DIVISION OF GAMING,
DEPARTMENT OF REVENUE,
STATE OF COLORADO

Financial Statements
and
Independent Auditors' Report
June 30, 2003 and 2002

EKS&H

Ehrhardt
Keefe
Steiner &
Hottman PC

Certified Public Accountants
and Consultants

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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, 2003

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 State Auditor and the Legislative Audit Committee, and Ehrhardt Keefe Steiner & Hottman PC ("EKS&H" or the "Contract Auditors"), whereby the audit of the Division of Gaming, Department of Revenue, State of Colorado (the "Division") for the year ended June 30, 2003 is to be performed by EKS&H.

The audit was 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 a financial and compliance audit of the Division, as of and for the year ended June 30, 2003, in accordance with standards described above. These standards require that the Contract Auditors plan and perform the audit 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

SUMMARY OF MAJOR AUDIT FINDINGS

An independent auditor's report on the financial statements of the Division, dated August 21, 2003, 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, 2003, and the change in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America. The financial statements of the Division as of June 30, 2002, were audited by other auditors whose report dated August 15, 2002, expressed an unqualified opinion on those statements.

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 August 21, 2003, has also been issued, which states that the results of the Contract Auditors' tests disclosed no instances of noncompliance 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, 2003

Effective October 1, 1991, Article XVIII, Section 9 of the Colorado Constitution was amended to allow limited stakes gaming in three Colorado cities. 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 68 full-time employees and a budget of approximately $9.7 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.

Ehrhardt
Keefe
Steiner &
Hottman PC

Certified Public Accountants
and Consultants

INDEPENDENT AUDITORS' REPORT

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

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, 2003, 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 audit. The financial statements of the Division of Gaming, Department of Revenue, State of Colorado as of June 30, 2002, were audited by other auditors whose report dated August 15, 2002, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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. We believe that our audit provides 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 change 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, 2003, and the changes in its financial position for the year 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 Division as of June 30, 2003, and the change in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and budgetary comparison information on Pages 6 through 15 and 18 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards,* we have also issued our report dated August 21, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Ehrhardt Keefe Steiner + Hottman PC

Ehrhardt Keefe Steiner & Hottman PC

August 21, 2003
Denver, Colorado

7979 E. Tufts Avenue, Suite 400 Denver, Colorado 80237-2843
303 740-9400 Fax 303 740-9009

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

This discussion and analysis of the financial performance of the Division of Gaming (the "Division") provides an overview of financial activities for the year ended June 30, 2003. Please read it in conjunction with the Division's financial statements, which begin on page 16.

1. FINANCIAL HIGHLIGHTS

- Gaming Tax revenues were $97,456,448 for the fiscal year ended June 30, 2003, which is an increase of $1,830,535 or 1.9%, over revenues of $95,625,913 for the prior fiscal year ending June 30, 2002.
- The growth in the Division's net income increased the Gaming Distribution to $90,982,115 compared to last fiscal year's distribution of $89,696,218. This distribution amount represents an increase of $1,285,897 over last fiscal year, or 1.4%.
- Senate Bill 03-274 passed during the 2003 legislative session requiring the Local Government Limited Gaming Impact Fund to transfer any unencumbered moneys in the fund on July 1, 2003 to the State General Fund. The Local Government Limited Gaming Impact Fund will transfer the $5,913,838 received from the Limited Gaming Division on June 30, 2003 to the State General Fund. Senate Bill 03-274 also provides that if the total amount of revenues collected by the Department of Revenue for state taxes paid pursuant to the Tax Amnesty Program established in Section 39-21-201, C.R.S., exceeds $5 million then an equal amount of any excess shall be transferred from the General Fund to the Local Government Limited Gaming Impact Fund on or before September 1, 2003. The Tax Amnesty Program collected well in excess of $5 million dollars therefore, the Local Government Limited Gaming Impact Fund will receive $5,913,838 from the State General Fund.

2. USING THIS REPORT

This financial report consists of financial statements for the fiscal year ended June 30, 2003. The Balance Sheet provides comparative information on the Division's assets, liabilities, and fund balance for the current and previous fiscal years. The Statement of Revenues, Expenditures, and Changes in Fund Balance is the Division's income statement. The Statement 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 fund balance at July 1, 2002 and July 1, 2003 respectively, the Gaming Distribution, and the ending fund balances as of June 30, 2002 and 2003 respectively. The Statement of Revenues, Expenditures, and Changes in Fund Balance Budget to Actual reflects the initial budget amounts, the 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.

3. REVENUES

The excess of revenues over expenditures of the Division for fiscal year 2003 was $91,821,341. This represents an increase of $1,235,957 or 1.4% compared to fiscal year 2002 excess of revenues over expenditures of $90,585,384. The investment income of $795,675 and $741,476 represents the unrealized gain of the Division's investments on June 30, 2003 and June 30, 2002, respectively. The largest source of revenue for the Division of Gaming is from gaming taxes paid by casinos. The gaming tax revenues earned for the fiscal years ending June 30, 2003 and June 30, 2002 were $97,456,448 and $95,625,913, respectively. The taxes are paid on a graduated scale ranging from 0.25% to 20%. The tax rates remained constant for fiscal year 2003 and 2002. The increase in taxes collected of 1.9% over last year can be attributed to numerous factors. During the past year, the economy and harsh winter weather has impacted the growth of the gaming industry. The months during the winter storms showed a decrease in adjusted gross proceeds (AGP) of casinos. Additionally, one larger casino changed ownership in May 2003. This allowed the casino to revert to the 0.25% tax bracket from the 20% tax bracket.

Below is a chart of the changes in revenues from last fiscal year to this fiscal year.

