit terms:

Changes in assumptions or other input effective in the roll forward calculation of the total pension liability as of December 31, 2020 are as follows:

- The price inflation assumption was lowered from 2.40% to 2.30%.
- Real wage growth assumption was lowered from 1.10% to 0.70%.
- The wage inflation assumption was lowered from 3.50% to 3.00%.
- The real rate of investment return assumption increased from 4.85% per year, net of investment expenses, to 4.95% per year, net of investment expenses.

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

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

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

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

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

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

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

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

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

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

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

COLORADO LOTTERY
Notes to Required Supplementary Information
Years Ended June 30, 2021 and 2020

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

COLORADO LOTTERY
Notes to Required Supplementary Information
Years Ended June 30, 2021 and 2020

Changes of OPEB benefit terms:

Changes in assumptions or other input effective in the roll forward calculation of the total OPEB liability as of December 31, 2020 are as follows:

- The price inflation assumption was lowered from 2.40% to 2.30%.
- Real wage growth assumption was lowered from 1.10% to 0.70%.
- The wage inflation assumption was lowered from 3.50% to 3.00%.
- The real rate of investment return assumption increased from 4.85% per year, net of investment expenses, to 4.95% per year, net of investment expenses.

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 Years Ended June 30, 2021 and 2020

	Jackpot Games							FY 2021	FY 2020	
	Scratch	Lotto +	Powerball	Cash 5	Cash 5 EZ Match	Mega Millions	Pick 3	Lucky For Life	Total	Scratch and Jackpot Games
TICKET SALES	\$573,017,390	\$47,970,863	\$66,889,633	\$15,890,538	\$2,600,546	\$57,130,873	\$15,920,621	\$15,511,810	\$794,932,274	\$658,839,497
PRIZE EXPENSE	(403,513,576)	(24,961,400)	(32,474,262)	(8,345,179)	(1,514,797)	(28,044,799)	(7,882,019)	(10,195,573)	(516,931,605)	(424,559,649)
NET REVENUE AFTER PRIZES	<u>169,503,814</u>	<u>23,009,463</u>	<u>34,415,371</u>	<u>7,545,359</u>	<u>1,085,749</u>	<u>29,086,074</u>	<u>8,038,602</u>	<u>5,316,237</u>	<u>278,000,669</u>	<u>234,279,848</u>
COMMISSIONS, BONUSES, TICKET COSTS & VENDOR FEES (Note 1)										
Retailer Commission	(40,110,086)	(2,878,062)	(4,013,243)	(953,111)	(156,028)	(3,427,650)	(955,165)	(930,645)	(53,423,990)	(44,361,989)
Retailer Bonus	(6,173,248)	(363,319)	(378,524)	(153,401)	(26,732)	(309,519)	(140,589)	(131,981)	(7,677,313)	(5,606,981)
Cost of Tickets Sold	(3,467,449)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(3,467,449)	(2,735,841)
Telecomm Reimbursement	548,212	45,894	63,994	15,203	2,488	54,658	14,840	15,231	760,520	783,600
Vendor Fees	(11,102,333)	(932,462)	(1,298,653)	(307,867)	(50,384)	(1,106,867)	(308,471)	(300,509)	(15,407,546)	(12,636,966)
TOTAL	<u>\$ (60,304,904)</u>	<u>\$ (4,127,949)</u>	<u>\$ (5,626,426)</u>	<u>\$ (1,399,176)</u>	<u>\$ (230,656)</u>	<u>\$ (4,789,378)</u>	<u>\$ (1,389,385)</u>	<u>\$ (1,347,904)</u>	<u>\$ (79,215,778)</u>	<u>\$ (64,558,177)</u>
GROSS PROFIT ON SALE OF TICKETS	<u>\$109,198,910</u>	<u>\$18,881,514</u>	<u>\$28,788,945</u>	<u>\$6,146,183</u>	<u>\$855,093</u>	<u>\$24,296,696</u>	<u>\$6,649,217</u>	<u>\$3,968,333</u>	<u>\$198,784,891</u>	<u>\$169,721,671</u>
AVERAGE DAILY TICKET SALES	<u>\$1,569,911</u>	<u>\$131,427</u>	<u>\$183,259</u>	<u>\$43,536</u>	<u>\$7,125</u>	<u>\$156,523</u>	<u>\$43,618</u>	<u>\$42,498</u>	<u>\$2,177,897</u>	<u>\$1,800,108</u>

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

COLORADO LOTTERY
Schedule of Percent of Prize Expense to Gross Ticket Sales
For the Fiscal Years Ended June 30, 2021 and 2020

	Scratch	Lotto	Powerball	Cash 5	Cash 5 EZ Match	Mega Millions	Pick 3	Lucky For Life	FY 2021 Total	FY 2020 Total
Prize Expense	\$403,513,576	\$24,961,400	\$32,474,262	\$8,345,179	\$1,514,797	\$28,044,799	\$7,882,019	\$10,195,573	\$516,931,605	\$424,559,649
(/)Ticket Sales	573,017,390	47,970,863	66,889,633	15,890,538	2,600,546	57,130,873	15,920,621	15,511,810	794,932,274	658,839,497
Prize %	<u>70.42%</u>	<u>52.03%</u>	<u>48.55%</u>	<u>52.52%</u>	<u>58.25%</u>	<u>49.09%</u>	<u>49.51%</u>	<u>65.73%</u>	<u>65.03%</u>	<u>64.44%</u>

