DIVISION OF GAMING,
DEPARTMENT OF REVENUE,
STATE OF COLORADO

Financial Statements
and
Independent Auditors' Report
June 30, 2005 and 2004

EKS&H
EHRHARDT • KEEFE
STEINER • HOTTMAN PC
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

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P: 303-740-9400 F: 303-740-9009

August 10, 2005

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, 2005 and 2004. 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 audit 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, 2005

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, 2005 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, 2005 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 auditors' report on the financial statements of the Division, dated August 10, 2005, 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, 2005 and 2004, 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 August 10, 2005, 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, 2005

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 61 full-time employees and a budget of approximately $9.6 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, Department of Revenue, State of Colorado (the "Division") as of and for the years ended June 30, 2005 and 2004, 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 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 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, 2005 and 2004, and the changes in its financial position 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 Division as of June 30, 2005 and 2004, 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.

Management's discussion and analysis and budgetary comparison information on Pages 5 through 14 and 17 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 10, 2005, 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 audit.

Ehrhardt Keefe Steiner & Hottman PC

Ehrhardt Keefe Steiner & Hottman PC

August 10, 2005
Denver, Colorado

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005

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, 2005. Please read it in conjunction with the Division's financial statements, which begin on page 15.

FINANCIAL HIGHLIGHTS

- Gaming Tax revenues were $99,080,505 for the fiscal year ended June 30, 2005, which is an increase of $516,126 or 0.5%, over revenues of $98,564,379 for the prior fiscal year ended June 30, 2004.
- The growth in the Division's excess of revenues over expenditures increased the Gaming Distribution to $92,930,205 compared to last fiscal year's distribution of $92,401,488. This distribution amount represents an increase of $528,717 over last fiscal year, or 0.6%.

USING THIS REPORT

This financial report consists of financial statements for the fiscal years ended June 30, 2005 and 2004. 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 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, 2003 and July 1, 2004, respectively, and the ending fund balances as of June 30, 2004 and 2005, respectively. The Statement of Revenues, Expenditures, and Changes in Fund Balance-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.

REVENUES

The excess of revenues over expenditures of the Division for fiscal year 2005 was $92,192,271. This represents an increase of $2,175,317 or 2.4% compared to fiscal year 2004 excess of revenues over expenditures of $90,016,954.

The net decrease in fair value of investments of ($703,666) and ($2,244,189) represents the change in fair value of the Division's investments during the fiscal years ended June 30, 2005 and June 30, 2004, respectively. The largest source of revenue for the Division of Gaming is from gaming taxes paid by casinos.

REVENUES (continued)

The gaming tax revenues earned for the fiscal years ended June 30, 2005 and June 30, 2004 were $99,080,505 and $98,564,379, respectively, which represents an increase of 0.5%. The taxes are paid on a graduated scale ranging from 0.25% to 20% of adjusted gross proceeds. The tax rates remained constant for fiscal year 2005 and 2004. The adjusted gross proceeds of casinos increased 4.4% in fiscal year 2005. The tax increase was only 0.5% because five casinos changed ownership in fiscal year 2005, which caused the casinos to re-start at the lowest tax brackets.

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	$ 516,126	0.5%	Gaming tax revenues have historically increased over the prior fiscal year.
License and application fees	23,543	4.1%	There were 994 more individual licensee applications in fiscal year 2005 than in fiscal year 2004.
Background investigations	90,358	61.0%	There was an increase in the background investigation activity during fiscal year 2005.
Fines	(68,282)	(86.0)%	The fines revenues vary from year to year and are dependent upon audit and investigative findings.
Interest income	39,884	3.0%	Interest rates increased 0.1% on average during fiscal year 2005.
Change in fair value of investments	1,540,523	68.6%	This is the net change in the fair market value of the Division's investments during fiscal year 2005 versus fiscal year 2004.
Other revenue	(56,555)	(98.4)%	In fiscal year 2004, the Division conducted a special investigation for another agency.
Total revenues	$ 2,085,597	2.1%	This number includes the change in fair value of investments. Revenues excluding the change in fair value of investments increased 0.5%.

EXPENDITURES

Total expenditures for the Division were $8,379,343 for fiscal year 2005. This is a decrease of $89,720 or a 1.1% reduction over fiscal year 2004 expenditures of $8,469,063. The information below shows the changes in expenditures from the prior fiscal year to the current fiscal year with explanations provided for large variances.