	Increase (Decrease) Amount	Percent Change	Explanation
Gaming taxes	$ 1,830,535	1.9%	Gaming tax revenues have historically increased over the prior fiscal year.
License and application fees	(60,707)	(9.8)%	License fees decreased in fiscal year 2003 due to a decrease in the number of business license applications. Individual license fees decreased due to the two-year individual licensing cycle, whereby more revenue is recognized in the first year in order to more closely match revenues with expenditures.
Background investigations	(63,756)	(24.2)%	There was a decrease in the background investigation activity during fiscal year 2003.
Fines and other	(463,148)	(98.1)%	The fines revenues vary from year to year and are dependent upon audit and investigative findings. In fiscal year 2003, eight (8) casinos received fines. In March 2002, the Division implemented a training program to help casinos maintain compliance.
Interest income	(337,173)	(15.9)%	Interest rates declined on average 0.86% during fiscal year 2003.
Investment income	54,199	7.3%	Increase in the fair market value of the Division's investments on June 30, 2003.
Total revenues	$ 959,950	1.0%	

4. EXPENDITURES

Total expenditures for the Division were $8,980,719. This is a decrease of $276,007 or a 3.0% reduction over fiscal year 2002 expenditures of $9,256,726. The main reason for the decrease is the Division purchased an office building in Central City for approximately $730,000 last year. Without the purchase of this building in fiscal year 2002, there would have been an increase in expenditures of $453,993 or a 5.3% increase.

The information below shows the changes in expenditures from last fiscal year to the current fiscal year with explanations provided for large variances.

	Increase (Decrease) Amount	Percent Change	Explanation
Expenditures			
Salaries and benefits	$ 159,090	3.5%	The increase is due primarily to the State's Total Compensation Plan implemented on July 1, 2002, increasing both salary and benefits.
State agency services	447,626	15.8%	The higher costs in fiscal year 2003 include the implementation of the multi-use network system and increases in information technology costs paid to the Dept. of Revenue, as well as contract increases to the Dept. of Public Safety.
Materials, supplies and services	(97,429)	(22.9)%	In fiscal year 2002, the Division purchased police radios for $43,497 and spent $37,110 on software.
Travel and automobiles	(8,819)	(3.9)%	In fiscal year 2003, the Division made a concerted effort to reduce travel costs. The Division's leased vehicle costs declined due to an aging fleet.
Computer services	(41,735)	(31.8)%	In fiscal year 2003, the CBI name check was reduced from $10.00 to $5.50 resulting in a decrease of $4.50 for each name check.
Professional services	51,404	65.4%	During fiscal year 2003, the increases in costs were primarily due to an additional $34,665 in labor costs for new stairs and bathroom for the Central City office.
Other	3,009	5.0%	In fiscal year 2003, risk management insurance increased.
Telephone	(14,738)	(27.8)%	In fiscal year 2003, network line charges were reduced.
Background investigation expenditures	(19,975)	(40.1)%	In fiscal year 2003, travel expenditures associated with background investigations decreased.

4. EXPENDITURES (continued)

	Increase (Decrease) Amount	Percent Change	Explanation
Leased space	5,160	12.3%	In February 2003, an addition to the Cripple Creek leased space was completed, the rent increased by $1,032 per month.
Capital outlay	(759,600)	(100.0)%	The Division purchased the Central City building July 2002.
Total expenditures	$ (276,007)	(3.0)%	

5. ASSETS, LIABILITIES AND FUND BALANCE

The overall financial position of the Division is reflected by its fund balance at year-end, which was $4,243,642 at June 30, 2003 compared to $3,404,416 at June 30, 2002. Total assets of $96,035,090 at June 30, 2003, are $2,452,999 or 2.6% higher than the prior year balance of $93,582,091. The increase in total assets is primarily due to a $2,965,255 increase in cash and temporary cash investments, which is attributable to the increase in revenues and decrease in expenditures during fiscal year 2003.

The Division's total liabilities also increased between years, to $91,791,448 at June 30, 2003 from $90,177,675 at June 30, 2002. The $1,613,773 net increase is primarily due to the $1,285,897 increase in the fiscal year 2003 gaming distribution (approved by the Limited Gaming Control Commission in August 2003) over fiscal year 2002, and the related increases in the amounts due to state agencies.

The following compares current and prior fiscal year assets, liabilities and fund balances.

5. ASSETS, LIABILITIES AND FUND BALANCE (continued)

	Fiscal Year 2003	Fiscal Year 2002	Increase (Decrease) Dollars	Increase (Decrease) Percent
Cash and temporary cash investments	$ 86,294,385	$ 83,329,130	$ 2,965,255	3.6 %
Accounts receivable	9,711,209	10,217,523	(506,314)	(5.0)%
Prepaid expenses	29,496	35,438	(5,942)	(16.8)%
Total assets	$ 96,035,090	$ 93,582,091	$ 2,452,999	2.6 %
Accounts payable, wages and accrued payroll payable	$ 377,240	$ 46,181	$ 331,059	716.9 %
Due to other state agencies, other governments and the State General Fund	91,186,623	89,908,135	1,278,488	1.4 %
Other liabilities	227,585	223,359	4,226	1.9 %
Total liabilities	91,791,448	90,177,675	1,613,773	1.8 %
Fund balance	4,243,642	3,404,416	839,226	24.7 %
Total liabilities and fund balance	$ 96,035,090	$ 93,582,091	$ 2,452,999	2.6 %

6. STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

The following compares current and prior fiscal year revenues, expenditures and changes in fund balance.