**COLORADO LOTTERY
Budgetary Comparison
For the Fiscal Year Ended June 30, 2021**

COLORADO LOTTERY
BUDGETARY COMPARISON
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	Fiscal Year 2021 Original Budget	Supplemental Allocations & Internal Transfers	Fiscal Year 2021 Final Budget	Fiscal Year 2021 Actual Expenditures	Under Expended	Percent Under Expended
DIRECT COSTS:						
Prize Payments	\$ 485,000,000	\$ 35,000,000	\$ 520,000,000	\$ 516,931,605	\$ 3,068,395	0.59%
Retailer Compensation	54,572,160	13,500,000	68,072,160	61,101,303	6,970,857	10.24%
Vendor Fees	16,616,629	-	16,616,629	15,418,546	1,198,083	7.21%
Ticket Costs-Scratch	6,578,000	-	6,578,000	4,537,167	2,040,833	31.03%
Multi-State Lottery Funds	177,433	-	177,433	156,370	21,063	11.87%
	<u>562,944,222</u>	<u>48,500,000</u>	<u>611,444,222</u>	<u>598,144,991</u>	<u>13,299,231</u>	
OPERATING EXPENSES:						
Personal Services (Includes AED, SAED, Health & Life, STD)	10,668,051	-	10,668,051	9,509,128	1,158,923	10.86%
Marketing, Communications & Sales	14,700,000	-	14,700,000	14,627,090	72,910	0.50%
Operating (Includes Travel)	1,540,533	-	1,540,533	895,315	645,218	41.88%
Payments to Other Agencies	239,410	-	239,410	124,828	114,582	47.86%
Indirect Costs Assessments	692,783	-	692,783	636,572	56,211	8.11%
	<u>27,840,777</u>	<u>-</u>	<u>27,840,777</u>	<u>25,792,933</u>	<u>2,047,844</u>	
OPERATING POTS						
Worker's Compensation	44,183	-	44,183	44,183	-	0.00%
Variable Vehicle	151,154	-	151,154	68,586	82,568	54.63%
Leased Space-Grand Junction	13,434	448	13,882	13,881	1	0.01%
Leased Space	957,300	-	957,300	950,578	6,722	0.70%
OIT Payments	2,048,759	20,231	2,068,990	2,066,224	2,766	0.13%
CORE Operations	90,318	-	90,318	90,318	-	0.00%
Risk Management	17,414	-	17,414	17,414	-	0.00%
Legal Services	114,577	-	114,577	114,577	-	0.00%
PERA Distribution	-	-	-	-	-	
	<u>3,583,139</u>	<u>20,679</u>	<u>3,603,818</u>	<u>3,488,776</u>	<u>115,042</u>	
TOTAL	<u>\$ 594,368,138</u>	<u>\$ 48,520,679</u>	<u>\$ 642,888,817</u>	<u>\$ 627,426,700</u>	<u>\$ 15,462,117</u>	<u>2.41%</u>
FY2021 Staffing - FTE	<u>102.5</u>	(Appropriated)	<u>94.5</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	\$ 516,931,605
Commissions and Bonuses	61,101,303
Cost of Tickets & Vendor Fees	18,114,475
Operating Expenses	30,645,310
Total Expenses per Statement of Revenues, Expenses and Changes in Net Position	<u>626,792,693</u>
Plus: Telecommunications offset classified as revenue	760,520
Less: Non-appropriated expenses and other adjustments	
Depreciation	(91,250)
Accrued Annual and Sick Leave	(35,263)
Sub-Total	<u>627,426,700</u>
Plus: Capitalized Fixed Assets	-
	<u>\$ 627,426,700</u>



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, 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 7, 2021.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Denver, Colorado
October 7, 2021



October 7, 2021

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, 2021, and have issued our report thereon dated October 7, 2021. Professional standards require that we advise you of the following matters relating to our audit.

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

As communicated in our letter dated June 17, 2021 our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

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

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

We have provided our comments regarding internal controls during our audit in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated October 7, 2021.

Planned Scope and Timing of the Audit

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

Compliance with All Ethics Requirements Regarding Independence

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

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Colorado Lottery is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during Fiscal Year 2021. 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 6, as this disclosure presents information regarding performance of the Lottery's commitment to funding beneficiaries throughout the State of Colorado.

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

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

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

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

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

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

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

Disagreements with Management

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

Representations Requested from Management

We have requested certain written representations from management that are included in the management representation letter dated October 7, 2021.

Management's Consultations with Other Accountants

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

Other Significant Matters, Findings, or Issues

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

Modification of the Auditor's Report

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

Relationship with the State of Colorado

As discussed in Note 1 – Nature of Operations and Summary of Significant Accounting Policies, the financial statements of the Colorado Lottery are intended to present the financial position and cash flows for only that portion of the financial reporting entity, the State of Colorado, which is attributable to the transactions of the Colorado Lottery. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2021 and 2020, and the changes in its financial position, or, where applicable, its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.


Denver, Colorado