DIVISION OF GAMING,
DEPARTMENT OF REVENUE, STATE OF COLORADO

Financial Statements
and
Independent Auditors' Report
June 30, 2012 and 2011

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CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

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October 31, 2012

Members of the Legislative Audit Committee:

We have completed the financial and compliance audits of the Division of Gaming, Department of Revenue, State of Colorado as of and for the years ended June 30, 2012 and 2011. Our audits were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States of America.

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

Sincerely,

Ehrhardt Keefe Steiner + Hottman PC

Ehrhardt Keefe Steiner & Hottman PC

DIVISION OF GAMING,
DEPARTMENT OF REVENUE, STATE OF COLORADO

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DIVISION OF GAMING,
DEPARTMENT OF REVENUE, STATE OF COLORADO

REPORT SUMMARY
YEAR ENDED JUNE 30, 2012

AUTHORITY AND PURPOSE/SCOPE OF AUDIT

The authority for this audit comes from Colorado Revised Statutes, Section 12-47.1-702(1), which requires the State Auditor to conduct an annual audit of the Limited Gaming Fund. A contract exists by and between the State of Colorado, through the Office of the State Auditor and the Legislative Audit Committee, and Ehrhardt Keefe Steiner & Hottman PC ("EKS&H" or the "Contract Auditors"), whereby the audits of the Division of Gaming, Department of Revenue, State of Colorado (the "Division") for the years ended June 30, 2012 and 2011, are to be performed by EKS&H.

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

The primary purpose of the engagement was to conduct financial and compliance audits of the Division as of and for the years ended June 30, 2012 and 2011, in accordance with standards described above. These standards require that the Contract Auditors plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

SUMMARY OF MAJOR AUDIT FINDINGS

An independent auditors' report on the financial statements of the Division, dated October 31, 2012, has been issued, which states that the financial statements present fairly, in all material respects, the financial position of the Division as of June 30, 2012 and 2011, and the change in financial position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

A report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards*, dated October 31, 2012, has also been issued, which states that the results of the Contract Auditors' tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards.*

RECOMMENDATION LOCATOR

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

SUMMARY OF PROGRESS IN IMPLEMENTING PRIOR AUDIT RECOMMENDATIONS

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

DIVISION OF GAMING,
DEPARTMENT OF REVENUE, STATE OF COLORADO

DESCRIPTION OF THE COLORADO DIVISION OF GAMING
JUNE 30, 2012

Effective October 1, 1991, Article XVIII, Section 9 of the Colorado Constitution was amended to allow limited stakes gaming in three Colorado cities. In April 2009, House Bill 09-1272 was approved due to the passage of Amendment 50. The Amendment, along with the Limited Gaming Act of 1991 (the "Act"), established the framework for regulating limited gaming in Colorado. The Act created the Division of Gaming within the Department of Revenue, established the Limited Gaming Fund, and gave the Limited Gaming Control Commission (the "Commission") the authority and responsibility for regulating limited gaming in Colorado.

The Division operates with a staff of about 92 full-time employees and a budget of approximately $13.5 million. The Commission is made up of a five-member board appointed by the Governor and approved by the Colorado Senate. Gaming revenues deposited in the Limited Gaming Fund are used to pay operating expenses for the Division and the Commission during the year. After setting aside a reserve for two months' operating expenses at the end of each fiscal year, the remaining fund balance in the Limited Gaming Fund is distributed to State and local governments according to the provisions in the Colorado Constitution and the Act.

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INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the Division of Gaming, a special revenue fund of the Department of Revenue, State of Colorado (the "Division") as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 Division's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Division are intended to present the financial position and changes in financial position of only that portion of the special revenue fund of the State of Colorado that is attributable to the transactions of the Division. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2012 and 2011, and the changes in its financial position and budgetary comparisons for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the special revenue fund of the Division as of June 30, 2012 and 2011, and the changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards,* we have also issued our report dated October 31, 2012 on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 28 and 52 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.

Ehrhardt Keefe Steiner + Hottman PC

Ehrhardt Keefe Steiner & Hottman PC

October 31, 2012
Denver, Colorado

DIVISION OF GAMING,
DEPARTMENT OF REVENUE, STATE OF COLORADO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

This discussion and analysis of the financial performance of the Division of Gaming, Department of Revenue, State of Colorado (the "Division") provides an overview of financial activities for the year ended June 30, 2012. Please read it in conjunction with the Division's financial statements, which begin on page 29.

Financial Highlights

- Gaming Tax revenues were $102,080,861 for the fiscal year ended June 30, 2012, which is a decrease of $2,727,115 or (2.60)%, compared to revenues of $104,807,976 for the prior fiscal year ending June 30, 2011.

- A decline in the Division's total excess of revenues over expenditures decreased the Gaming Distribution to $91,197,385 compared to last fiscal year's distribution of $95,327,351. Amounts represent the limited gaming distribution for fiscal 2012 and the extended gaming distribution paid subsequent to fiscal 2012. This distribution amount represents a decrease of $4,129,966 over last fiscal year or (4.33)%.

Using This Report

This financial report consists of financial statements for the fiscal years ended June 30, 2012 and 2011. Unless otherwise specified, references within this report to the Division relate to the Extended Gaming Fund and the Limited Gaming Fund. The tax comparison shows the tax rates and compares current and previous fiscal years' adjusted gross proceeds (similar to gross income of the casinos) and taxes paid, separated by tax bracket. It also lists how many casinos were in which tax bracket at the end of the fiscal year. The Balance Sheet provides comparative information on the Division's assets, liabilities, and fund balance as of the end of the current and previous fiscal years. The Statement of Revenues, Expenditures, and Changes in Fund Balance is the Division's income statement. The Statements of Revenues, Expenditures, and Changes in Fund Balance provides information on the current and previous fiscal years' revenues, expenditures, excess of revenues over expenditures, the Gaming Distribution, the beginning fund balances at July 1, 2011 and July 1, 2010, respectively, and the ending fund balances as of June 30, 2012 and 2011, respectively. The Statement of Budget to Actual reflects the initial budget amounts, the cumulative changes made throughout the course of the year, the revised budget amounts, and the actual amounts received or expended. Finally, the notes to the financial statements contain a summary of significant accounting policies and more specific information about items in the financial statements.

In April 2009, House Bill 09-1272 was approved due to the passage of Amendment 50. In summation, this amendment allows Colorado casinos to offer $100 maximum bets, an increase from the previous $5 limit; offer the games of craps and roulette; and remain open for 24 hours. This is referred to as Extended Gaming. The Extended Gaming Funds to be distributed are transferred to a separate fund every fiscal year end beginning with fiscal year 2010; therefore, a new Extended Gaming Fund was created separate from the Limited Gaming Fund for this purpose.

Revenues

The total excess of revenues over expenditures of the Division for fiscal year 2012 was $91,250,217. This represents a decrease of $2,757,017 or (2.93)% compared to fiscal year 2011 excess of revenues over expenditures of $94,007,234.

The fiscal year 2012 net decrease in fair value of investments of $175,970 and net decrease of $534,674 in fiscal year 2011 represents the change in fair value of the Division's investments during the fiscal years ended June 30, 2012 and 2011, respectively.

The largest source of revenue for the Division is from gaming taxes paid by casinos. The gaming tax revenues earned for the fiscal years ending June 30, 2012 and 2011 were $102,080,061 and $104,807,976, respectively. The taxes are paid on a graduated scale ranging from 0.2375% to 19.00% of adjusted gross proceeds. The tax rates for fiscal year 2012 were decreased 5% from 2011 rates, per the authority of the Colorado Limited Gaming Control Commission. The adjusted gross proceeds of casinos increased 0.73% in fiscal year 2012. The tax decrease was (2.56)%. Taxes decreased due to the graduated tax scale and the 5% decrease in tax rates for fiscal year 2012. The tax rates for fiscal year 2013 were increased 5% from fiscal year 2012 rates, per the authority of the Colorado Limited Gaming Control Commission.

The Colorado Limited Gaming Control Commission assesses taxes based on adjusted gross proceeds. The tax rates for fiscal years 2013, 2012, and 2011 are below.

The tax rates for the fiscal year ended June 30, 2012 are:

0.2375% on amounts up to $2 million
1.90% on amounts over $2 million and up to $5 million
8.55% on amounts over $5 million and up to $8 million
10.45% on amounts over $8 million and up to $10 million
15.20% on amounts over $10 million and up to $13 million
19.00% on amounts over $13 million

The tax rates for the fiscal year 2011 and 2013 are:

0.25% on amounts up to $2 million
2% on amounts over $2 million and up to $5 million
9% on amounts over $5 million and up to $8 million
11% on amounts over $8 million and up to $10 million
16% on amounts over $10 million and up to $13 million
20% on amounts over $13 million

Revenues (continued)

For the fiscal years ended June 30, 2011 and 2012:

Adjusted Gross Proceeds ("AGP") Comparison

Range	FYE 2011 AGP	FYE 2012 AGP	Difference	Percent Change
$0 - $2 Million	$ 2,789,073	$ 7,176,950	$ 4,387,877	157.32%
$2 - $5 Million	40,259,808	36,391,146	(3,868,662)	(9.61%)
$5 - $8 Million	26,518,931	31,539,031	5,020,100	18.93%
$8 - $10 Million	36,509,267	18,242,088	(18,267,179)	(50.03%)
$10 - $13 Million	31,800,023	21,420,358	(10,379,665)	(32.64%)
$13+ Million	616,209,911	644,834,902	28,624,991	4.65%
Total	$ 754,087,013	$ 759,604,475	$ 5,517,462	0.73%

Tax Comparison

Range	FYE 2011 Tax	FYE 2012 Tax	Difference	Percent Change
$0 - $2 Million	$ 196,973	$ 183,295	$ (13,678)	(6.94%)
$2 - $5 Million	1,885,196	1,736,432	(148,764)	(7.89%)
$5 - $8 Million	6,526,704	5,689,087	(837,617)	(12.83%)
$8 - $10 Million	4,456,019	3,996,298	(459,721)	(10.32%)
$10 - $13 Million	7,488,004	7,511,895	23,891	0.32%
$13+ Million	84,241,982	82,998,631	(1,243,351)	(1.48%)
Total	$ 104,794,878	$ 102,115,638	$ (2,679,240)	(2.56%)

Revenues (continued)

AGP Summary

Range	FYE 2011 No. of Open Casinos	FYE 2012 No. of Open Casinos	Difference
\$0 - \$2 Million	1	6	5
\$2 - \$5 Million	11	9	(2)
\$5 - \$8 Million	4	5	1
\$8 - \$10 Million	4	2	(2)
\$10 - \$13 Million	3	2	(1)
\$13+ Million	14	16	2
	37	40	3

Revenues (continued)

Below is a chart of the changes in revenues to fiscal year 2012 from fiscal year 2011.