	Fiscal Year 2003	Fiscal Year 2002	Increase (Decrease) Dollars	Increase (Decrease) Percent
Revenues				
Gaming taxes	$ 97,456,448	$ 95,625,913	$ 1,830,535	1.9 %
License and application fees	558,962	619,669	(60,707)	(9.8)%
Other revenue	2,786,650	3,596,528	(809,878)	(22.5)%
Total revenues	100,802,060	99,842,110	959,950	1.0 %
Expenditures				
Operating expenditures	5,673,785	5,617,843	55,942	1.0 %
Capital outlay	-	759,600	(759,600)	(100.0)%
Background expenditures	29,794	49,769	(19,975)	(40.1)%
State agency services	3,277,140	2,829,514	447,626	15.8 %
Total expenditures	8,980,719	9,256,726	(276,007)	(3.0)%
Excess of revenues over expenditures	91,821,341	90,585,384	1,235,957	1.4 %
Fund balance, beginning of year	3,404,416	2,515,250	889,166	35.4 %
Less: Gaming Fund distribution	90,982,115	89,696,218	1,285,897	1.4 %
Fund balance, end of year	$ 4,243,642	$ 3,404,416	$ 839,226	24.7 %

7. CONDITIONS AFFECTING FINANCIAL POSITION OR RESULTS OF OPERATIONS

Staffing Changes

In June 2003, the Division Director transferred to another agency within the Department of Revenue and the Senior Director of Enforcement assumed the role and related responsibilities. In addition, during the last quarter of fiscal year 2003, three top managers from the Investigation's Section left the Division. Two of these positions were temporarily assigned to existing personnel within the Division and were permanently filled during the first quarter of fiscal year 2004. The third position is currently under review for effectiveness and efficiency and those resources will be utilized to the best benefit of the Division and Department.

Investigation

In fiscal year 2003, an internal investigation was conducted by the Jefferson County District Attorney's Office regarding allegation of official misconduct involving the collecting and selling of chips using State time and equipment. The investigation has led to a Grand Jury investigation, which is still in progress and at this time one indictment has been issued.

7. CONDITIONS AFFECTING FINANCIAL POSITION OR RESULTS OF OPERATIONS (continued)

Sunset Review

The Sunset Review that began in fiscal year 2002 was completed in fiscal year 2003. The purpose of the review was to determine whether the Division should be continued for the protection of the public and to evaluate the functions of regulation, licensing, and oversight of the conduct of limited gaming in the State of Colorado as authorized by Section 9 of Article XVIII of the Colorado Constitution. SB 03-113 was passed by the General Assembly and the Division will continue until July 1, 2013. The statute changes that were related to the Sunset Review bill are as follows:

- Continue the Division of Gaming until July 1, 2013.
- Amended Section 12-47.1-837, C.R.S., to require that a licensee whose license has been revoked or expired shall notify such licensee's employer within twenty-four hours after such revocation or expiration.
- Repealed Section 12-47.1.836, C.R.S., on the grounds that it serves no public protection function, and is unduly restrictive. Section 12-47.1.836, C.R.S., stated "Any manufacturer shall have its own distributorship or a separate distributor for the sale of gaming equipment, which distributorship or distributor shall be a resident of Colorado or shall be located in Colorado." In practice, smaller manufacturers and distributors simply employ an attorney to be their agent in Colorado for mail and other purposes. Other manufacturers and distributors merely ship component parts from out-of-state.
- Amended Section 12-47.1-525(1)(b) and 12-47.1-519(1)(c), C.R.S., to make them consistent with legislative intent as follows:
  - Section 12-47.1-525(1)(b), C.R.S., outlines the monetary penalties that the Colorado Limited Gaming Commission can impose if the licensee is an operator. The penalty amount was amended to twelve thousand five hundred dollars.
  - Section 12-47.1-519(1)(c), C.R.S., outlines the monetary penalties that the Colorado Limited Gaming Commission can impose if the licensee is a retailer. The penalty amount was amended to twenty-five thousand dollars.
- The Division of Gaming will establish requirements for testing facilities similar to manufacturer/distributor licensees in the next Request for Proposals.

8. DISTRIBUTION

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 distribution for fiscal year ended June 30, 2003 was $90,982,115.

The chart below compares the amounts distributed to the various recipients for both fiscal years 2002 and 2003.

Colorado Division of Gaming
Funds Distribution Comparison

	June 30, 2003	June 30, 2002	Difference	Percent Difference
Colorado Historical Society	$ 25,474,992	$ 25,114,941	$ 360,051	1.43 %
Department of Transportation	1,010,000	4,762,318	(3,752,318)	(78.79)%
Colorado Travel and Tourism Promotion Fund	181,964	179,392	2,572	1.43 %
Local Government Limited Gaming Impact Fund	5,913,838	4,933,292	980,546	19.88 %
Total payments to other state agencies	32,580,794	34,989,943	(2,409,149)	(6.89)%
City of Black Hawk	6,599,843	6,472,838	127,005	1.96 %
City of Central City	662,896	712,726	(49,830)	(6.99)%
City of Cripple Creek	1,835,473	1,784,058	51,415	2.88 %
City of Victor	-	224,240	(224,240)	(100.00)%
City of Woodland Park	-	672,722	(672,722)	(100.00)%
Gilpin County	8,715,286	8,622,677	92,609	1.07 %
Teller County	2,202,568	2,140,869	61,699	2.88 %
Total payment due to other governments	20,016,066	20,630,130	(614,064)	(2.98)%
Due to the General Fund	38,385,255	34,076,145	4,309,110	12.65 %
Total distribution	$ 90,982,115	$ 89,696,218	$ 1,285,897	1.43 %

9. BUDGET

The Colorado Limited Gaming Commission approves the Division's budget. Throughout the year, the budget can be amended if approved by the Limited Gaming Commission.