	Increase (Decrease) Amount	Percent Change	Explanation
Expenditures			
Salaries and benefits	$ 60,611	1.4 %	The Division had numerous vacancies in fiscal year 2004. Benefit costs increased due to more long-term employees retiring in fiscal year 2005 than in fiscal year 2004.
State agency services	(276,123)	(8.4)%	In fiscal year 2005, indirect costs decreased 39.6% and Department of Law costs increased 20.3%.
Materials, supplies, and services	53,505	21.1 %	In fiscal year 2005, building maintenance on the historic Central City building, increased $36,055. The Division purchased police equipment for $18,068.
Travel and automobiles	(24,347)	(12.6)%	In fiscal year 2005, the Division made a concerted effort to reduce travel costs. The Division's leased vehicle costs declined due to an aging fleet.
Computer services	25,428	27.0 %	More checks were performed in fiscal year 2005: many new employee checks and 955 more non-background individual applications were received in fiscal year 2005 than in fiscal year 2004.
Professional services	25,031	39.8 %	In fiscal year 2005, the Division paid $24,846 for environmental work on the historic Central City building.
Other	(4,960)	(8.0)%	Due to various cost reductions.
Telephone	3,781	13.1 %	In fiscal year 2005, local phone costs increased.
Background investigation expenditures	17,445	76.2 %	There were more background investigations conducted in fiscal year 2005.
Capital outlay	29,909	- %	In fiscal year 2005, the Division paid $24,666 for two fingerprint machines.
Total expenditures	$ (89,720)	(1.1)%	

ASSETS, LIABILITIES AND FUND BALANCE

The year end fund balance reflects the overall financial position of the Division, which was $1,121,174 at June 30, 2005 compared to $1,859,108 at June 30, 2004. Total assets of $94,888,371 at June 30, 2005, are $84,143 or 0.1% lower than the prior year balance of $94,972,514. The decrease in total assets is primarily due to the decrease of $703,666 in temporary cash investments, resulting from a decrease in fair value of investments.

The Division's total liabilities increased between years, to $93,767,197 at June 30, 2005 from $93,113,406 at June 30, 2004. The $653,791 net increase is primarily due to the $528,717 increase in the fiscal year 2005 gaming distribution, along with a $78,935 increase in background investigation deposits.

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

	Fiscal Year 2005	Fiscal Year 2004	Increase (Decrease) Dollars	Increase (Decrease) Percent
Cash and temporary cash investments	$ 84,270,214	$ 84,343,262	$ (73,048)	(0.1)%
Accounts receivable	10,585,502	10,597,499	(11,997)	(0.1)%
Prepaid expenses	32,655	31,753	902	2.8 %
Total assets	$ 94,888,371	$ 94,972,514	$ (84,143)	(0.1)%
Accounts payable, wages and accrued payroll payable	$ 379,896	$ 372,304	$ 7,592	2.0 %
Due to other State agencies, the State General Fund and other governments	93,058,319	92,527,770	530,549	0.6 %
Other liabilities	328,982	213,332	115,650	54.2 %
Total liabilities	93,767,197	93,113,406	653,791	0.7 %
Fund balance	1,121,174	1,859,108	(737,934)	(39.7)%
Total liabilities and fund balance	$ 94,888,371	$ 94,972,514	$ (84,143)	(0.1)%

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 2005	Fiscal Year 2004	Increase (Decrease) Dollars	Increase (Decrease) Percent
Revenues				
Gaming taxes	$ 99,080,505	$ 98,564,379	$ 516,126	0.5 %
License and application fees	592,937	569,394	23,543	4.1 %
Other revenue	898,172	(647,756)	1,545,928	238.7 %
Total revenues	100,571,614	98,486,017	2,085,597	2.1 %
Expenditures				
Operating expenditures	5,340,006	5,171,048	168,958	3.3 %
Background expenditures	40,334	22,889	17,445	76.2 %
State agency services	2,999,003	3,275,126	(276,123)	(8.4)%
Total expenditures	8,379,343	8,469,063	(89,720)	(1.1)%
Excess of revenues over expenditures	92,192,271	90,016,954	2,175,317	2.4 %
Fund balance, beginning of year	1,859,108	4,243,642	(2,384,534)	(56.2)%
Less: Gaming distribution	92,930,205	92,401,488	528,717	0.6 %
Fund balance, end of year	$ 1,121,174	$ 1,859,108	$ (737,934)	(39.7)%

CONDITIONS AFFECTING FINANCIAL POSITION OR RESULTS OF OPERATIONS

Staffing Changes

In 2002, the Division developed an initiative to keep abreast of emerging technologies that impact the gaming industry. Emerging technologies are continually transforming the gaming industry and the regulatory environment, impacting all aspects of our regulatory responsibilities. Recognizing that this was a critical area of risk, the Division began to consider the reallocation of resources to a separate unit that would analyze and compile information regarding information systems and slot machine technological innovation in order to mitigate the risk in this area. With a crucial need to address this large area of exposure, the Emerging Technologies section was formed in January 2004 and staffed with four full time employees. By the end of fiscal year 2005, this section was fully staffed with seven full time employees as a result of reallocations.