	Increase (Decrease) Amount	Percent Change	Explanation
Gaming taxes	$ (2,727,115)	(2.60)%	In fiscal year 2012, taxes decreased due to the 5% tax rate decrease from fiscal year 2011.
License and application fees	8,893	1.43%	License and application fees vary from year to year depending on the type of license and application that is received.
Background investigations	12,387	5.91%	There was $21,814 more in labor and miscellaneous charges and $9,427 less in travel during fiscal year 2012.
Fines, insurance recoveries, and other	108,191	141.27%	Interest rates decreased (0.58)% on average during fiscal year 2012. The average rate was 1.37% in fiscal year 2012 and 1.95% in fiscal year 2011.
Interest income	(310,112)	(33.55)%	This represents the difference between the net change in the fair market value of the Division's investments during fiscal year 2012 versus the net change in the fair market value of the Division's investments during fiscal year 2011.
Change in fair value of investments	358,704	67.09%	This number includes the change in fair value of investments. Revenues, excluding the change in fair value of investments, decreased by (2.71)%.
Total revenues	$ (2,549,052)	(2.40)%	

For fiscal year 2011, the excess of revenues over expenditures was $94,007,234. This represents a decrease of $4,429,735 or (4.50)% compared to fiscal year 2010's excess of revenues over expenditures of $98,436,969.

The net decrease in fair value of investments of $534,674 and net increase of $985,910 represents the change in fair value of the Division's investments during the fiscal years ended June 30, 2011 and 2010, respectively.

Revenues (continued)

The adjusted gross proceeds of casinos decreased 1.43% in fiscal year 2011. The tax decrease was 2.67%. Taxes decreased at a higher rate than adjusted gross proceeds due to the graduated tax scale. The tax rates for fiscal year 2011 and fiscal year 2010 remained constant between years.

Below is a chart of the changes in revenues to fiscal year 2011 from fiscal year 2010.

	Increase (Decrease) Amount	Percent Change	Explanation
Gaming taxes	$ (2,861,390)	(2.66)%	The passing of Amendment 50 and implementation on July 1, 2009 spiked gaming activity in fiscal year 2010. Fiscal year 2011 saw a decline in the economy and a decline in the initial excitement created by Amendment 50.
License and application fees	(13,938)	(2.20)%	Beginning in August of fiscal year 2009, the Division began to stagger the issuance of 2-year licenses to businesses. The fees for the second year of the license period are recorded as deferred revenue until the Division incurs the expense during the review period in the second year of the license. License and application fees vary from year to year depending on the type of license and application that is received.
Background investigations	(148,817)	(41.54)%	There was $27,763 less required travel and $121,054 less in labor and miscellaneous charges during fiscal year 2011.
Fines and other	15,140	24.64%	The fines revenues vary from year to year and are dependent upon audit and investigative findings. The Division has recorded $8,458 in insurance recoveries. The entire amount is related to a single event that occurred in fiscal year 2011 at the Division of Gaming's Cripple Creek office.
Interest income	(175,590)	(15.96)%	Interest rates decreased (0.35)% on average during fiscal year 2011. The average rate was 1.95% in fiscal year 2011 and 2.30% in fiscal year 2010.
Change in fair value of investments	(1,520,584)	(154.23)%	This represents the net change in the fair market value of the Division's investments during fiscal year 2011 versus fiscal year 2010.
Total revenues	$ (4,705,179)	(4.25)%	This number includes the change in fair value of investments. Revenues, excluding the change in fair value of investments, decreased by (2.90)%.

Expenditures

Total expenditures for the Division in fiscal year 2012 were $12,305,062. This is an increase of $207,965 or a 1.72% increase from fiscal year 2011 expenditures of $12,097,097. The information below shows the changes in expenditures from fiscal year 2011 to fiscal year 2012 with explanations provided for large variances.

	Increase (Decrease) Amount	Percent Change	Explanation
Salaries, benefits, and leave payouts	$ 53,796	0.81%	In fiscal year 2012, the average increase in health, dental, and life insurance was 0.77%. Also, thirteen employees left the Division in Fiscal Year 2012, versus four in Fiscal Year 2011, resulting in an increase in annual leave payout.
State agency services	120,263	2.84%	In fiscal year 2012, Colorado Bureau of Investigation costs increased $110,182 due to more investigations. Legal Services costs increased $19,922 due to more legal activity, including several personnel actions. A combination of six other agencies resulted in a decrease of $9,841. See page 50 for details.
Materials, supplies, and services	(156,373)	(37.74)%	In fiscal year 2011, the Lakewood Gaming office moved to a new Golden location. The new Golden office had a cubical system installed at a cost of approximately $81,000 and cubicle furniture was bought at a cost of approximately $40,000. Also in fiscal year 2011, the Cripple Creek office roof was repaired for approximately $13,000.
Travel and automobiles	53,424	31.48%	In fiscal year 2012, the variable (mileage) costs for vehicles were $97,850, which is $32,554 higher than fiscal year 2011. Higher gas and maintenance costs created this increase between years.
Computer services	2,797	2.49%	In fiscal year 2012, there was a $7,506 increase for shared communication costs and a $4,710 decrease in computer checks.
Professional services	69,690	121.02%	In fiscal year 2012, the labor costs to update licensing software were $39,749; teammate labor costs were $11,530; DRC IT consulting was $5,610; temporary staff was $5,570; and carbon dioxide testing was $5,238. These represent the majority of the increase between fiscal year 2012 and 2011, since these costs did not exist in fiscal 2011.
Other	(37,443)	(35.70%)	In fiscal year 2011, a $50,000 non-recurring cost related to a personnel settlement was incurred. In fiscal year 2012 risk management increased $6,480 and police supplies increased by $5,618.
Telephone	(18,227)	(16.42)%	In fiscal year 2012, digital data charges were $9,571 less and local call charges were 6,883 less.

Expenditures (continued)

Background investigations	(10,516)	(26.94)%	In fiscal year 2011, there were more international travel costs than in fiscal year 2012.
Leased space	73,868	37.98%	In September 2010, the Division moved its Lakewood office to Golden and began making lease payments for the new Golden space. The increase between fiscal years 2011 and 2012 is mainly due to the difference in the Lakewood lease payments verses the Golden lease payments.
Capital outlay	56,686	222.74%	In fiscal year 2012, many technology upgrades were made. Upgrades made include: upgrade of licensing software, installation of a new proxy-card system in Cripple Creek, wireless access for the Golden office, smart board for Golden office, servers for Cripple Creek and Central City offices, firewall, teammate software, and camera for the badge system.
Total expenditures	$ 207,965	1.72%	

Expenditures (continued)

Total expenditures for the Division in fiscal year 2011 were $12,097,097. This is a decrease of $275,444 or a (2.23)% decrease from fiscal year 2010 expenditures of $12,372,541. The information below shows the changes in expenditures from fiscal year 2010 to fiscal year 2011 with explanations provided for large variances.

	Increase (Decrease) Amount	Percent Change	Explanation
Salaries, benefits, and leave payouts	$ 42,396	0.64%	In fiscal year 2011, the average increase in health, dental, and life was 4.8%. During fiscal year 2011, six employees were on leave without pay and four employees left State employment while during fiscal year 2010, three employees left. Thus, an increase in annual leave payouts was experienced between the two fiscal years.
State agency services	254,386	6.40%	In fiscal year 2011, the Colorado State Patrol contract costs increased $220,804 from fiscal year 2010 due to the addition of two troopers.
Materials, supplies, and services	127,715	44.56%	In fiscal year 2011, non-capitalized furniture increased $117,293 from fiscal year 2010. The increase between years resulted from the Lakewood Gaming office moving to a new Golden location. The new Golden office had a cubical system installed at a cost of approximately $81,000. Also, in fiscal year 2011, the Colorado Office of the State Controller clarified a professional service cost verses another purchased service cost. The definition of professional service cost became exclusive, thus more costs were paid as other purchased services. This created approximately a $27,000 increase in other purchased services costs between fiscal year 2011 and 2010.
Travel and automobiles	5,251	3.19%	In fiscal year 2011, lease costs for gaming vehicles were $85,677, an increase of $3,780 from fiscal year 2010. The variable (mileage) costs for these same vehicles in fiscal year 2011 were $65,296 which is $3,141 higher than fiscal year 2010. Higher gas and maintenance costs created this increase between years.
Computer services	(17,582)	(13.55)%	In fiscal year 2011, the cumulative costs for fingerprint checks performed by CBI in relation to gaming applicants was $22,663 lower than the cost in fiscal year 2010.
Professional services	10,801	23.09%	In fiscal year 2011, the labor costs to install the cubical system in the new Golden gaming office was $11,000, which represents the majority of the increase between fiscal year 2011 and 2010.
Other	56,417	116.45%	In fiscal year 2011, a $50,000 cost related to a personnel settlement was incurred.
Telephone	37,789	51.62%	In fiscal year 2011, the Division paid $2,865 more per month for Multi-Use Network services than in fiscal year 2010, for a total increased cost of $34,380.

Expenditures (continued)

	Increase (Decrease) Amount	Percent Change	Explanation
Background investigations	(25,921)	(39.90)%	In fiscal year 2010, background investigation costs were higher than fiscal year 2011 costs because gaming licenses are issued on a two year basis and, therefore, may vary from year to year.
Leased space	44,034	29.26%	In September 2010, the Division moved its Lakewood office to Golden. Subsequently, it began making lease payments for the new Golden space. The increase between fiscal years 2011 and 2010 is directly related to the difference in the Lakewood lease payments verses the Golden lease payments.
Capital outlay	(810,730)	(96.96)%	In fiscal year 2010, the building and land the Cripple Creek gaming office is occupying was purchased for $834,179; no such expense was incurred in fiscal year 2011.
Total expenditures	$ (275,444)	(2.23)%	

Assets, Liabilities, and Fund Balance

The year-end total fund balance reflects the overall financial position of the Division, which is $12,058,477 at June 30, 2012 compared to $12,322,562 at June 30, 2011. Total assets of $96,154,620 at June 30, 2012 are $3,946,820 or (3.94)% lower than the prior year balance of $100,101,440. The decrease in total assets is primarily due to the decreases in cash and temporary cash investments.

The Division's total liabilities were $84,096,143 at June 30, 2012 and $87,778,878 at June 30, 2011. The $3,682,735 net decrease is primarily due to the $3,813,050 decrease in the fiscal year 2012 limited gaming distribution.

The following compares fiscal year 2012 and fiscal year 2011 assets, liabilities, and fund balances.