Changes approved:

In September 2002, the Colorado Limited Gaming Commission approved a decrease in spending authority as follows:

- Decrease personal services in the amount of $25,134 to revert the undistributed portion of pay for performance funding.
- Based on the passage of HB 02-1468 the Division requested the Commission increase personal services by $2,528 due to the increase in State health care contribution.
- Increase indirect cost spending authority by $15,681 for the on-going cost of the multi-use network project, increased maintenance costs for the Pierce building and an increase in the enforcement line of business.
- Decrease operating by $10,457 to fund the multi-use network project.

In May 2003, a supplemental was approved to authorize an $18,472 reduction in licensure activities, which was reallocated to indirect costs to fund the increase in the Division's share of the multi-use network project.

The budget approved at the beginning of the year was $9,748,483. The amendments to the budget resulted in a net decrease of $17,382. Therefore, the final approved budget for fiscal year 2003 was $9,731,101. Total actual expenditures were $8,980,719 resulting in excess appropriations, or a savings of $750,382 for fiscal year 2003.

10. ECONOMY AND NEXT YEAR'S BUDGET

The Division considers several factors when determining estimates for the following year's budget. The fiscal year 2004 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 statewide figure-setting policy adopted by the Joint Budget Committee (JBC) for fiscal year 2004. The Division's request totaled $7,496,036, which represented a 1.4% increase from the fiscal year 2003 appropriation. The largest increases in the estimates of expenses were in personal services and departmental indirect costs.

Assumptions that were made when preparing the revenue projection for fiscal year 2004 included the continuation of the current tax structure, tax rates, license and application fees in effect, and continuation of the current interest rate being paid to the fund. Fiscal year 2004 revenue estimates total $103.8 million, a $3.8 million increase over fiscal year 2003 actual revenue.

10. ECONOMY AND NEXT YEAR'S BUDGET (continued)

The poor economy and low interest rates had a direct impact on the Division earning $337,173 less in interest revenue compared to last fiscal year.

Since limited gaming began in Colorado revenues have grown vigorously. This year, for the first time, the Division saw only a slight increase in tax revenue over the prior year, even though the tax rate structure has remained the same since June of 1999. Colorado was hit with a blizzard in March 2003 that kept numerous casinos closed for two days and some for three days. We saw the average number of days casinos were open in March drop from the expected 31 days to 29.7 days. This had a direct impact on the revenue earned by casinos in the month of March.

During the almost 12 years of gaming in Colorado we have seen the market change. Initially there were many small casinos, now there are many fewer casino properties, many of which are owned by large publicly traded companies. Although the tragedy of September 11, 2001 did not appear to have a major impact on the profitability of the Colorado casinos, the national economic situation may be starting to have an effect. As with any new industry, eventually the market is saturated and revenues level out. At this time the Division cannot predict whether this trend will continue; however, the Division will continue to closely monitor gaming revenues.

11. 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 of Gaming's accounting section at: Colorado Division of Gaming, 1881 Pierce Street Suite 112, Lakewood, CO 80214-1496.

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

Balance Sheets - Special Revenue Fund

	June 30, 2003	June 30, 2002
Assets		
Cash and temporary cash investments	$ 86,294,385	$ 83,329,130
Gaming taxes receivable	9,708,007	10,216,748
Other receivables	3,202	775
Prepaid expenses	29,496	35,438
Total assets	$ 96,035,090	$ 93,582,091
Liabilities and Fund Balance		
Liabilities		
Accounts payable	$ 27,087	$ 46,181
Accrued payroll	350,153	-
Due to other State agencies	32,785,302	35,201,860
Due to State General Fund	38,385,255	34,076,145
Due to other governments	20,016,066	20,630,130
Other liabilities	227,585	223,359
Total liabilities	91,791,448	90,177,675
Fund balance		
Reserved for statutory purposes	1,507,773	1,464,222
Unreserved		
Designated unrealized investment gains	2,735,869	1,940,194
Total fund balance	4,243,642	3,404,416
Total liabilities and fund balance	$ 96,035,090	$ 93,582,091

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, 2003	For the Years Ended June 30, 2002
Revenues		
Gaming taxes	$ 97,456,448	$ 95,625,913
License and application fees	558,962	619,669
Background investigations	199,267	263,023
Fines and other	9,017	472,165
Interest income	1,782,691	2,119,864
Investment income	795,675	741,476
Total revenues	100,802,060	99,842,110
Expenditures		
Current		
Salaries and benefits	4,756,163	4,597,073
State agency services	3,277,140	2,829,514
Materials, supplies and services	329,046	426,475
Travel and automobiles	220,143	228,962
Computer services	89,709	131,444
Professional services	130,009	78,605
Other	63,223	60,214
Telephone	38,332	53,070
Background investigation expenditures	29,794	49,769
Leased space	47,160	42,000
Capital outlay	-	759,600
Total expenditures	8,980,719	9,256,726
Excess of revenues over expenditures	91,821,341	90,585,384
Other financing uses		
Gaming distribution	(90,982,115)	(89,696,218)
Net change in fund balance	839,226	889,166
Fund balance, beginning of year	3,404,416	2,515,250
Fund balance, end of year	$ 4,243,642	$ 3,404,416

See notes to financial statements.