CONDITIONS AFFECTING FINANCIAL POSITION OR RESULTS OF OPERATIONS (continued)

Staffing Changes (continued)

The unit is responsible for continually assessing the impact of emerging technologies on Division policy, rules and regulations, patron protection, casino operations, the Division's ability to provide top-notch customer service, and addressing the associated regulatory challenges. It provides the technical and regulatory expertise required to stay abreast of emerging technological issues in a proactive manner. By doing so, new regulations and standards can be developed through a thoughtful process in a more timely manner.

Throughout this fiscal year, the Division experienced a high level of employee turnover within its audit section. The turnover rate among the audit staff was approximately 61%. This directly resulted in a decrease in the number of revenue audits the Division was able to perform. The vacancy rate among the audit section staff at the end of fiscal year 2005 was 31%.

During fiscal year 2005, Ticket In Ticket Out (TITO) gaming proliferated throughout the industry in all three gaming towns. As a result of the rapid implementation of this new technology, the Audit and Emerging Technologies sections developed a joint plan to address pending approvals of the various TITO systems used throughout the industry. The Division has deemed this project a top priority going into fiscal year 2006.

Investigation

In fiscal year 2003, a criminal investigation was conducted by the Jefferson County District Attorney's Office regarding allegation of official misconduct involving the collecting and selling of casino chips using State time and equipment. The investigation led to a Grand Jury investigation, and the resignation of three employees. The cases associated with the Grand Jury investigation resulted in the prosecution of one employee for official misconduct and theft. The cases were closed in August 2004.

DISTRIBUTIONS

At the end of each fiscal year, the Division distributes the balance remaining in the Limited Gaming Fund after reserving an amount equal to operating expenditures for the preceding two month period. The distribution for the fiscal year ended June 30, 2005 was $92,930,205.

DISTRIBUTIONS (continued)

The chart below compares the amounts distributed to the various recipients for both fiscal years 2005 and 2004.

Colorado Division of Gaming
Funds Distribution Comparison

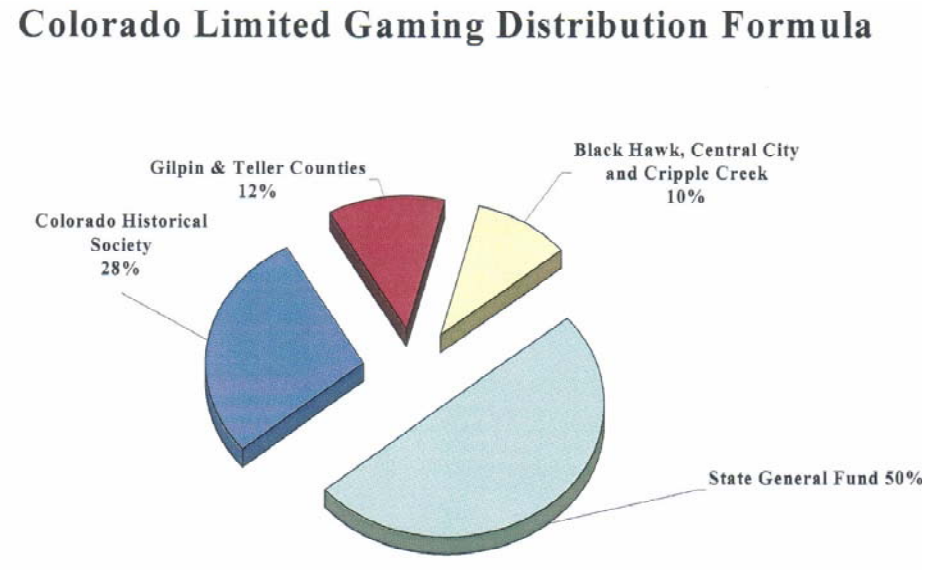
	For the Years Ended			Percent
	June 30, 2005	June 30, 2004	Difference	Difference
Colorado State Historical Fund	$ 26,020,457	$ 25,872,416	$ 148,041	0.6 %
Colorado Travel and Tourism Promotion Fund	185,861	-	185,861	- %
Local Government Limited Gaming Impact Fund	6,040,463	6,006,097	34,366	0.6 %
Total payments to other state agencies	32,246,781	31,878,513	368,268	1.2 %
City of Black Hawk	6,587,172	6,710,104	(122,932)	(1.8)%
City of Central City	824,291	644,870	179,421	27.8 %
City of Cripple Creek	1,881,558	1,885,175	(3,617)	(0.2)%
Gilpin County	8,893,755	8,825,969	67,786	0.8 %
Teller County	2,257,869	2,262,210	(4,341)	(0.2)%
Total payment due to other governments	20,444,645	20,328,328	116,317	0.6 %
Due to the General Fund	40,238,779	40,194,647	44,132	0.1 %
Total distribution	$ 92,930,205	$ 92,401,488	$ 528,717	0.6 %