	Fiscal Year		Increase (Decrease)	
	2012	2011	Dollars	Percent
Cash and temporary cash investments	$ 85,229,902	$ 89,394,460	$ (4,164,558)	(4.66)%
Gaming taxes and other receivables	10,904,236	10,692,684	211,552	1.98%
Prepaid expenses	20,482	14,296	6,186	43.27%
Total assets	$ 96,154,620	$ 100,101,440	$ (3,946,820)	(3.94)%
Accounts payable, wages, and accrued payroll payable	$ 663,432	$ 603,754	$ 59,678	9.88%
Due to other State agencies, other governments, and the State General Fund	82,906,233	86,744,504	(3,838,271)	(4.42)%
Other liabilities	526,478	430,620	95,858	22.26%
Total liabilities	84,096,143	87,778,878	(3,682,735)	(4.20)%
Fund balance	12,058,477	12,322,562	(264,085)	(2.14)%
Total liabilities and fund balance	$ 96,154,620	$ 100,101,440	$ (3,946,820)	(3.94)%

Assets, Liabilities, and Fund Balance (continued)

The year-end total fund balance reflects the overall financial position of the Division, which is $12,322,562 at June 30, 2011 compared to $12,656,476 at June 30, 2010. Total assets of $100,101,440 at June 30, 2011 are $2,361,283 or 2.3% lower than the prior year balance of $102,462,723. The decrease in total assets is primarily due to the decreases in cash and temporary cash investments and gaming taxes receivable.

The Division's total liabilities were $87,778,878 at June 30, 2011, which is a decrease from $89,806,247 at June 30, 2010. The $2,027,369 net decrease is primarily due to the $2,401,253 decrease in the fiscal year 2011 limited gaming distribution.

The following compares fiscal year 2011 and fiscal year 2010 assets, liabilities, and fund balances.

	Fiscal Year		Increase (Decrease)	
	2011	2010	Dollars	Percent
Cash and temporary cash investments	$ 89,394,460	$ 91,418,122	$ (2,023,662)	(2.22)%
Gaming taxes and other receivables	10,692,684	11,019,725	(327,041)	(2.97)%
Prepaid expenses	14,296	24,876	(10,580)	(42.53)%
Total assets	$ 100,101,440	$ 102,462,723	$ (2,361,283)	(2.30)%
Accounts payable, wages, and accrued payroll payable	$ 603,754	$ 629,939	$ (26,185)	(4.16)%
Due to other State agencies, other governments, and the State General Fund	86,744,504	88,836,131	(2,091,627)	(2.35)%
Other liabilities	430,620	340,177	90,443	26.59%
Total liabilities	87,778,878	89,806,247	(2,027,369)	(2.26)%
Fund balance	12,322,562	12,656,476	(333,914)	(2.64)%
Total liabilities and fund balance	$ 100,101,440	$ 102,462,723	$ (2,361,283)	(2.30)%

Statement of Revenues, Expenditures, and Changes in Fund Balance

The following compares total fiscal year 2012 and fiscal year 2011 revenues, expenditures, and changes in fund balance.

	Fiscal Year		Increase	
	2012	2011	Dollars	Percent
Revenues				
Gaming taxes	$ 102,080,861	$ 104,807,976	$ (2,727,115)	(2.60)%
License and application fees	629,594	620,701	8,893	1.43%
Other revenue	844,824	675,654	169,170	25.04%
Total revenues	103,555,279	106,104,331	(2,549,052)	(2.40)%
Expenditures				
Operating expenditures	7,925,787	7,827,569	98,218	1.25%
Background investigations	28,524	39,040	(10,516)	(26.94)%
State agency services	4,350,751	4,230,488	120,263	2.84%
Total expenditures	12,305,062	12,097,097	207,965	1.72%
Excess of revenues over expenditures	91,250,217	94,007,234	(2,757,017)	(2.93)%
Fund balance, beginning of year	12,322,562	12,656,476	(333,914)	(2.64)%
Less: Gaming Fund distributions	91,514,302	94,341,148	(2,826,846)	(3.00)%
Fund balance, end of year	$ 12,058,477	$ 12,322,562	$ (264,085)	(2.14)%

Statement of Revenues, Expenditures, and Changes in Fund Balance (continued)

The following compares total fiscal year 2011 and fiscal year 2010 revenues, expenditures, and changes in fund balance.

	Fiscal Year		Increase	
	2011	2010	Dollars	Percent
Revenues				
Gaming taxes	$ 104,807,976	$ 107,669,366	$ (2,861,390)	(2.66)%
License and application fees	620,701	634,639	(13,938)	(2.20)%
Other revenue	675,654	2,505,505	(1,829,851)	(73.03)%
Total revenues	106,104,331	110,809,510	(4,705,179)	(4.25)%
Expenditures				
Operating expenditures	7,827,569	8,331,478	(503,909)	(6.05)%
Background investigations	39,040	64,961	(25,921)	(39.90)%
State agency services	4,230,488	3,976,102	254,386	6.40%
Total expenditures	12,097,097	12,372,541	(275,444)	(2.23)%
Excess of revenues over expenditures	94,007,234	98,436,969	(4,429,735)	(4.50)%
Fund balance, beginning of year	12,656,476	3,031,507	9,624,969	317.50%
Less: Gaming Fund distribution	94,341,148	88,812,000	5,529,148	6.23%
Fund balance, end of year	$ 12,322,562	$ 12,656,476	$ (333,914)	(2.64)%

Conditions Affecting Financial Position or Results of Operations

Amendment 50

Amendment 50 was implemented on July 2, 2009. This increased the maximum betting limit from $5 to $100, authorized the table games of craps and roulette, and extended the hours of operation to 24 hours a day seven days a week. The impact of Amendment 50 on gaming revenues, based upon the allocation formula set by Rule 24 of the Colorado Limited Gaming Regulations, was $9,401,325 for fiscal year 2012, or 9.06% of total gaming revenues.

Conditions Affecting Financial Position or Results of Operations (continued)

Staffing Changes

In fiscal years 2012 and 2011, the Division had several vacant positions.

Weak Economy

The nationwide recession that plagued the gaming industry during fiscal years 2010 and 2011 continued to have an impact in the current fiscal year.

Field Offices

Several construction projects were completed, which included additional improvements to the HVAC system in the Cripple Creek office and changing boiler in the Central City office.

Headquarters Office

Additional staffing, primarily as a result of Amendment 50, resulted in the need for additional space for the Division's headquarters office. In September 2010, the Division entered into a 10-year lease contract and the office was relocated from 1881 Pierce Street, Lakewood, Colorado to 17301 West Colfax Avenue, Golden, Colorado. At the confluence of Colfax Avenue, I-70, 6th Avenue, and C-470, this new office places the Division in closer proximity to the gaming towns of Black Hawk and Central City.

Distribution

The voters of Colorado passed Amendment 50 on November 4, 2008. In summation, this amendment allows Colorado casinos to offer $100 maximum bets, offer the games of craps and roulette, and remain open for 24 hours. This is now referred to as extended gaming. The tax revenues attributable to the implementation of Amendment 50 will be distributed as follows:

- 78% to the Colorado Community College System;
- 12% to Gilpin and Teller Counties, in proportion to the tax revenues generated in the respective counties; and
- 10% to the cities of Cripple Creek, Central City, and Black Hawk, in proportion to the tax revenues generated in the respective cities.

At the end of each fiscal year, the Division distributes the balance remaining in the Limited Gaming Fund after reserving an amount equal to expenditures for the preceding two-month period. The Limited Gaming Fund also transfers amounts due to the Extended Gaming Fund. The total distribution for the fiscal year ended June 30, 2012 was $91,197,385 which includes $8,599,688 for the Extended Gaming Fund distribution.

During August of each fiscal year, the Commission approves the Extended Gaming distribution for the previous fiscal year in accordance with Section 12-47.1-701.5 C.R.S. These amounts are accrued and distributed in the year approved by the Commission.

	June 30,	
	2012	2011
Distributions to Extended Gaming Recipients		
• 78% to the State's Public Community Colleges, Junior Colleges, and Local District Colleges;	$ 6,707,757	$ 6,954,952
• 12% to Gilpin and Teller Counties, in proportion to the tax revenues generated in the respective counties; and	1,031,963	1,069,993
• 10% to the cities of Cripple Creek, Central City, and Black Hawk, in proportion to the tax revenues generated in the respective cities.	859,968	891,660
Total distribution attributable to extended gaming	$ 8,599,688	$ 8,916,605

Distribution (continued)

Limited Gaming Distribution

In accordance with Section 12-47.1-701, C.R.S. and amended by Senate Bill 11-159, the balance remaining in the Limited Gaming Fund is to be distributed by the State Treasurer to the recipients of limited gaming revenues according to the following formula:

- 50% to the State General Fund, of which the first $19,200,000 will be directed to the General Fund. Any amount of the 50% General Fund distribution greater than $48,500,000 will also be directed to the General Fund. Any amount of the 50% General Fund distribution that is greater than $19,200,000 and less than or equal to $48,500,000 is to be further divided such that 50% of the distribution is to be given to the Colorado Travel & Tourism Promotion Fund, 18% of the distribution is to be given to the Bioscience Discovery Evaluation Cash Fund, 15% of the distribution is to be given to the Local Government Limited Gaming Impact Fund, 7% of the distribution is to be given to the Innovative Higher Education Research Fund, 5% of the distribution is to be given to the New Jobs Incentives Cash Fund[1], 4% of the distribution is to be given to the Creative Industries Cash Fund, and 1% of the distribution is to be given to the Creative Industries Cash Fund for the operation of the Colorado Office of Film, Television, and Media.
- 28% to the Colorado State Historical Fund;
- 12% to Gilpin and Teller Counties, in proportion to the gaming revenues generated in these respective counties; and
- 10% to the cities of Cripple Creek, Central City, and Black Hawk, in proportion to the gaming revenues generated in these respective cities.

The General Fund's 50% share of the Limited Gaming Fund distribution for fiscal year 2012 totaled $41,298,849; as such the provision giving the General Fund any amount greater than $48,500,000 is not applicable.

[1]Senate Bill 11-159 Fiscal Note indicates current law governing the New Jobs Incentives Program is discontinued. As of January 1, 2011, employers are no longer eligible to receive performance-based incentives from the New Jobs Incentives Cash Fund.

Senate Bill 11-159 Section 1(2)(a)(III)(b) declares that if a transfer specified in subparagraph (II) of paragraph (a) of this subsection (2) provides moneys for a purpose or program that is repealed or otherwise discontinued as of the date of the transfer, then the transfer shall not be made to that particular fund but shall instead be transferred to the State General Fund.