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
Year Ended June 30, 2003

	Commission Approved Budget	Supplemental Changes	Final Budget*	Actual Amounts	Variance with Final Budget Over (Under)	Percent Earned Percent Expended
Revenues						
Gaming taxes	$ 105,337,023	$ -	$ 105,337,023	$ 97,456,448	$ (7,880,575)	92.52 %
License and application fees	707,667	-	707,667	558,962	(148,705)	78.99 %
Background investigations	206,012	-	206,012	199,267	(6,745)	96.73 %
Fines and other	-	-	-	9,017	9,017	100.00 %
Interest income	2,173,264	-	2,173,264	1,782,691	(390,573)	82.03 %
Investment income	-	-	-	795,675	795,675	100.00 %
Total revenues	108,423,966	-	108,423,966	100,802,060	(7,621,906)	92.97 %
Expenditures						
Personal services	5,053,597	(22,606)	5,030,991	4,881,819	(149,172)	97.03 %
Operating expenditures	705,124	(10,457)	694,667	540,697	(153,970)	77.84 %
Workers' compensation	25,591	-	25,591	25,591	-	100.00 %
Risk management	11,896	-	11,896	11,896	-	100.00 %
Licensure activities	181,497	(18,472)	163,025	89,709	(73,316)	55.03 %
Legal services	158,930	-	158,930	112,924	(46,006)	71.05 %
Pierce building	206,731	-	206,731	206,731	-	100.00 %
Leased space	54,384	-	54,384	47,160	(7,224)	86.72 %
Vehicle lease payments	126,570	-	126,570	98,151	(28,419)	77.55 %
Department of Revenue indirect costs	621,350	34,153	655,503	655,337	(166)	99.97 %
State agency services	2,338,849	-	2,338,849	2,280,910	(57,939)	97.52 %
Total division expenditures	9,484,519	(17,382)	9,467,137	8,950,925	(516,212)	94.55 %
Background expenditures	263,964	-	263,964	29,794	(234,170)	11.29 %
Total expenditures	9,748,483	(17,382)	9,731,101	8,980,719	(750,382)	92.29 %
Excess of revenues over expenditures	$ 98,675,483	$ 17,382	$ 98,692,865	91,821,341	$ (6,871,524)	93.04 %
Other financing uses						
Gaming distribution				(90,982,115)		
Net change in fund balance				839,226		
Fund balance, beginning of year				3,404,416		
Fund balance, end of year				$ 4,243,642		

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

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.

The State of Colorado is the primary reporting entity for State financial activities. Therefore, 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 organizations.

Fund Structure and Basis of Accounting

The financial activities of the Division are accounted for and reported on the basis of an individual fund, 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 fixed 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 fixed assets and long-term liabilities is included in Note 4 and Note 6, respectively.

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 12-47.1-505, C.R.S.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

Budget

The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual, compares actual revenues and expenditures to those which are legally authorized by state statute. The fiscal year 2003 revenue estimates were provided by the Department of Revenue, Office of Tax Analysis, based on the tax rate structure established by the Commission.

Each year, the Division Director 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 roll-forward authorization or supplemental budget approval. The Commission must approve all modifications. Appropriations lapse at fiscal year-end unless the Commission approves a rollforward of the unexpended budget.

Total appropriations for the fiscal years are as follows:

	June 30, 2003	June 30, 2002
Appropriations	$ 9,748,483	$ 9,836,011
Supplemental appropriations	(17,382)	(3,593)
Total appropriations	$ 9,731,101	$ 9,832,418

Accrued Payroll

Prior to fiscal year 2003, salaries and wages earned through the end of the fiscal year were paid to employees on June 30. Because of Senate Bill 03-197, monthly salaries still 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. This created an accrual for fiscal year 2003 of $350,153.

Note 1 - Summary of Significant Accounting Policies (continued)

New Reporting Standard

Effective July 1, 2001, the Division, in conjunction with the Department of Revenue, State of Colorado, adopted Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* ("GASB 34") and Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* ("GASB 37"). These statements establish new financial reporting requirements for state and local governments throughout the United States of America. These statements require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all years prior to fiscal year 2002 is affected. In connection with the Division's adoption of GASB 34 and GASB 37, the Division no longer presents fixed asset and long-term debt account groups in its financial statements (Notes 4 and 6) and is now required to provide management's discussion and analysis as required supplementary information.

Note 2 - Cash and Temporary Cash Investments

The State Treasury acts as a bank for all state agencies. Monies deposited in the Treasury are invested until the cash is needed. The Division deposits cash with the Colorado State Treasurer as required by Colorado Revised Statutes. Interest earnings on these investments are credited to the General Fund unless a specific statute directs otherwise. Cash held by the State Treasurer for the Division as of June 30, 2003 and 2002, was approximately $86.3 million and $83.3 million, respectively.

The State Treasurer pools these deposits and invests in securities in accordance with C.R.S. 24-75-601.1. 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, 2003 and 2002, the Division's share of unrealized gains was $795,675 and $741,476, respectively. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the pool. All of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at year-end. The unrealized gains and losses are included in investment income in the Statements of Revenues, Expenditures and Changes in Fund Balance and reflect 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.

Unreserved Designated Fund Balance of $2,735,869 and $1,940,194 at June 30, 2003 and 2002, respectively, represents the cumulative unrealized net gain on cash and temporary cash investments and is not available for use in the gaming distribution calculation.

Note 2 - Cash and Temporary Cash Investments (continued)

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, 2003 and 2002, $1,782,691 and $2,119,864, respectively, were earned on the average daily cash and temporary cash investments balances. During fiscal years 2003 and 2002, the State Treasurer paid interest at 4.52% and 5.57%, respectively, based on average annualized monthly interest rates.

Note 3 - Accounts Receivable

As of June 30, 2003 and 2002, the Division had an accounts receivable balance of $9,711,209 and $10,217,523, respectively. The Division had $9,708,007 and $10,216,748 of gaming taxes receivable from 43 and 42 Colorado casinos at June 30, 2003 and 2002, respectively. These receivables primarily represent June 2003 and 2002 gaming taxes, which were due on July 15, 2003 and July 15, 2002, respectively, and were substantially collected by the Department of Revenue in July 2003 and 2002 on behalf of the Division.