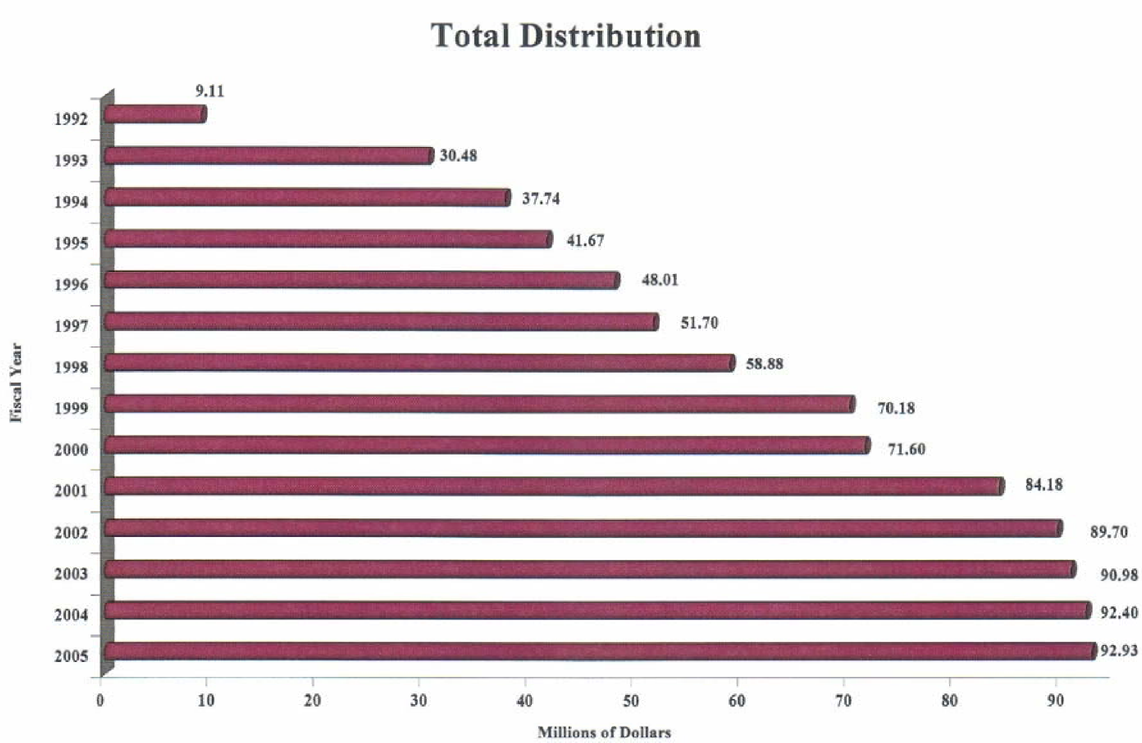
In accordance with Section 12-47.1-701, C.R.S. at the end of each State fiscal year, the balance remaining in the Limited Gaming Fund is to be distributed by the State Treasurer according to the following formula:

- 50% to the State General Fund, of which 0.2% of the total distribution goes to the Colorado Travel and Tourism Promotion Fund. The State General Fund amount is further distributed as follows: 13% to the Local Government Limited Gaming Impact Fund. Under Senate Bill 03-274, the 0.2% distribution to the Colorado Travel and Tourism Promotion Fund was suspended for fiscal year 2004.
- 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.

DISTRIBUTIONS (continued)

The charts below reflect the distribution formula and the Colorado Limited Gaming Fund distribution from the inception of Colorado gaming in 1991 through June 30 2005.





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.