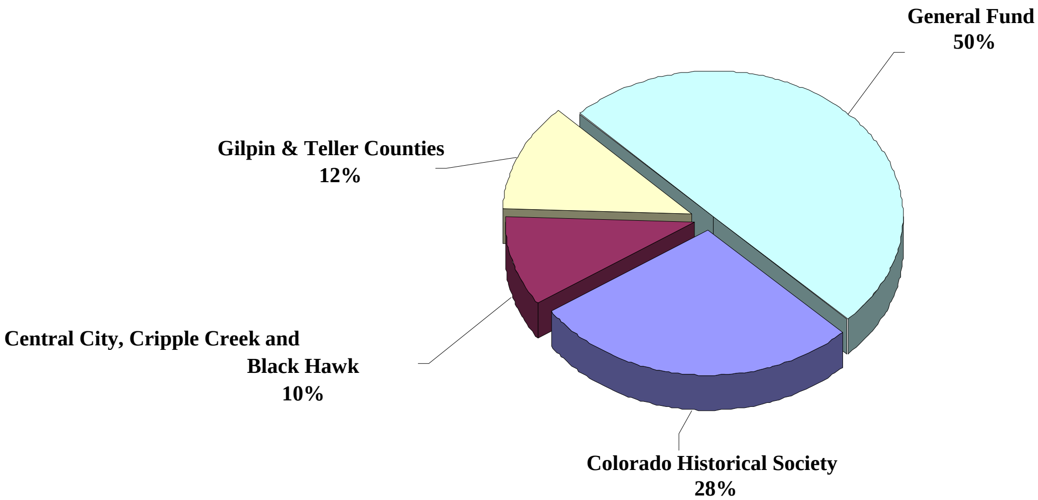
The New Jobs Incentives Cash Fund's 5% allocation from the 50% General Fund distribution amounted to a total of $1,104,942. This amount was added to the $19,200,000 General Fund distribution noted above; this addition brings the General Fund's total distribution amount to $20,304,942.

Distribution (continued)

Limited Gaming Distribution (continued)

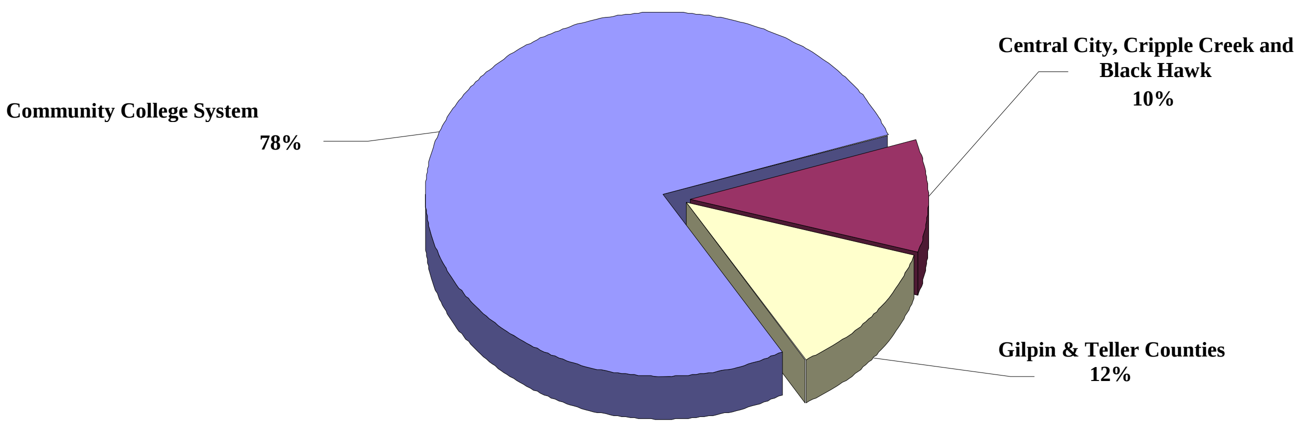
The charts that follow reflect the distribution formulas and the Colorado Limited and Extended Gaming Funds distributions from the inception of Colorado gaming in 1992 through 2012.

Colorado Limited Gaming Distribution Formula
(Original Recipients)



<u>Distribution (continued)</u>

Colorado Extended Gaming Distribution Formula
(Amendment 50 Recipients)



Distribution (continued)

The chart below compares the amounts distributed to the various recipients for fiscal years 2012 and 2011.

Funds Distribution Comparison

	For the Years Ended June 30, 2012	2011	Difference	Percent Difference
Colorado State Historical Fund	$ 23,127,355	$ 24,195,009	$ (1,067,654)	(4.41)%
Colorado Travel and Tourism Promotion Fund	11,049,424	12,002,687	(953,263)	(7.94)%
Local Government Limited Gaming Impact Fund	3,314,827	3,600,806	(285,979)	(7.94)%
Creative Industries Cash Fund for the Operation of the Office of Film, Television, and Media	220,989	240,054	(19,065)	(7.94)%
Bioscience Discovery Evaluation Cash Fund	3,977,793	4,320,967	(343,174)	(7.94)%
Creative Industries Cash Fund	883,954	960,215	(76,261)	(7.94)%
Innovative Higher Education Research Fund	1,546,920	1,680,376	(133,456)	(7.94)%
Total payments to other State agencies	44,121,262	47,000,114	(2,878,852)	(6.13)%
City of Black Hawk	6,048,630	6,352,054	(303,424)	(4.78)%
City of Central City	782,200	768,193	14,007	1.82%
City of Cripple Creek	1,428,940	1,520,828	(91,888)	(6.04)%
Gilpin County	8,196,995	8,544,294	(347,299)	(4.06)%
Teller County	1,714,728	1,824,995	(110,267)	(6.04)%
Total payment due to other governments	18,171,493	19,010,364	(838,871)	(4.41)%
Due to the State General Fund	20,304,942	20,400,269	(95,327)	(0.47)%
Due to the Extended Gaming recipients	8,599,688	8,916,605	(316,917)	(3.55)%
Total distribution	$ 91,197,385	$ 95,327,352	$ (4,129,967)	(4.33)%

Distribution (continued)

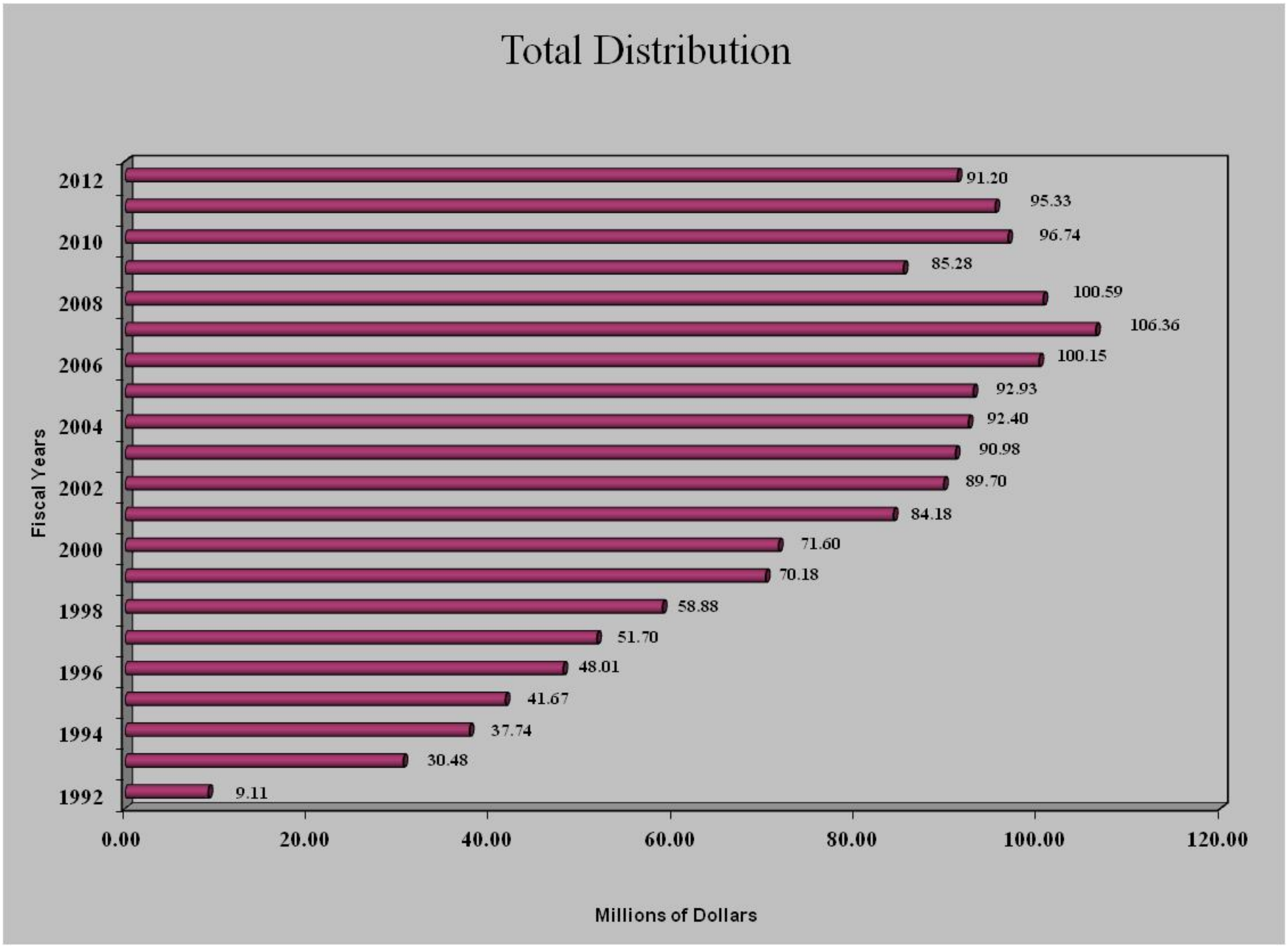
The total distribution for the fiscal year ended June 30, 2011 was $95,327,352.

The chart below compares the amounts distributed to the various recipients for fiscal years 2011 and 2010.

Funds Distribution Comparison

	For the Years Ended June 30, 2011	2010	Difference	Percent Difference
Colorado State Historical Fund	$ 24,195,009	$ 24,867,360	$ (672,351)	(2.70)%
Colorado Travel and Tourism Promotion Fund	12,002,687	14,208,015	(2,205,328)	(15.52)%
Local Government Limited Gaming Impact Fund	3,600,806	3,772,780	(171,974)	(4.56)%
Colorado Council on the Arts Cash Fund	-	1,121,726	(1,121,726)	(100.00)%
Creative Industries Cash Fund for the Operation of the Office of Film, Television, and Media	240,054	407,997	(167,943)	(41.16)%
New Jobs Incentives Cash Fund	-	1,291,231	(1,291,231)	(100.00)%
Bioscience Discovery Evaluation Cash Fund	4,320,967	5,500,000	(1,179,033)	(21.44)%
Creative Industries Cash Fund	960,215	-	960,215	100.00%
Innovative Higher Education Research Fund	1,680,376	1,904,251	(223,875)	(11.76)%
Total payments to other State agencies	47,000,114	53,073,360	(6,073,246)	(11.44)%
City of Black Hawk	6,352,054	6,516,136	(164,082)	(2.52)%
City of Central City	768,193	751,350	16,843	2.24%
City of Cripple Creek	1,520,828	1,613,714	(92,886)	(5.76)%
Gilpin County	8,544,294	8,720,983	(176,689)	(2.03)%
Teller County	1,824,995	1,936,457	(111,462)	(5.76)%
Total payment due to other governments	19,010,364	19,538,640	(528,276)	(2.70)%
Due to the State General Fund	20,400,269	16,200,000	4,200,269	25.93%
Due to the Extended Gaming recipients	8,916,605	7,930,401	986,204	12.44%
Total distribution	$ 95,327,352	$ 96,742,401	$ (1,415,049)	(1.46)%

<u>Distribution (continued)</u>



<u>Budget</u>

The Colorado Limited Gaming Control Commission approves the Division's budget for the Limited Gaming Fund. The Division does not adopt a budget for the Extended Gaming Fund. Throughout the year, the budget can be amended if approved by the Colorado Limited Gaming Commission.