Note 4 - Changes in Fixed Assets and Accumulated Depreciation

Prior to July 1, 2001, the Division reported its fixed assets in a fixed assets account group and did not depreciate these assets. Beginning July 1, 2001, pursuant to the provisions of GASB 34, the Division no longer reports its fixed assets in a separate account group; fixed assets are now reported only with governmental activities in the statewide financial statements. In addition, these fixed assets are now depreciated over their estimated useful lives, but depreciation expense is also reported only in the statewide financial statements.

All fixed assets are stated at historical cost, or estimated historical cost if actual historical cost is not available. Donated fixed assets are stated at their estimated fair value on the date donated. The capitalization criteria for fixed assets is $50,000 for buildings and leasehold improvements, $5,000 for furniture and equipment, and all land is capitalized regardless of cost. No stand-alone software will be capitalized except the Division's licensing system. Beginning July 1, 2001, fixed assets are depreciated using the straight-line method over the estimated useful lives of the related assets, which is 30 years for the building and 5 to 10 years for leasehold improvements, furniture, equipment and 10 years for licensing software.

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

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

	Vehicles and Equipment	Land	Building	Leasehold Improvements	Total
Cost					
Balances, July 1, 2001	$ 605,033	$ -	$ -	$ 142,901	$ 747,934
Additions	32,820	421,000	331,118	1,099	786,037
Deletions	(8,942)	-	-	(144,000)	(152,942)
Balances, June 30, 2002	628,911	421,000	331,118	-	1,381,029
Additions	-	-	-	-	-
Deletions	(5,730)	-	-	-	(5,730)
Balances, June 30, 2003	$ 623,181	$ 421,000	$ 331,118	$ -	$ 1,375,299
Accumulated depreciation					
Balances, June 30, 2001	-	-	-	-	-
GASB 34 adjustment*	(125,707)	-	-	(7,023)	(132,730)
Additions	(81,028)	-	(7,062)	-	(88,090)
Deletions	8,848	-	-	7,023	15,871
Balances, June 30, 2002	(197,887)	-	(7,062)	-	(204,949)
Additions	(80,927)	-	(7,704)	-	(88,631)
Deletions	5,730	-	-	-	5,730
Balances, June 30, 2003	(273,084)	-	(14,766)	-	(287,850)
Total fixed assets, net	$ 350,097	$ 421,000	$ 316,352	$ -	$ 1,087,449

* These amounts reflect the total of depreciation incurred but not reported on fixed assets owned by the Division prior to the implementation of GASB 34 on July 1, 2001.

Note 5 - Other Liabilities

Included in the other liabilities are deposits and deferred revenue. Deposits of $68,771 and $75,995 at June 30, 2003 and 2002, respectively, primarily represent background investigation deposits, as well as $10,494 and $21,414 of funds at June 30, 2003 and 2002, respectively, seized during criminal investigations. 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.

The Division issues a two-year license to individuals, who are subject to an investigative review on an annual basis. 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, 2003 and 2002, deferred license fees are $148,320 and $125,950, respectively.

Note 6 - Accrued Compensated Absences

Prior to July 1, 2001, the Division recognized accrued compensated absences in a long-term debt account group. Beginning July 1, 2001, pursuant to the provisions of GASB 34, the Division no longer presents accrued compensated absences in a separate account group; accrued compensated absences are now only reported with governmental activities 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, 2003:

	Annual Leave	Sick Leave	Total
Balances, July 1, 2001	$ 341,304	$ 67,728	$ 409,032
Increases	48,845	8,067	56,912
Decreases	(21,455)	(22)	(21,477)
Balances, July 1, 2002	368,694	75,773	444,467
Increases	246,694	19,758	266,452
Decreases	(290,757)	(33,371)	(324,128)
Balances, June 30, 2003	$ 324,631	$ 62,160	$ 386,791

Note 7 - Gaming Distribution

In accordance with Section 12-47.1-701, C.R.S., at the end of each State fiscal year, the balance remaining in the Limited Gaming Fund is to be distributed by the State Treasurer according to the following formula:

- 50% to the State General Fund, of which 0.2% is to the Colorado Travel and Tourism Promotion Fund created pursuant to Section 24-49.7-106 C.R.S. During fiscal year 2002, the Statute included a provision that required 2% to be transferred to the Municipal Limited Gaming Impact Fund, which was ultimately distributed to the Cities of Victor and Woodland Park; this provision was repealed for fiscal year 2003. The State General Fund is further distributed as follows: 13% to the Local Governmental Limited Gaming Impact Fund, and an amount determined by the General Assembly to the Colorado Department of Transportation, which was $1,010,000 and $4,762,318 in fiscal years 2003 and 2002, respectively;

- 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,

Note 7 - Gaming Distribution (continued)

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

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, 2003 and 2002, the amount calculated as reserved fund balance by the Division based on expenditures for the preceding two-month period was $1,507,773 and $1,464,222, respectively.