During the fiscal year 2005, the following changes were approved:

On March 11, 2005, Governor Owens signed SB 05-126 concerning the supplemental request for the Department of Revenue. In April 2005, the Colorado Limited Gaming Commission approved these changes in spending authority:

- The payments due to the Division of Fleet Management were reduced by $13,078 due to no vehicle replacements in fiscal year 2004.
- The payment due to the Department of Personnel and Administration for workman's compensation increased $1,321. All State agencies are assessed their share of the State's workman's compensation costs based on historical claim information by department.
- Payments due to the Division of Risk Management decreased by $4,619. The amount charged to the Division was based on the number of full time employees.
- Indirect costs to the Department of Revenue increased by $6,320.

The budget approved at the beginning of fiscal year 2005 was $9,616,874. The amendments to the budget resulted in a net decrease of $10,056. Therefore, the final approved budget for fiscal year 2005 was $9,606,818. Total actual expenditures were $8,379,343 resulting in excess appropriations, or a savings of $1,227,475 for fiscal year 2005.

ECONOMY AND NEXT YEAR'S BUDGET

The Division considers several factors when determining estimates for the following year's budget. The fiscal year 2006 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 2006. The Division's request totaled $7,142,301, which represents a 0.6% decrease from the fiscal year 2005 appropriation. The largest decrease is in the estimate of expenses in base personal services. The Colorado Limited Gaming Commission approved a budget request submitted by the Department of Public Safety for $2,452,955 and a budget request submitted by the Department of Local Affairs for $122,371. These funds are used for gaming related purposes.

Assumptions that were made when preparing the revenue projection for fiscal year 2006 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 2006 revenue estimates total $108.8 million, a $8.2 million increase over fiscal year 2005 actual revenue.

ECONOMY AND NEXT YEAR'S BUDGET (continued)

This year, 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.

During the almost 14 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 growth is minimal, gaming in Colorado continues to thrive. The Division of Gaming continually positions itself to respond effectively to the 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 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, 2005	June 30, 2004
Assets		
Cash and temporary cash investments	$ 84,270,214	$ 84,343,262
Gaming taxes receivable	10,583,124	10,595,000
Other receivables	2,378	2,499
Prepaid expenses	32,655	31,753
Total assets	$ 94,888,371	$ 94,972,514
Liabilities and Fund Balance		
Liabilities		
Accounts payable	$ 35,159	$ 19,342
Accrued payroll	344,737	352,962
Due to State General Fund	40,238,779	40,194,647
Due to other State agencies	32,374,895	32,004,795
Due to other governments	20,444,645	20,328,328
Other liabilities	328,982	213,332
Total liabilities	93,767,197	93,113,406
Fund balance		
Reserved for statutory purposes	1,333,160	1,367,428
Unreserved		
Designated unrealized investment gains	-	491,680
Undesignated	(211,986)	-
Total fund balance	1,121,174	1,859,108
Total liabilities and fund balance	$ 94,888,371	$ 94,972,514

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, 2005	For the Years Ended June 30, 2004
Revenues		
Gaming taxes	$ 99,080,505	$ 98,564,379
License and application fees	592,937	569,394
Background investigations	238,401	148,043
Fines and other	12,092	136,929
Interest income	1,351,345	1,311,461
Net decrease in fair value of investments	(703,666)	(2,244,189)
Total revenues	100,571,614	98,486,017
Expenditures		
Current		
Salaries and benefits	4,483,179	4,422,568
State agency services	2,999,003	3,275,126
Materials, supplies and services	306,574	253,069
Travel and automobiles	168,784	193,131
Computer services	119,786	94,358
Professional services	87,902	62,871
Other	56,756	61,716
Telephone	32,732	28,951
Background investigation expenditures	40,334	22,889
Leased space	54,384	54,384
Capital outlay	29,909	-
Total expenditures	8,379,343	8,469,063
Excess of revenues over expenditures	92,192,271	90,016,954
Other financing uses		
Gaming distribution	(92,930,205)	(92,401,488)
Net change in fund balance	(737,934)	(2,384,534)
Fund balance, beginning of year	1,859,108	4,243,642
Fund balance, end of year	$ 1,121,174	$ 1,859,108