<u>Changes Approved in February 2012</u>

- The Legal Services appropriation was decreased by $83,485.

Budget (continued)

Changes Approved in March 2012

- The Fixed Vehicle Lease appropriation was decreased by $3,854.

Changes Approved in April 2012

- The State Agency Services appropriation was increased by $28,033 for the Colorado State Patrol.

The budget approved at the beginning of the year was $13,520,959. The amendments and rollforwards to the budget resulted in a net decrease of $59,306. Therefore, the final approved budget for fiscal year 2012 was $13,461,653. Total actual expenditures were $12,305,062 resulting in excess appropriations, or a savings of $1,156,591 for fiscal year 2012.

Economy and Next Year's Budget

The Division considers several factors when determining estimates for the following year's budget. The fiscal year 2013 budget request was prepared according to statewide standards and guidelines issued by the Governor's Office of State Planning and Budgeting ("OSPB"). The Division has also incorporated into the request a statewide figure setting policy adopted by the Joint Budget Committee ("JBC") for fiscal year 2013. The Division's request totaled $10,353,618, which represents a 6.45% increase from the fiscal year 2012 appropriation. The largest increase in the fiscal year 2013's budget is $253,719 for the Personal Services appropriation. Health, Life, and Dental appropriation was increased by $61,484. The Colorado Limited Gaming Control Commission approved a budget request submitted by the Department of Public Safety for $3,684,918 and a budget request submitted by the Department of Local Affairs for $153,939. These funds are used for gaming related purposes.

Assumptions that were made when preparing the revenue projection for fiscal year 2013 included the continuation of current tax structure, 5% tax rate increase, and continuation of license and application fees in effect. Also included in assumptions is the continuation of the current interest rate being paid to the fund and adjustments for casinos closed and opened in fiscal year 2012. The Division's fiscal year 2013 revenue estimates total $109.4 million, a $5.7 million increase over fiscal year 2012 actual revenue.

During the 21 years of gaming in Colorado, the Division has seen the market change. Initially there were many small casinos; now there are fewer casino properties, many of which are owned by large publicly traded companies. Gaming in Colorado continues to do well. The Division continually positions itself to respond effectively to new technology, regulations, and growth of the industry.

Contacting the Division of Gaming's Financial Management

This financial report is designed to provide Colorado citizens, Colorado government officials, the casino industry, and other interested parties with a general overview of the Division's finances. It is also designed to show the Division's accountability of the funds it receives from the gaming industry. If you have questions about this report or need additional financial information, contact the Division's accounting section at: Colorado Division of Gaming, 17301 W. Colfax Avenue, Suite 135, Golden, CO 80401-1496, or visit the Division's website: www.colorado.gov/revenue/gaming.

DIVISION OF GAMING,
DEPARTMENT OF REVENUE, STATE OF COLORADO

Balance Sheets

	June 30, 2012			June 30, 2011		
	Extended Gaming Fund	Limited Gaming Fund	Total Gaming Fund	Extended Gaming Fund	Limited Gaming Fund	Total Gaming Fund
Assets						
Cash and temporary cash investments	$ 8,718,155	$ 76,511,747	$ 85,229,902	$ 9,051,721	$ 80,342,739	$ 89,394,460
Gaming taxes receivable	-	10,900,285	10,900,285	-	10,678,561	10,678,561
Other receivables	-	3,951	3,951	-	14,123	14,123
Prepaid expenses	-	20,482	20,482	-	14,296	14,296
Total assets	$ 8,718,155	$ 87,436,465	$ 96,154,620	$ 9,051,721	$ 91,049,719	$100,101,440
Liabilities and Fund Balance						
Liabilities						
Accounts payable	$ -	$ 103,146	$ 103,146	$ -	$ 43,402	$ 43,402
Accrued payroll	-	560,286	560,286	-	560,352	560,352
Due to State General Fund	-	20,304,942	20,304,942	-	20,400,269	20,400,269
Due to other State agencies	-	44,429,798	44,429,798	-	47,333,871	47,333,871
Due to other governments	-	18,171,493	18,171,493	-	19,010,364	19,010,364
Other liabilities	-	526,478	526,478	-	430,620	430,620
Total liabilities	-	84,096,143	84,096,143	-	87,778,878	87,778,878
Commitments and contingencies						
Fund balance						
Restricted for:						
Required reserve	118,467	3,319,840	3,438,307	135,116	3,256,545	3,391,661
Extended gaming	8,599,688	-	8,599,688	8,916,605	-	8,916,605
Non-spendable prepaids	-	10,241	10,241	-	7,148	7,148
Committed to prepaids	-	10,241	10,241	-	7,148	7,148
Total fund balance	8,718,155	3,340,322	12,058,477	9,051,721	3,270,841	12,322,562
Total liabilities and fund balance	$ 8,718,155	$ 87,436,465	$ 96,154,620	$ 9,051,721	$ 91,049,719	$100,101,440

See notes to financial statements.

DIVISION OF GAMING, DEPARTMENT OF REVENUE, STATE OF COLORADO

Statements of Revenues, Expenditures, and Changes in Fund Balance

For the Years Ended June 30,

	2012			2011		
	Extended Gaming Fund	Limited Gaming Fund	Total Gaming Fund	Extended Gaming Fund	Limited Gaming Fund	Total Gaming Fund
Revenues						
Gaming taxes	$ -	$102,080,861	$102,080,861	$ -	$104,807,976	$104,807,976
License and application fees	-	629,594	629,594	-	620,701	620,701
Background investigations	-	221,817	221,817	-	209,430	209,430
Fines and other	-	184,774	184,774	-	76,583	76,583
Interest income	14,428	599,775	614,203	19,356	904,959	924,315
Net decrease in fair value of investments	(16,649)	(159,321)	(175,970)	135,116	(669,790)	(534,674)
Total revenues	(2,221)	103,557,500	103,555,279	154,472	105,949,859	106,104,331
Expenditures						
Current						
Salaries and benefits	-	6,691,729	6,691,729	-	6,637,933	6,637,933
State agency services	-	4,350,751	4,350,751	-	4,230,488	4,230,488
Materials, supplies, and services	-	257,948	257,948	-	414,321	414,321
Travel and automobiles	-	223,141	223,141	-	169,717	169,717
Computer services	-	114,991	114,991	-	112,194	112,194
Professional services	-	127,273	127,273	-	57,583	57,583
Other	-	67,423	67,423	-	104,866	104,866
Telephone	-	92,767	92,767	-	110,994	110,994
Background investigation	-	28,524	28,524	-	39,040	39,040
Leased space	-	268,380	268,380	-	194,512	194,512
Capital outlay	-	82,135	82,135	-	25,449	25,449
Total expenditures	-	12,305,062	12,305,062	-	12,097,097	12,097,097
Excess of revenues over expenditures	(2,221)	91,252,438	91,250,217	154,472	93,852,762	94,007,234
Other financing uses						
Gaming distribution	(8,916,605)	(82,597,697)	(91,514,302)	(7,930,401)	(86,410,747)	(94,341,148)
Transfer to Extended Gaming Fund	-	(8,585,260)	(8,585,260)	-	(8,897,249)	(8,897,249)
Transfer from the Limited Gaming Fund	8,585,260	-	8,585,260	8,897,249	-	8,897,249
Net change in fund balance	(333,566)	69,481	(264,085)	1,121,320	(1,455,234)	(333,914)
Fund balance, beginning of year	9,051,721	3,270,841	12,322,562	7,930,401	4,726,075	12,656,476
Fund balance, end of year	$ 8,718,155	$ 3,340,322	$ 12,058,477	$ 9,051,721	$ 3,270,841	$ 12,322,562

See notes to financial statements.

Note 1 - Summary of Significant Accounting Policies

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

In April 2009, House Bill 09-1272 was approved due to the passage of Amendment 50. In summation, this amendment allows Colorado casinos to offer $100 maximum bets, offer the games of craps and roulette, and remain open for 24 hours, referred to as extended gaming. The extended gaming funds to be distributed are transferred to a separate fund every fiscal year-end beginning with fiscal year 2010; therefore, an Extended Gaming Fund was created for this purpose. All fund or Division references throughout these financial statements refer to the Limited Gaming Fund, except if a specific reference to the Extended Gaming Fund exists.

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

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

Fund Structure and Basis of Accounting

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

Note 1 - Summary of Significant Accounting Policies (continued)

Governmental Fund

Special Revenue Fund

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

The Governmental Accounting Standards Board ("GASB") issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010 to clarify fund balances. The following is according to the Governmental Generally Accepted Accounting Principles Update, Volume 10, Issue 13. "Fund balance is one of the most commonly used pieces of governmental financial information and is considered key information for users of governmental financial statements that are trying to identify resources that are liquid and available to be used to provide services." Because the Division's required reserve and the funds to be distributed to extended gaming recipients are specified in enabling legislation, the Colorado Constitution, the Division has spending constraint classifications presented on the balance sheet.

Basis of Accounting

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

Budget

The Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual compares actual revenues and expenditures to those that are legally authorized by state statute. The fiscal year 2012 revenue estimates were provided by the Division, based on the tax rate structure established by the Commission.

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

Note 1 - Summary of Significant Accounting Policies (continued)

Budget (continued)

Total appropriations for the fiscal years are as follows:

	Years Ended June 30, 2012	2011
Appropriations	$ 13,520,959	$ 13,698,021
Supplemental appropriations	(59,306)	(24,540)
Total appropriations	$ 13,461,653	$ 13,673,481

Accrued Payroll

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

Subsequent Events

The Division has evaluated all subsequent events through October 31, 2012, which is the date the financial statements and supplemental schedules were available to be issued.