On August 21, 2003, the Commission approved the distribution of $90,982,115 for the fiscal year ended June 30, 2003 in accordance with Section 12-47.1-701 C.R.S. In August 2002, $89,696,218 was approved as the 2002 distribution. The distributions are summarized as follows:

	June 30,	
	2003	2002
Distributions to other governmental agencies		
State General Fund Restricted	$ 38,385,255	$ 34,076,145
Municipal Limited Gaming Impact Fund	-	896,962
Local Government Limited Gaming Impact Fund	5,913,838	4,933,292
Colorado Department of Transportation	1,010,000	4,762,318
Total distributions to other governmental agencies	45,309,093	44,668,717
Distributions to other governments		
Colorado Tourism Promotion Fund	181,964	179,392
Colorado State Historical Fund	25,474,992	25,114,941
Gilpin and Teller Counties	10,917,854	10,763,546
Cities of Cripple Creek, Central City and Black Hawk	9,098,212	8,969,622
Total distributions to other governments	45,673,022	45,027,501
Total distributions	$ 90,982,115	$ 89,696,218

Note 8 - Commitments and Contingencies

Central City Lease and Building Purchase

Effective May 2000, the Division entered into a four-year lease agreement for office space in Central City, Colorado, which was to end in April 2004. Under the terms of the lease, the Division agreed to expend up to $144,000 in leasehold improvements over the lease term, of which approximately $1,100 was expended in 2002. As a result, the Division's monthly lease payments were reduced from $6,000 to $3,000 per month, beginning in May 2000. Central City lease expenditures were approximately $36,000 in 2001. In July 2001, the Division purchased the land and building in Central City, which it previously leased, for cash of $730,000. The Division also incurred approximately $22,000 of pre-acquisition costs in connection with the land and building purchase.

Cripple Creek Lease

In April 2002, the Division renewed a lease agreement with a third party to lease office space in Cripple Creek, Colorado. The lease now ends in June 2007. Cripple Creek lease expenditures were approximately $42,000 in 2003 and 2002. Future minimum annual rentals are approximately $54,000 for each of the years ending June 30, 2004 through June 30, 2007.

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, 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 conducts the sunset reviews for the entities scheduled to terminate. Sunset review reports are available after October 15, 2012, after which time the General Assembly will determine whether the Division will continue or not.

Licensing System

In March 1999, the Division entered into a four-year contract with a third party to develop, integrate and service a regulatory licensing and document imaging computer system. The contract requires the Division to pay approximately $50,000 to $70,000 per year through fiscal year 2004 for maintenance and service. During fiscal year 2003 and 2002, the Division expended $50,000 under this contract.

Note 9 - Pension Plan

Plan Description

Virtually all of the Division's employees participate in a defined benefit pension plan (the "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.

The authority to establish or amend plan benefits is retained by the General Assembly in accordance with Title 24, Article 51 of the C.R.S. The state plan, as well as the other plans, are included in PERA's financial statements, which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203, or by calling PERA at 303-832-9550 or 1-800-759-PERA(7372).

Plan members vest after five years of service and are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with 5 years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 5 years of service credit, and their age plus years of service equals 80 or more. State troopers and judges comprise a small percentage of Plan members, but have higher contribution rates and are eligible for retirement benefits at different ages and years of service. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is 1/12th of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

Members disabled, who have five or more years of service credit, six months of which have 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 are entitled to monthly benefit payments. If there is no eligible spouse, financially dependent parents will receive a survivor's benefit.

Funding Policy

Most employees contribute 8% (10% for state troopers) of their gross covered wages to an individual account in the Plan. During fiscal year 2003, the state contributed 10.04% (12.74% for state troopers and 11.82% for the Judicial Branch) of the employee's gross covered wages. Before January 1, 2003, 1.64% was allocated to the Health Care Trust Fund, and after January 1, 2003, 1.10% was allocated to the Health Care Trust Fund. Throughout the fiscal year, the amount needed to meet the match requirement established by the PERA Board was allocated to the Matchmaker Program (Note 10). The balance remaining after allocations to the Matchmaker Program and the Health Care Trust Fund was allocated to the defined benefit plan.

Note 9 - Pension Plan (continued)

Funding Policy (continued)

The annual gross covered wages subject to PERA is the 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. The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly.

Included in salaries and benefits for the years ended June 30, 2003, 2002 and 2001, are the Division's contributions to PERA of $316,572, $286,768 and $322,199, respectively. These contributions met the contribution requirement for each year.

Note 10 - Voluntary Tax-Deferred Retirement Plans

Beginning on January 1, 2001, the Matchmaker Program established a state match for PERA members' voluntary contributions to tax-deferred retirement plans. The match was 100% of up to 3% of the employee's gross covered wages paid during the month (7% for judges in the Judicial Branch). For calendar year 2003, the match was 100% up to 2% of employees' gross covered wages paid during the month (6% for judges in the Judicial Branch). The PERA Board sets the level of the match annually, based on the actuarial funding of the defined benefit pension plan. Two percent of gross salary plus 50% of any reduction in the overall contribution rate due to overfunding of the pension plan was available for the match. When the plan is not overfunded, the maximum one year change in the match rate is statutorily limited to one percent, and therefore, the match changed from 3% to 2%. 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 a 403(b) plan. Members who contribute to any of these plans also receive the state match. Included in salaries and benefits for the year ended June 30, 2003, are the Division's contributions to voluntary tax-deferred retirement plans of $84,137. Employee contributions to these plans totaled $235,175 for the year ended June 30, 2003.

Note 11 - Post Retirement Health Care and Life Insurance Benefits

Health Care Program

The PERA Health Care Program (the "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. Under this Program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During the fiscal year ended June 30, 2003, the premium subsidy was $115 for those with 20 years of service credit ($230 for members under age 65), reduced by 5% for each year of service under 20. Medicare eligibility also affects the premium subsidy.

The Health Care Trust Fund is maintained by an employer's contribution as discussed above in Note 9.

Monthly premium costs for participants depend on the health care plan selected, the number of persons being covered, Medicare eligibility, and the number of years of service credit a retiree has. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans and with health maintenance organizations providing services within Colorado. As of December 31, 2002, there were 35,418 enrollees in the Plan.

Life Insurance Program

PERA provides its members access to two group life insurance plans offered by Prudential and Anthem Life (formerly known as Rocky Mountain Life). Members may join one or both plans and they may continue coverage into retirement. Premiums are paid monthly by payroll deduction or other means.