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, 2005

	Commission Approved Budget	Supplemental Changes	Final Budget*	Actual Amounts	Variance with Final Budget Over (Under)	Percent Earned Percent Expended
Revenues						
Gaming taxes	$ 101,677,375	$ -	$ 101,677,375	$ 99,080,505	$ (2,596,870)	97.45 %
License and application fees	574,139	-	574,139	592,937	18,798	103.27 %
Background investigations	215,206	-	215,206	238,401	23,195	110.78 %
Fines and other	-	-	-	12,092	12,092	- %
Interest income	1,782,691	-	1,782,691	1,351,345	(431,346)	75.80 %
Net decrease in fair value of investments	-	-	-	(703,666)	(703,666)	- %
Total revenues	104,249,411	-	104,249,411	100,571,614	(3,677,797)	96.47 %
Expenditures						
Personal services	5,115,406	-	5,115,406	4,545,272	(570,134)	88.85 %
Operating expenditures	667,667	-	667,667	517,404	(150,263)	77.49 %
Workers' compensation	54,108	1,321	55,429	55,429	-	100.00 %
Risk management	14,498	(4,619)	9,879	9,879	-	100.00 %
Licensure activities	181,497	-	181,497	119,786	(61,711)	66.00 %
Legal services	164,761	-	164,761	122,565	(42,196)	74.39 %
Pierce building	195,666	-	195,666	195,666	-	100.00 %
Leased space	54,384	-	54,384	54,384	-	100.00 %
Vehicle lease payments	88,836	(13,078)	75,758	67,473	(8,285)	89.06 %
Department of Revenue indirect costs	393,736	6,320	400,056	400,056	-	100.00 %
State agency services	2,422,351	-	2,422,351	2,251,095	(171,256)	92.93 %
Total division expenditures	9,352,910	(10,056)	9,342,854	8,339,009	(1,003,845)	89.26 %
Background expenditures	263,964	-	263,964	40,334	(223,630)	15.28 %
Total expenditures	9,616,874	(10,056)	9,606,818	8,379,343	(1,227,475)	87.22 %
Excess of revenues over expenditures	$ 94,632,537	$ 10,056	$ 94,642,593	92,192,271	$ (2,450,322)	97.41 %
Other financing uses						
Gaming distribution				(92,930,205)		
Net change in fund balance				(737,934)		
Fund balance, beginning of year				1,859,108		
Fund balance, end of year				$ 1,121,174		

* 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 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 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 12-47.1-701, 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 2005 revenue estimates were provided by the Division, 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:

	Year Ended June 30,	
	2005	2004
Appropriations	$ 9,616,874	$ 9,873,667
Supplemental appropriations	(10,056)	(9,292)
Total appropriations	$ 9,606,818	$ 9,864,375

Accrued Payroll

Prior to fiscal year 2003, salaries and wages earned through the end of the fiscal year were paid to employees on June 30th. 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 as of June 30, 2005 and 2004 of $343,740 and $352,315, respectively.

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 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 Treasurer for the Division as of June 30, 2005 and 2004, was approximately $84.3 and $84.3 million, respectively.

Note 2 - Cash and Temporary Cash Investments (continued)

The State Treasurer pools these deposits and invests them in securities approved by 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, 2005 and 2004, the Division's share of unrealized losses was $703,666 and $2,244,189, 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 losses are included in net decrease in fair value of investments in the Statements of Revenues, Expenditures and Changes in Fund Balance and reflect only the change in fair value during the fiscal year.

Additional information on the State Treasurer's pool may be obtained from the State of Colorado's Comprehensive Annual Financial Report.

Unreserved Undesignated Fund Balance of $(211,986) at June 30, 2005 and Unreserved Designated Fund Balance of $491,680 at June 30, 2004, represents the cumulative unrealized net (loss) and gain on cash and temporary cash investments and is 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, 2005 and 2004, $1,351,345 and $1,311,461, respectively, was earned on the average daily cash and temporary cash investments balances. During fiscal years 2005 and 2004, the State Treasurer paid interest at 3.13% and 3.03%, respectively, based on average annualized monthly interest rates.

Note 3 - Accounts Receivable

As of June 30, 2005 and 2004, the Division had accounts receivable balances of $10,585,502 and $10,597,499, respectively. The Division had $10,583,124 and $10,595,000 of gaming taxes receivable from 47 and 45 Colorado casinos at June 30, 2005 and 2004, respectively. These receivables primarily represent June 2005 and 2004 gaming taxes, which were due on July 15, 2005 and July 15, 2004, respectively, and were subsequently collected by the Department of Revenue in July 2005 and 2004 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 Fixed Assets and Accumulated Depreciation

Pursuant to the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, the Division's fixed assets are reported only in the statewide financial statements. In addition, these fixed assets are depreciated over their estimated useful lives, but depreciation expense is also reported only in the statewide financial statements.

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

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 values on the date donated. The capitalization criteria for fixed assets are $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 is capitalized except the Division's licensing system. 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, 5 to 10 years for leasehold improvements, furniture, equipment, and 10 years for licensing software.