Note 2 - Cash and Temporary Cash Investments

The State Treasury acts as a bank for all State agencies. Monies deposited in the State Treasury are invested until the cash is needed. The Division deposits cash with the Colorado State Treasurer as required by C.R.S. Interest earnings on these investments are credited to the General Fund unless a specific statute directs otherwise. Cash held by the State Treasury for the Division as of June 30, 2012 and 2011 were approximately $85.2 million and $89.4 million, respectively.

The State Treasurer pools these deposits and invests them in securities approved by Section 24-75-601.1, C.R.S. The Division reports its share of the State Treasury's unrealized gains and losses based on its participation in the State Treasurer's pool. During the years ended June 30, 2012 and 2011, the Division's share of unrealized gain (loss) was $(175,970) and $(534,674), respectively.

Note 2 - Cash and Temporary Cash Investments (continued)

The State Treasurer does not invest any of the pooled resources in any external investment pool, and there is no assignment of income related to participation in the pool. All of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at year-end. The unrealized gain or loss included in "Net Decrease in Fair Value of Investments" in the Statements of Revenues, Expenditures, and Changes in Fund Balance, reflects only the change in fair value during the current fiscal year. Additional information on the State Treasurer's pool may be obtained from the State of Colorado's Comprehensive Annual Financial Report.

The temporary cash investments of $1,158,393 and $1,334,363 at June 30, 2012 and 2011, respectively, represent the cumulative unrealized net gain on cash and temporary cash investments and are not available for use in the gaming distribution calculation.

The Division receives interest payments from the State Treasurer's Office on cash held on behalf of the Division. During the years ended June 30, 2012 and 2011, $614,203 and $924,315, respectively, was earned on the average daily cash and temporary cash investments balances. During fiscal years 2012 and 2011, the State Treasurer paid interest at 1.37% and 1.95%, respectively, based on average annualized monthly interest rates.

Note 3 - Accounts Receivable

As of June 30, 2012 and 2011, the Division had accounts receivable balances of $10,904,236 and $10,692,684, respectively. At June 30, 2012 and 2011, the Division had $10,900,285 and $10,678,561 of gaming taxes receivable from 40 and 37 Colorado casinos, respectively. These receivables primarily represent June 2012 and 2011 gaming taxes, which were due on July 16, 2012 and July 15, 2011, respectively, and were subsequently collected by the Department of Revenue in July 2012 and 2011 on behalf of the Division. Based on past collection history with similar accounts, no allowance for doubtful accounts is deemed necessary by management.

Note 4 - Changes in Capital Assets and Accumulated Depreciation

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, ("GASB No. 34") the Division's capital assets are reported only in the statewide financial statements. In addition, these capital assets are depreciated over their estimated useful lives, but depreciation expense is also reported only in the statewide financial statements.

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

All capital assets are stated at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are stated at their estimated fair values on the date donated. The capitalization criteria for capital assets are $50,000 for buildings and leasehold improvements, $5,000 for furniture and equipment, and all land is capitalized regardless of cost. The purchase of stand-alone software is capitalized at $5,000. Capital assets are depreciated using the straight-line method over the estimated useful lives of the related assets, which are 30 years for the buildings, five to ten years for leasehold improvements, furniture, equipment, and software.

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

	Capital Assets Not Being Depreciated			Capital Assets Being Depreciated			
	Land	Construction in Progress	Subtotal	Equipment	Building	Subtotal	Total
Cost							
Balances, June 30, 2010	$ 536,138	-	$ 536,138	$ 576,823	$ 1,128,222	$ 1,705,045	$ 2,241,183
Additions	-	-	-	18,760	6,690	25,450	25,450
Disposals	-	-	-	(5,675)	-	(5,675)	(5,675)
Balances, June 30, 2011	536,138	-	536,138	589,908	1,134,912	1,724,820	2,260,958
Additions	-	-	-	82,135	-	82,135	82,135
Disposals	-	-	-	(22,875)	-	(22,875)	(22,875)
Balances, June 30, 2012	536,138	-	536,138	649,168	1,134,912	1,784,080	2,320,218
Accumulated Depreciation							
Balances, June 30, 2010	-	-	-	(545,151)	(73,401)	(618,552)	(618,552)
Additions	-	-	-	(5,169)	(31,817)	(36,986)	(36,986)
Disposals	-	-	-	5,675	-	5,675	5,675
Balances, June 30, 2011	-	-	-	(544,645)	(105,218)	(649,863)	(649,863)
Additions	-	-	-	(6,901)	(31,892)	(38,793)	(38,793)
Disposals	-	-	-	22,875	-	22,875	22,875
Balances, June 30, 2012	-	-	-	(528,671)	(137,110)	(665,781)	(665,781)
Total capital assets, net	$ 536,138	$ -	$ 536,138	$ 120,497	$ 997,802	$ 1,118,299	$ 1,654,437

Note 5 - Other Liabilities

Included in other liabilities are deposits and deferred revenue. Applicants applying for gaming licenses are required to remit deposits to the Division, which are used to perform background investigations of these applicants. These deposits are recorded as liabilities until the Division incurs expenditures to perform the background investigations or until any remaining balance is refunded to the applicant. Deposits of $267,774 and $125,355 at June 30, 2012 and 2011, respectively, represent background investigation deposits, as well as $6,314 and $6,335 of monies at June 30, 2012 and 2011, respectively, seized during criminal investigations or from gaming patrons, and are pending court order releases or adjudication.

The Division issues a two-year license to individuals who are subject to an investigative review on an annual basis. Beginning in August 2008, the Division began to stagger the issuance of two-year licenses to businesses as well. The fees for the second year of the license period are recorded as deferred revenue until the Division incurs the expense during the review period. As of June 30, 2012 and 2011, deferred license fees were $252,390 and $298,930, respectively.

Note 6 - Accrued Compensated Absences

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

All permanent employees of the Division may accrue annual and sick leave based on length of service. The accrued amount will be paid upon termination, subject to certain limitations. Annual leave and sick leave benefits consist of the following and are all considered long term as of June 30, 2012:

	Annual Leave	Sick Leave	Total
Balances, June 30, 2010	$ 464,485	$ 54,909	$ 519,394
Increase	311,077	48,222	359,299
Decrease	(312,570)	(56,364)	(368,934)
Balances, June 30, 2011	462,992	46,767	509,759
Increase	295,815	45,490	341,305
Decrease	(292,150)	(42,708)	(334,858)
Balances, June 30, 2012	$ 466,657	$ 49,549	$ 516,206

Note 7 - Gaming Distributions

Limited Gaming Distribution

In accordance with Section 12-47.1-701, C.R.S. and amended by Senate Bill 11-159, the balance remaining in the Limited Gaming Fund is to be distributed by the State Treasurer to the recipients of limited gaming revenues according to the following formula:

- 50% to the State General Fund, of which the first $19,200,000 will be directed to the General Fund. Any amount of the 50% General Fund distribution greater than $48,500,000 will also be directed to the General Fund. Any amount of the 50% General Fund distribution that is greater than $19,200,000 and less than or equal to $48,500,000 is to be further divided such that 50% of the distribution is to be given to the Colorado Travel & Tourism Promotion Fund, 18% of the distribution is to be given to the Bioscience Discovery Evaluation Cash Fund, 15% of the distribution is to be given to the Local Government Limited Gaming Impact Fund, 7% of the distribution is to be given to the Innovative Higher Education Research Fund, 5% of the distribution is to be given to the New Jobs Incentives Cash Fund[1], 4% of the distribution is to be given to the Creative Industries Cash Fund, and 1% of the distribution is to be given to the Creative Industries Cash Fund for the operation of the Colorado Office of Film, Television, and Media.

- 28% to the Colorado State Historical Fund;

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

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

The General Fund's 50% share of the Limited Gaming Fund distribution for fiscal year 2012 totaled $41,298,849; as such, the provision giving the General Fund any amount greater than $48,500,000 is not applicable.

[1]Senate Bill 11-159 Fiscal Note indicates current law governing the New Jobs Incentives Program is discontinued. As of January 1, 2011, employers are no longer eligible to receive performance-based incentives from the New Jobs Incentives Cash Fund.

Senate Bill 11-159 Section 1(2)(a)(III)(b) declares that if a transfer specified in subparagraph (II) of paragraph (a) of this subsection (2) provides moneys for a purpose or program that is repealed or otherwise discontinued as of the date of the transfer, then the transfer shall not be made to that particular fund but shall instead be transferred to the State General Fund.

The New Jobs Incentives Cash Fund's 5% allocation from the 50% General Fund distribution amounted to a total of $1,104,942. This amount was added to the $19,200,000 General Fund distribution noted above; this addition brings the General Fund's total distribution amount to $20,304,942.

Note 7 - Gaming Distributions (continued)

Limited Gaming Distribution (continued)

The amount to be distributed is derived from revenues collected by the Division during the fiscal year after payment of operating expenditures of the Division and other regulatory expenditures, except for an amount equal to expenditures for the last two-month period of the fiscal year. As of June 30, 2012 and 2011, the amount calculated as reserved fund balance by the Division based on expenditures for the preceding two-month period was $2,300,399 and $2,071,594, respectively.

On August 23, 2012, the Commission approved the distribution of $82,597,697 for the fiscal year ended June 30, 2012 in accordance with Section 12-47.1-701, C.R.S. On August 25, 2011, $86,410,747 was approved as the 2011 distribution. The adjusted distributions are summarized as follows:

	Year Ended June 30,	
	2012	2011
Distribution to other State agencies		
Colorado State Historical Fund	$ 23,127,355	$ 24,195,009
Local Government Limited Gaming Impact Fund	3,314,827	3,600,806
Colorado Travel and Tourism Promotion Fund	11,049,424	12,002,687
Creative Industries Cash Fund for the Operation of the Office of Film, Television, and Media	220,989	240,054
New Jobs Incentives Cash Fund	-	-
Bioscience Discovery Evaluation Cash Fund	3,977,793	4,320,967
Creative Industries Cash Fund	883,954	960,215
Innovative Higher Education Research Fund	1,546,920	1,680,376
Total distributions to other State agencies	44,121,262	47,000,114
Distributions to other governments		
Cities of Cripple Creek, Central City, and Black Hawk	8,259,770	8,641,075
Gilpin and Teller Counties	9,911,723	10,369,289
Total distributions to other governments	18,171,493	19,010,364
Distribution to the State General Fund	20,304,942	20,400,269
Total distributions	$ 82,597,697	$ 86,410,747

Note 7 - Gaming Distributions (continued)

Extended Gaming Distribution

The voters of Colorado passed Amendment 50 on November 4, 2008. In summation, this amendment allows Colorado casinos to offer $100 maximum bets, offer the games of craps and roulette, and remain open for 24 hours. This is now referred to as extended gaming. The tax revenues attributable to the implementation of Amendment 50 will be distributed as follows:

- 78% to the State's Public Community Colleges, Junior Colleges, and Local District Colleges;
- 12% to Gilpin and Teller Counties, in proportion to the tax revenues generated in the respective counties; and
- 10% to the cities of Cripple Creek, Central City, and Black Hawk, in proportion to the tax revenues generated in the respective cities.