Note 12 - 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.

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 13 - Related Party Transactions

On May 23, 1996, Senate Bill 96-216 was signed, authorizing the Department of Personnel to execute a ten-year lease purchase agreement on behalf of the Department of Revenue for the acquisition of a building located at 1881 Pierce Street, Lakewood, Colorado. The lease purchase occurred on October 31, 1996. The Division estimates that its share of the purchase price, including both principal and interest will be approximately $2,100,000. The Division transfers funds annually to the Department of Revenue for its share of the building purchase. The future obligations to be paid to the Department of Revenue for the Division's portion for the purchase of the building are estimated to be approximately $206,000 per year through 2007. The Division paid approximately $206,000 in each of the fiscal years ended June 30, 2003 and 2002. Total paid through 2003 is approximately $1,200,000.

The Division, as an agency of the State of Colorado, paid fees to the State for legal and audit services, the Division's share of the building purchase, and other direct and indirect expenses incurred. Interagency charges consist of the following:

	For the Year Ended June 30, 2003	For the Year Ended June 30, 2002
State agency services		
Colorado State Patrol	$ 1,323,210	$ 1,229,069
Colorado Bureau of Investigation	725,657	693,824
Colorado Division of Fire Safety	142,277	134,331
Legal Services (Department of Law)	112,924	114,205
Indirect costs (Department of Revenue)	862,068	559,211
Office of the State Auditor	21,238	26,970
Department of Local Affairs	89,766	71,904
Total payments to state agencies	$ 3,277,140	$ 2,829,514

Note 13 - Related Party Transactions (continued)

As of June 30, 2003 and 2002, the Division had liabilities to other state agencies, the State's General Fund and other governments as follows:

	June 30, 2003	June 30, 2002
State agencies		
Colorado Historical Society	$ 25,474,992	$ 25,114,941
Colorado Department of Transportation	1,010,000	4,762,318
Colorado Department of Local Affairs	5,913,838	4,933,292
Office of Economic Development	181,964	179,392
Colorado State Patrol	116,383	137,851
Colorado Bureau of Investigation	65,784	60,892
Colorado Division of Fire Safety	21,561	13,174
Colorado Department of Revenue	780	-
Total liabilities to state agencies	32,785,302	35,201,860
State's General Fund	38,385,255	34,076,145
Other governments		
City of Black Hawk	6,599,843	6,472,838
City of Central City	662,896	712,726
City of Cripple Creek	1,835,473	1,784,058
City of Victor	-	224,240
City of Woodland Park	-	672,722
Gilpin County	8,715,286	8,622,677
Teller County	2,202,568	2,140,869
Total liabilities to other governments	20,016,066	20,630,130
Total liabilities to state agencies, State General Fund and other governments	$ 91,186,623	$ 89,908,135

Total related party liabilities of $91,186,623 and $89,908,135 at June 30, 2003 and 2002, respectively, include amounts due to the Colorado State Patrol, Bureau of Investigation, Division of Fire Safety and Department of Revenue which total $204,508 and $211,917, respectively, and represent liabilities related to agreements with these agencies. The remaining liabilities of $90,982,115 and $89,696,218, respectively, are related to the fiscal years 2003 and 2002 gaming distributions.

EKS&H Ehrhardt Keefe Steiner & Hottman PC

Certified Public Accountants and Consultants

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

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

We have audited the financial statements of the Division of Gaming, Department of Revenue, State of Colorado (the "Division") as of and for the year ended June 30, 2003, and have issued our report thereon dated August 21, 2003. 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.

Compliance

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Division's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the members of the Legislative Audit Committee of the State of Colorado and management of the Division and is not intended to be and should be 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

August 21, 2003
Denver, Colorado

7979 E. Tufts Avenue, Suite 400 Denver, Colorado 80237-2843
303 740-9400 Fax 303 740-9009

EKS&H Ehrhardt Keefe Steiner & Hottman PC

Certified Public Accountants and Consultants

REQUIRED AUDITOR COMMUNICATIONS TO THE LEGISLATIVE AUDIT COMMITTEE

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

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, 2003, and have issued our report thereon dated August 21, 2003. Professional standards require that we provide you with the following information related to our audits.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS*

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free from material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

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.

SIGNIFICANT ACCOUNTING POLICIES

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our contract, we advise management about the appropriateness of accounting policies and their application. 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 the year ended June 30, 2003.

We noted no transactions entered into by the Division during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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 the financial statements.

AUDIT ADJUSTMENTS

For purposes of this letter, professional standards define an audit adjustment as a proposed correction to the financial statements that, in our judgment, may not have been detected except through audit procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Division's financial reporting process (that is, cause future financial statements to be materially misstated).

There were no audit adjustments or waived audit adjustments identified with the June 30, 2003 audit.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Pursuant to professional standards, the auditors' responsibility for other information in documents containing the Division's audited financial statements does not extend beyond the financial information identified in the audit report, and the auditor is not required to perform procedures to corroborate such other information. However, in accordance with such standards, we are required to read the information in such documents and and consider whether such information, or the manner of its presentation, is materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information, which we believe is a material misstatement of fact. No such inconsistencies or misstatements came to our attention.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter 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.

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 consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

ISSUES DISCUSSED PRIOR TO RETENTION OF INDEPENDENT AUDITORS

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.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

This information is intended solely for the information and use of the Legislative Audit Committee, 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

August 21, 2003
Denver, Colorado

7979 E. Tufts Avenue, Suite 400 Denver, Colorado 80237-2843
303 740-9400 Fax 303 740-9009

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

Distribution Page
Years Ended June 30, 2003 and 2002

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