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	Total
Cost				
Balances, June 30, 2003	$ 623,181	$ 421,000	$ 331,118	$ 1,375,299
Additions	-	-	-	-
Disposals	(14,600)	-	-	(14,600)
Balances, June 30, 2004	608,581	421,000	331,118	1,360,699
Additions	29,909	-	-	29,909
Disposals	(56,860)	-	-	(56,860)
Balances, June 30, 2005	581,630	421,000	331,118	1,333,748
Accumulated depreciation				
Balances, June 30, 2003	(273,084)	-	(14,766)	(287,850)
Additions	(76,149)	-	(7,704)	(83,853)
Disposals	14,600	-	-	14,600
Balances, June 30, 2004	(334,633)	-	(22,470)	(357,103)
Additions	(71,653)	-	(7,704)	(79,357)
Disposals	56,859	-	-	56,859
Balances, June 30, 2005	(349,427)	-	(30,174)	(379,601)
Total fixed assets, net	$ 232,203	$ 421,000	$ 300,944	$ 954,147

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 $164,402 and $85,467 at June 30, 2005 and 2004, respectively, primarily represent background investigation deposits, as well as $10,180 and $11,165 of funds at June 30, 2005 and 2004, 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. 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, 2005 and 2004, deferred license fees are $154,400 and $116,700, 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, 2005:

	Annual Leave	Sick Leave	Total
Balances, July 1, 2003	$ 324,631	$ 62,160	$ 386,791
Increases	225,902	35,491	261,393
Decreases	(231,447)	(41,691)	(273,138)
Balances, July 1, 2004	319,086	55,960	375,046
Increases	228,603	36,099	264,702
Decreases	(261,012)	(44,017)	(305,029)
Balances, June 30, 2005	$ 286,677	$ 48,042	$ 334,719

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% of the total distribution goes to the Colorado Travel and Tourism Promotion Fund. The State General Fund amount is further distributed as follows: 13% to the Local Government Limited Gaming Impact Fund. Under Senate Bill 03-274, the 0.2% distribution to the Colorado Travel and Tourism Promotion Fund was suspended for fiscal year 2004.

- 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 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, 2005 and 2004, the amount calculated as reserved fund balance by the Division based on expenditures for the preceding two-month period was $1,333,160 and $1,367,428, respectively.

Note 7 - Gaming Distribution (continued)

On August 18, 2005, the Commission approved the distribution of $92,930,205 for the fiscal year ended June 30, 2005 in accordance with Section 12-47.1-701 C.R.S. In August 2004, $92,401,488 was approved as the 2004 distribution. The distributions are summarized as follows:

	Years Ended June 30,	
	2005	2004
State General Fund Restricted	$ 40,238,779	$ 40,194,647
Distributions to other state agencies		
Colorado State Historical Fund	26,020,457	25,872,416
Local Government Limited Gaming Impact Fund	6,040,463	6,006,097
Colorado Travel and Tourism Promotion Fund	185,861	-
Total distributions to other state agencies	32,246,781	31,878,513
Distributions to other governments		
Gilpin and Teller Counties	11,151,624	11,088,179
Cities of Cripple Creek, Central City and Black Hawk	9,293,021	9,240,149
Total distributions to other governments	20,444,645	20,328,328
Total distributions	$ 92,930,205	$ 92,401,488

Note 8 - Commitments and Contingencies

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 expires June 2007. Cripple Creek lease expenditures were approximately $54,000 in 2005. Future minimum annual rentals are approximately $54,000 for each of the years ending June 30, 2006 and June 30, 2007.

Note 8 - Commitments and Contingencies (continued)

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 expected to conduct a sunset review prior to the sunset date. A sunset review report is anticipated to be available after October 15, 2012, after which time the General Assembly will determine whether or not the Division will continue.

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 requires the Division to pay approximately $51,500 to $55,000 per year through November 30, 2007. During fiscal years 2005 and 2004, the Division expended $50,000 and $51,720, respectively, 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. Changes to the Plan require legislation by the General Assembly. The State plan and other Divisions' Plans are included in the 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), or by visiting www.copera.org.

Note 9 - Pension Plan (continued)

Plan Description (continued)

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 twelve 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 spouse or their eligible children under the age of 18 (23 if a full-time student) 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 salary, as defined in CRS 24-51-101(42), to an individual account in the Plan. During fiscal year 2005, the state contributed 10.15% (12.85% for state troopers and 13.66% for the Judicial Branch) of the employee's salary. Effective July 1, 2004, 1.02% of the total contribution was allocated to the Health Care Trust Fund.

Salary subject to PERA contribution is the gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC Section 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.