The following are definitions necessitated by the passage of Amendment 50:

1) "Extended gaming" means subsection (7) of section 9 of article XVIII of the State constitution as approved by statewide voters on November 4, 2008, and subsequently approved by voters in the cities of Black Hawk, Central City and Cripple Creek;

2) "Extended gaming revenues" mean the "limited gaming tax revenues attributable to extended limited gaming" as defined by Section 12-47.1-701.5(4)(d), C.R.S.; and

3) "Limited gaming revenues" mean the gaming tax revenues attributable to the operation of limited gaming prior to extended gaming.

In accordance with House Bill 09-1272, there will be a determination of tax revenues and expenditures attributable to extended and limited gaming.

1) After the end of each fiscal year ending June 30, the Commission shall determine limited gaming revenues by multiplying the amount of limited gaming revenues collected during the previous fiscal year by a factor of 3% and adding that amount to the amount of limited gaming revenues collected during the previous fiscal year. If the annual increase in total gaming tax revenues is less than 3%, either positive or negative, limited gaming revenues shall be the amount of limited gaming revenues collected during the previous fiscal year multiplied by a factor of the actual percentage of annual growth or decline in total gaming tax revenues. That amount shall be added or subtracted from the amount of limited gaming tax revenues collected during the previous fiscal year.

Note 7 - Gaming Distributions (continued)

Extended Gaming Distribution (continued)

2) After the end of each fiscal year ending June 30, the Commission shall determine extended gaming revenues by subtracting the amount of limited gaming revenues from the amount of total gaming tax revenues collected during the fiscal year.

3) After the end of each fiscal year ending June 30, the Commission shall determine extended gaming expenses by multiplying the total of all expenses of the Commission and other State agencies for the fiscal year by the percentage of total limited gaming revenues attributable to extended gaming revenues.

The original or Limited Gaming Fund recipients will receive an annual adjustment of the lesser of 6%, or the actual percentage, of annual growth in extended gaming revenues. For fiscal year 2012, the actual annual decline is (2.60)% which is the lesser of 6%. The annual adjustment amount attributable to this actual annual decline for fiscal year 2012 is $(244,434).

On August 23, 2012, the Commission approved the distribution of $8,599,688 for the fiscal year ended June 30, 2012, in accordance with Section 12-47.1-701.5 C.R.S. On August 25, 2011, $8,916,605 was approved as the 2011 distribution. These amounts were transferred to the Extended Gaming Fund at each fiscal year end as follows:

	June 30, 2012	June 30, 2011
Distributions to Extended Gaming Recipients		
• 78% to the State's Public Community Colleges, Junior Colleges, and Local District Colleges;	$ 6,707,757	$ 6,954,952
• 12% to Gilpin and Teller Counties, in proportion to the tax revenues generated in the respective counties; and	1,031,963	1,069,993
• 10% to the cities of Cripple Creek, Central City, and Black Hawk, in proportion to the tax revenues generated in the respective cities.	859,968	891,660
Total distribution attributable to extended gaming	$ 8,599,688	$ 8,916,605

Note 8 - Commitments and Contingencies

Cripple Creek Office

In April 2007, the Division entered into a lease and option to purchase agreement with a third party to lease office space at a location in Cripple Creek, Colorado. The lease began in September 2007 with an initial term of ten years.

On June 15, 2010, the Division exercised the lease agreement's option to purchase the Cripple Creek building. The purchase price (including the land) was approximately $834,000.

Golden Office

In May 2010, the Division entered into a lease agreement with a third party to lease office space at 17301 W. Colfax Avenue, Golden, Colorado. The lease began in September 2010 with an initial term of ten years.

Estimated Future Payments

Fiscal year 2013	$ 285,038
Fiscal year 2014	290,566
Fiscal year 2015	296,582
Fiscal year 2016	302,599
Fiscal year 2017	308,777
Fiscal year 2018 - 2020	965,681
	$ 2,449,243

Sunset Review

Under Section 12-47.1-206 C.R.S., the Division is subject to a "sunset" law, which provides that the Division's existence is to terminate on a specified date. Sunset laws require the General Assembly to periodically review, and update as necessary, the laws that create entities such as the Division. The original sunset date for the Division was July 1, 2003. During fiscal year 2003, a sunset review was completed, the law was amended, and the sunset date was extended to July 1, 2013. The Division's existence will continue after July 1, 2013, only through the passage of a bill by the General Assembly. The General Assembly is in the process of conducting a sunset review. A sunset review report is anticipated to be available after October 31, 2012, after which time the General Assembly will determine whether or not the Division will continue.

Note 8 - Commitments and Contingencies (continued)

Licensing System

In December 2004, the Division entered into a three-year contract with a third party for maintenance and service of the Division's regulatory licensing and document imaging computer system. This contract required the Division to pay approximately $51,500 to $55,000 per year through November 30, 2007. In November 2007, the Division entered into an amendment of the original three-year contract, which extended the option to renew the maintenance and service agreement through November 2009. In November 2009, the Division entered into a second amendment, which extended the option to renew the maintenance and service agreement through November 2010. In November 2010, the Division entered into a third amendment, which extended the option to renew the maintenance and service agreement through November 2011. In November 2011, the Division entered into a fourth amendment, which extended the option to renew the maintenance and service agreement through November 2012. During fiscal years 2012 and 2011, the Division expended $31,285 and $42,811, respectively, under this contract.

Note 9 - Pension Plan

Plan Description

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

Non-higher education employees hired by the State after January 1, 2006 are allowed 60 days to elect to participate in a defined contribution retirement plan administered by the State Deferred Compensation Committee rather than becoming a member of PERA. If that election is not made, the employee becomes a member of PERA, and the member is allowed 60 days from commencing employment to elect to participate in a defined contribution plan administered by PERA rather than the defined benefit plan.

Note 9 - Pension Plan (continued)

Plan Description (continued)

Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan, or the institution's optional retirement plan. Currently, higher education employees, except for community college employees, are required to participate in their institution's optional plan, if available, unless they are active or inactive members of PERA with at least one year of service credit. In that case, they may elect either PERA or their institution's optional plan. Community college employees hired after January 1, 2010 are required to become members of PERA and must elect either PERA's defined benefit or defined contribution plan with 60 days, unless they had been a PERA member within the prior twelve months. In that case, they are required to remain in the PERA plan in which they participated previously.

PERA members electing the defined contribution plan are allowed an irrevocable election between the second and fifth year to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. However, making this election subjects the member to the rules in effect for those hired on or after January 1, 2007, as discussed below. Employer contributions to both defined contribution plans are the same as the contributions to the PERA defined benefit plan.

Defined benefit plan members (except state troopers) vest after five years of service and are eligible for full retirement based on their original hire date as follows:

- Hired before July 1, 2005 – age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.

- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with any years of service.

- Hired between January 1, 2007 and December 31, 2010 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service. For members with less than five years of service credit as of January 1, 2011, age and service requirements increase to those required for members hired between January 1, 2007 and December 31, 2010.

- Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, age 65 with 5 years of service.

- Hired on or after January 1, 2017 – any age with 35 years of service, age 58 with 30 years of service, or age 65 with 5 years of service.

<u>Note 9 - Pension Plan (continued)</u>

<u>Plan Description (continued)</u>

Members are also eligible for retirement benefits without a reduction for early retirement based on their original hire date as follows:

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- Hired on or after January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more.
- Hired between January 1, 2011 and December 31, 2016 – age 58 and age plus years of service equals 88 or more.
- Hired on or after January 1, 2017 – age 60 and age plus years of service equals 90.

State troopers and judges comprise a small percentage of plan members but have higher contribution rates, and state troopers are eligible for retirement benefits at different ages and years of service.

Members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5% times the number of years of service times the highest average salary ("HAS"). For retirements before January 1, 2009, HAS is calculated as one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit and limited to a 15% increase between periods. For retirements after January 1, 2009, or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

Retiree benefits are increased annually in July after one year of retirement based on the member's original hire date as follows:

- Hired before July 1, 2007 – the lesser of 2% or the average of the monthly Consumer Price Index increases.
- Hired on or after January 1, 2007 – the lesser of 2% or the actual increase in the national Consumer Price Index, limited to a 10% reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1% of salaries contributed by employers for employees hired on or after January 1, 2007.)

Note 9 - Pension Plan (continued)

Plan Description (continued)

- The upper limits on benefits increase by 0.25% each year when the funded ratio of PERA equals or exceeds 103% and declines by 0.25% when the funded ratio drops below 90% after having exceeded 103%. The funded ratio increase does not apply for three years when a negative return on investment occurs.

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

Funding Policy

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

Most employees contribute 8.0% of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. Effective July 1, 2011 Senate Bill 11-076 extended the requirement for members in the State and Judicial Divisions to pay 2.5% additional member contributions through June 30, 2012. Employer contributions for members in these two divisions were reduced by 2.5%.

From July 1, 2011 to December 31, 2011, the State contributed 12.25% of the employee's salary. From January 1, 2012 through June 30, 2012, the state contributed 13.15%. During all of Fiscal Year 2012, 1.02% of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2011, the division of PERA in which the State participates has a funded ratio of 57.7% and a 56-year amortization period based on current contribution rates. The funded ratio on the market value of assets is slightly lower at 57.6%.

In the 2004 and 2010 legislative sessions, the General Assembly authorized an Amortization Equalization Disbursement ("AED") to address a pension-funding shortfall. The AED requires PERA employers to pay an additional 0.5% of salary for calendar years 2006 and 2007, with subsequent year increases of 0.4% of salary through 2017, to a maximum of 5%.

Note 9 - Pension Plan (continued)

Funding Policy (continued)

In the 2006 and 2010 legislative sessions, the General Assembly authorized a Supplemental Amortization Equalization Disbursement (“SAED”) that requires PERA employers to pay an additional 0.5% of total salaries, for calendar years 2008 through 2017, to a maximum of 5%. The SAED will be deducted from the amount otherwise available to increase State employees’ salaries.

At a 103% funding ratio, both the AED and SAED will be reduced by 0.5%, and for subsequent declines to below 90% funded both the AED and SAED will be increased by 0.5%.

Historically, members have been allowed to purchase service credit at reduced rates. However, legislation passed in the 2006 session required that future agreements to purchase service credit be sufficient to fund the related actuarial liability.

The Division's contributions to PERA and/or the State defined contribution plan for the fiscal years ending June 30, 2012, 2011 and 2010 were $605,677, $571,200 and $643,950 respectively. These contributions met the contribution requirement for each year.

Note 10 - Other Retirement Plans

Defined Contribution Plan

The PERA Defined Contribution Retirement Plan was established January 1, 2006, as an alternative to the defined benefit plan. All employees, with the exception of certain higher education employees, have the option of participating in the plan. At July 1, 2009, the State’s administrative functions for the defined contribution plan were transferred to PERA. New member contributions to the plan vest from 50% to 100% evenly over five years. Participants in the plan are required to contribute 8% of their salary. For fiscal years 2010 and 2011 the legislature temporarily increased the required contribution rate to 10.5%. At December 31, 2011, the plan had 4,029 participants.

Note 10 - Other Retirement Plans (continued)

Deferred Compensation Plan

The PERA Deferred Compensation Plan ("457") was established July 1, 2009, as a continuation of the State's deferred compensation plan, which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2010, participants were allowed to make contributions of up to 100% of their annual gross salary (reduced by their 8% PERA contribution with a temporarily increase to 10.5% for Fiscal Years 2011 and 2012) to a maximum of $16,500. Participants who are age 50 and older and are contributing the maximum amount allowable were allowed to make an additional $5,500 contribution in 2010, for total contributions of $22,000. Contributions and earnings are tax deferred. At December 31, 2011, the plan had 17,821 participants.

Note 11 – Voluntary Tax-Deferred Retirement Plans

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

Note 12 - Other Post Employment Benefits and Life Insurance

Health Care Plan

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the program was converted to a trust fund in 1999. The plan is a cost-sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for health care coverage. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its Comprehensive Annual Financial Report, which may be obtained by writing PERA at P.O. Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting http://www.copera.org.

Note 12 - Other Post Employment Benefits and Life Insurance (continued)

Health Care Plan (continued)

After the PERA subsidy, the benefit recipient pays the balance of the premium through an automatic deduction from the monthly retirement benefit. Monthly premium costs for participants depend on the health care plan selected, the PERA subsidy amount, Medicare eligibility, and the number of persons covered. Effective July 1, 2000, the maximum monthly subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare and $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 subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5% for each year less than 20 years.

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed in Note 9. Beginning July 1, 2004, state agencies are required to contribute 1.02% of gross covered wages to the Health Care Trust Fund. The Division contributed $50,955, $51,837, and $51,160 as required by statute in fiscal years 2012, 2011, and 2010, respectively. In each year the amount contributed was 100% of the required contribution.

The Health Care Trust Fund offers two general types of plans: fully-insured plans offered through health care organizations and self-insured plans administered for PERA by third-party vendors. As of December 31, 2011, there were 50,217 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2011, the Health Care Trust Fund had an unfunded actuarial accrued liability of $1.43 billion, a funded ratio of 16.5%, and a 49-year amortization period.

Note 13 - Risk Management

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

The Division had recorded $8,458 in insurance recoveries as of June 30, 2011. The entire amount is related to a single event, which occurred in fiscal year 2011 at the Division of Gaming's Cripple Creek office.

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

Note 14 - Related-Party Transactions

The Division, as an agency of the State, paid fees to the State for auditing, investigative, and legal services, and other direct and indirect expenses incurred. Interagency charges consist of the following:

	For the Years Ended	
State agency services:	2012	2011
Colorado State Patrol	$ 2,319,762	$ 2,326,121
Colorado Bureau of Investigations	804,838	694,656
Colorado Division of Fire Safety	175,044	167,421
Indirect costs (Colorado Department of Revenue)	685,832	711,203
Legal Services (Colorado Department of Law)	167,795	147,873
Office of the State Auditor	32,860	31,698
Colorado Division of Local Affairs	158,103	151,516
Colorado Department of Regulatory Agencies	6,517	-
Total payments to State agencies	$ 4,350,751	$ 4,230,488

Note 14 - Related-Party Transactions (continued)

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

	June 30,	
	2012	2011
State agencies		
Colorado State Historical Society	$ 23,127,355	$ 24,195,009
Colorado Department of Local Affairs	3,314,827	3,600,806
Office of Economic Development	16,132,159	17,523,922
Colorado Department of Higher Education	1,546,920	1,680,376
Colorado State Patrol	219,821	250,671
Colorado Division of Fire Safety	10,702	15,457
Colorado Bureau of Investigations	77,615	60,550
Colorado Department of Revenue	399	6,759
Colorado Department of Personnel and Administration	-	321
Total liabilities to State agencies	44,429,798	47,333,871
Other governments		
City of Black Hawk	6,048,630	6,352,054
City of Central City	782,200	768,193
City of Cripple Creek	1,428,940	1,520,828
Gilpin County	8,196,995	8,544,294
Teller County	1,714,728	1,824,995
Total liabilities to other governments	18,171,493	19,010,364
State General Fund	20,304,942	20,400,269
Total liabilities to State agencies, State General Fund, and other governments	$ 82,906,233	$ 86,744,504

Total related party liabilities of $82,906,233 and $86,744,504 at June 30, 2012 and 2011, respectively, include amounts due to the Colorado Bureau of Investigations, State Patrol, Division of Fire Safety, Department of Revenue, and Department of Personnel and Administration, which total $308,536 and $333,758, respectively. The remaining liabilities of $82,597,697 and $86,410,746, respectively, are related to the fiscal years 2012 and 2011 gaming distributions.

REQUIRED SUPPLEMENTARY INFORMATION

DIVISION OF GAMING,
DEPARTMENT OF REVENUE, STATE OF COLORADO

Limited Gaming Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual (Unaudited)
Year Ended June 30, 2012

	Commission Approved Budget	Supplemental Changes	Final Budget*	Actual Amounts	Variance with Final Budget Over (Under)	Percent Earned Percent Expended
Revenues						
Gaming taxes	$ 104,935,975	$ -	$ 104,935,975	$ 102,080,861	$ (2,855,114)	97.28%
License and application fees	637,848	-	637,848	629,594	(8,254)	98.71%
Background investigations	253,768	-	253,768	221,817	(31,951)	87.41%
Fines and other	-	-	-	184,774	184,774	100.00%
Interest income	1,000,584	-	1,000,584	599,775	(400,809)	59.94%
Net decrease in fair value of investments	-	-	-	(159,321)	(159,321)	100.00%
Total revenues	106,828,175	-	106,828,175	103,557,500	(3,270,675)	96.94%
Expenditures						
Personal services	6,587,918	-	6,587,918	6,205,319	(382,599)	94.19%
Personal services rollforward	-	-	-	-	-	-%
Health, dental, and life insurance	523,299	-	523,299	523,299	-	100.00%
Short-term disability	9,262	-	9,262	9,262	-	100.00%
Amortization equalization disbursement	167,324	-	167,324	144,941	(22,383)	86.62%
Supplemental amount, equal disbursement	134,460	-	134,460	116,607	(17,853)	86.72%
Operating expenditures	588,084	-	588,084	467,302	(120,782)	79.46%
Operating expenditures rollforward	-	-	-	-	-	-%
Workers' compensation	45,759	-	45,759	45,759	-	100.00%
Risk management	10,722	-	10,722	10,722	-	100.00%
Licensure activities	181,497	-	181,497	100,547	(80,950)	55.40%
Pierce Building	-	-	-	-	-	-%
Leased space	279,509	-	279,509	268,380	(11,129)	96.02%
Vehicle lease payments - fixed	85,677	(3,854)	81,823	81,823	-	100.00%
Vehicle lease payments - variable	62,155	-	62,155	62,155	-	100.00%
Utilities	25,465	-	25,465	21,862	(3,603)	85.85%
Capital outlay	-	-	-	-	-	-%
EDO – MNT	47,881	-	47,881	47,881	-	100.00%
EDO – Communications	27,100	-	27,100	27,100	-	100.00%
Capitol Complex leased space	-	-	-	-	-	-%
Legal services	83,485	(83,485)	-	-	-	-%
Department of Revenue indirect costs	690,400	-	690,400	685,832	(4,568)	99.34%
State agency services	3,706,998	28,033	3,735,031	3,457,747	(277,284)	92.58%
Total Division expenditures	13,256,995	(59,306)	13,197,689	12,276,538	(921,151)	93.02%
Background expenditures	263,964	-	263,964	28,524	(235,440)	10.81%
Total expenditures	13,520,959	$ (59,306)	13,461,653	12,305,062	(1,156,591)	91.41%
Excess of revenues over expenditures	$ 93,307,216		$ 93,366,522	91,252,438	$ (2,114,084)	97.74%
Other financing uses						
Gaming distribution				(82,597,697)		
Transfer to Extended Gaming Fund				(8,585,260)		
Net change in fund balance				69,481		
Limited gaming fund balance, beginning of year				3,270,841		
Limited gaming/fund balance, end of year				$ 3,340,322		

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

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Legislative Audit Committee

We have audited the accompanying financial statements of the Division of Gaming, Department of Revenue, State of Colorado (the "Division") as of and for the year ended June 30, 2012, and have issued our report thereon dated October 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Division is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Division's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control over financial reporting.

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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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COMPLIANCE AND OTHER MATTERS

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

This report is intended solely for the information and use of management, the Colorado Limited Gaming Control Commission, others within the entity, members of the Legislative Audit Committee, and the Office of the State Auditor, and is not intended to be and should not be used by anyone other than these specified parties. However, upon release by the Legislative Audit Committee this report is a matter of public record and its distribution is not limited.

Ehrhardt Keefe Steiner + Hottman PC

Ehrhardt Keefe Steiner & Hottman PC

October 31, 2012
Denver, Colorado

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REQUIRED AUDITOR COMMUNICATIONS TO THE LEGISLATIVE AUDIT COMMITTEE

Members of the Legislative Audit Committee:

We have audited the financial statements of the Division of Gaming, Department of Revenue, State of Colorado (the "Division") for the year ended June 30, 2012, and have issued our report thereon dated October 31, 2012. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS AND *GOVERNMENT AUDITING STANDARDS*

As stated in our engagement letter dated April 23, 2012, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with the Colorado Gaming Commission's oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve Colorado Gaming Commission or management of their responsibilities.

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

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

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to the Colorado Gaming Commission and management in our meeting about planning matters.

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SIGNIFICANT AUDIT FINDINGS

Management has the responsibility for the selection and use of appropriate accounting policies. The significant accounting policies used by the Division are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during fiscal year 2012. We noted no transactions entered into by the Division during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

ACCOUNTING ESTIMATES

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

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no such audit adjustments for the year ended June 30, 2012.

DISAGREEMENTS WITH MANAGEMENT

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

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated October 31, 2012.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

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

OTHER AUDIT FINDINGS OR ISSUES

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

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

Ehrhardt Keefe Steiner + Hottman PC

Ehrhardt Keefe Steiner & Hottman PC

October 31, 2012
Denver, Colorado

DIVISION OF GAMING,
DEPARTMENT OF REVENUE, STATE OF COLORADO

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