The Division's contributions to the two programs described above for the fiscal years ended June 30, 2005, 2004 and 2003, were $372,887, $373,702 and $400,709, respectively. These contributions met the contribution requirement for each year.

Note 10 - Voluntary Tax-Deferred Retirement Plans

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The State offers a Section 457 deferred compensation plan, and certain agencies and institutions of the state offer 403(b) or 401(a) plans. Members who contribute to any of these plans also receive the state match, when available.

Note 10 - Voluntary Tax-Deferred Retirement Plans (continued)

Beginning in January 2001, the Matchmaker Program established a State match for PERA members' voluntary contributions to tax-deferred retirement plans. The PERA Board sets the level of the match based on the actuarial funding of the defined benefit pension plan. The match is only available when the actuarial value of the defined benefit plan assets is 110% of actuarially accrued plan liabilities. This condition was not met during fiscal year 2005.

Note 11 - Post Retirement Health Care and Life Insurance Benefits

Health Care Program

PERACare (formerly known as 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 fiscal year 2005, the premium subsidy was $115 a month for those with 20 years of service credit ($230 for members under age 65 and not eligible for Medicare), and it was reduced by 5% for each year of service fewer than 20.

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. PERA contracts with a major medical indemnity carrier to administer claims for self-insured medical and prescription benefit plans, and with several health maintenance organizations providing services within Colorado. As of December 31, 2004, there were 39,668 enrollees in the plan.

Life Insurance Program

PERA provides its members access to two group group decreasing term life insurance plans offered by Prudential Insurance Company and Anthem Life (formerly known as Rocky Mountain Life Insurance Company). Effective April 1, 2005, PERA consolidated the two plans, and UnumProvident became the administrator. Members who participate in the plan may continue coverage into retirement. Premiums are collected monthly by payroll deductions 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 $196,000 per year through 2007. The Division paid approximately $196,000 per year in fiscal years 2005 and 2004. Total paid through 2005 is approximately $1,664,000.

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

	For the Years Ended June 30,	
	2005	2004
State agency services		
Colorado State Patrol	$ 1,364,592	$ 1,311,388
Colorado Bureau of Investigation	649,268	616,350
Colorado Division of Fire Safety	134,799	135,192
Legal Services (Colorado Department of Law)	122,565	101,900
Indirect costs (Colorado Department of Revenue)	595,722	986,089
Office of the State Auditor	29,620	28,755
Colorado Department of Local Affairs	102,437	95,452
Total payments to state agencies	$ 2,999,003	$ 3,275,126

Note 13 - Related Party Transactions (continued)

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

	June 30,	
	2005	2004
State agencies		
Colorado State Historical Society	$ 26,020,457	$ 25,872,416
Colorado Department of Local Affairs	6,040,463	6,006,097
Office of Economic Development	185,861	-
Colorado State Patrol	113,503	103,665
Colorado Division of Fire Safety	14,611	22,567
Colorado Department of Revenue	-	50
Total liabilities to state agencies	32,374,895	32,004,795
State's General Fund	40,238,779	40,194,647
Other governments		
City of Black Hawk	6,587,172	6,710,104
City of Central City	824,291	644,870
City of Cripple Creek	1,881,558	1,885,175
Gilpin County	8,893,755	8,825,969
Teller County	2,257,869	2,262,210
Total liabilities to other governments	20,444,645	20,328,328
Total liabilities to state agencies, State General Fund and other governments	$ 93,058,319	$ 92,527,770

Total related party liabilities of $93,058,319 and $92,527,770 at June 30, 2005 and 2004, respectively, include amounts due to the Colorado State Patrol, Division of Fire Safety and Department of Revenue which total $128,114 and $126,282, respectively, and represent liabilities related to agreements with these agencies. The remaining liabilities of $92,930,205 and $92,401,488, respectively, are related to the fiscal years 2005 and 2004 gaming distributions.

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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 financial statements of the Division of Gaming, Department of Revenue, State of Colorado (the "Division") as of and for the year ended June 30, 2005, and have issued our report thereon dated August 10, 2005. 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

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 an opinion 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 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 caused by error or fraud 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.

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 noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Members of the Legislative Audit Committee

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 10, 2005
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, 2005, and have issued our report thereon dated August 10, 2005. Professional standards require that we provide you with the following information related to our audit.

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 over financial reporting 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 advised 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, 2005.

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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 in conjunction with the June 30, 2005 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 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 consulted 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, 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

August 10, 2005
Denver, Colorado

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

Distribution Page
Years Ended June 30, 2005 and 2004

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