DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

FINANCIAL AUDIT REPORT

YEAR ENDED JUNE 30, 2002

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DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

YEAR ENDED JUNE 30, 2002

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DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

REPORT SUMMARY

YEAR ENDED JUNE 30, 2002

Authority

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 Gelfond Hochstadt Pangburn, P.C. ("GHP", 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, 2002 is to be performed by GHP.

Standards

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 Accountants 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.

Purpose and scope

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, 2002, 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.

Auditors' reports

An independent auditors' report on the financial statements of the Division, dated August 15, 2002, 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, 2002 and June 30, 2001, and its results of operations 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 15, 2002, 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*.

Required auditor communications to the Legislative Audit Committee

The Contract Auditors are required to communicate to the Legislative Audit Committee certain matters related to the conduct of the audit and to ensure that the Legislative Audit Committee receives additional information regarding the scope and results of the audit that may assist the Legislative Audit Committee in overseeing the financial reporting and disclosure process for which management is responsible. These matters have been communicated to the Legislative Audit Committee in this report and include among other items, that effective July 1, 2001, the Division adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* and related statements and interpretations. In addition, no audit adjustments were required, and there were no difficulties encountered in performing the audit.

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

DESCRIPTION OF THE DIVISION OF GAMING

YEAR ENDED JUNE 30, 2002

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 72 full-time employees and a budget of approximately $9.8 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.

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2002

Management of the Division of Gaming, Department of Revenue, State of Colorado (the "Division) has prepared this discussion and analysis of financial performance of the Division, which provides an overview of financial activities for the year ended June 30, 2002. Please read it in conjunction with the Division's financial statements, which begin on page 13.

FINANCIAL HIGHLIGHTS

- Gaming tax revenues were $95,625,913 for the fiscal year ended June 30, 2002, which is an increase of $6,811,519, or 7.7%, over revenues of $88,814,394 the prior fiscal year ended June 30, 2001.

- The Division's excess of revenues over expenditures was $90,585,384 for the fiscal year ended June 30, 2002, which is an increase of $4,647,665, or 5.4%, from the excess of revenues over expenditures in the prior fiscal year of $85,937,719. This increase allowed the Division to increase its gaming distribution by $5,512,372 (6.5%) to $89,696,218 in Fiscal Year 2002, compared to $84,183,846 in Fiscal Year 2001.

- The Division's total expenditures during the fiscal year ended June 30, 2002 were $9,256,726 as compared to $7,878,741 during the fiscal year ended June 30, 2001, an increase of $1,377,985, or 17.5%. Of the total increase, 9.5% was attributable to the Division's purchase of land and an office building in Central City for $752,118 ($730,000 contract price, plus $22,118 of additional pre-acquisition costs). Excluding the purchase of the land and building, the increase in expenditures was 8%, which was primarily due to a $365,415 increase in salaries and benefits and a $254,205 increase in expenditures for state agency services.

USING THIS REPORT

This annual report consists of a series of financial statements and notes to these financial statements. The balance sheets provide information about the assets, liabilities and fund balance of the Division, and they reflect the Division's financial position as of June 30, 2002 and June 30, 2001. The statements of revenues, expenditures, and changes in fund balance present the Division's results of operations, including financing uses (gaming distributions) for the years ended June 30, 2002 and June 30, 2001. The statement of revenues, expenditures, and changes in fund balance - budget to actual, presents initial budgeted revenues and expenditures of the Division, supplemental changes made to the budget throughout the year, and actual results for the year ended June 30, 2002. The notes to the financial statements provide disclosures necessary for a full understanding of the financial statements.

REVENUES

The largest source of revenue for the Division is from gaming taxes paid by casinos. Gaming taxes are assessed on each casino's adjusted gross proceeds ("AGP"), which is defined as the amount of money wagered minus the amount paid out in prizes. Gaming taxes are assessed utilizing a graduated tax rate scale, which ranges from .25% to 20%. Tax rates remained the same in Fiscal Year 2002 as they were in Fiscal Year 2001.

REVENUES (CONTINUED)

Gaming tax revenue recorded for the fiscal year ended June 30, 2002 was $95,625,913, compared to $88,814,394 for the fiscal year ended June 30, 2001. The increase in gaming taxes of $6,811,519, or 7.7%, is attributed to numerous factors, including the following:

- In December 2001, a new large casino opened in Black Hawk, Colorado, which drew added attention to the gaming industry in Colorado and resulted in approximately $5.6 million of new gaming tax revenue for the fiscal year ended June 30, 2002.
- AGP at other Colorado casinos increased, which resulted in increased gaming tax. This overall increase in Fiscal Year 2002 is believed to be in part due to higher local travel/tourism as a result of the September 11, 2001 tragedy.
- Colorado casinos expended approximately $8.3 million more on promotions during the fiscal year ended June 30, 2002, compared to the fiscal year ended 2001.

The following table provides additional analysis of the total net increase in the Division's revenues of $6,025,650 between the fiscal years ended June 30, 2002 and 2001:

	INCREASE (DECREASE)		
	DOLLARS	%	ANALYSIS
Gaming taxes	$ 6,811,519	7.7%	Over the past five years, adjusted gross proceeds (AGP) has increased on a year-to-year basis by an average rate of 10%.
License and application fees	(65,882)	(9.6)%	License fees decreased in Fiscal Year 2002 due to a decrease in "duplicate badge" fee rates from $25 to $5 beginning April 1, 2002. Application fees decreased in Fiscal Year 2002 due to a 16.6% reduction in the number of individual applications in Fiscal Year 2002 compared to Fiscal Year 2001.
Background investigations	80,057	43.8%	The increase in background investigation revenues was consistent with an increase in background investigation activity in Fiscal Year 2002, including international corporate background investigations.
Fines and other	324,618	220.0%	These revenues vary from year to year and are dependent upon audit and investigatory activity and findings.
Interest income	(53,401)	(2.5)%	The decrease in interest income in Fiscal Year 2002 is primarily due to a 1.12 % reduction in average interest rates during Fiscal Year 2002.
Investment income	(1,071,261)	(59.0)%	Investment income represents the Division's share of the State Treasury's change in unrealized gains based on its participation in the State Treasurer's pool.
TOTAL NET INCREASE IN REVENUES	$ 6,025,650	6.4%	

EXPENDITURES

Total expenditures by the Division were $9,256,726 for the fiscal year ended June 30, 2002, which represents a $1,377,985 increase (17.5%) over Fiscal Year 2001 expenditures of $7,878,741. The Division's employees' salaries and benefits of $4,597,073 in Fiscal Year 2002 constituted the largest expenditure. As discussed below, salaries and benefits increased by $365,415 (8.6%) over the prior year amount of $4,231,658, and is primarily due to increases in the State's total compensation plan, which includes merit increases and results of salary surveys, and an increase approved by the Colorado General Assembly for health insurance costs.

The Division's second largest expenditure of $730,000 was the contract price for the purchase of land and an office building in Central City, which is used by Division staff working in Central City and Black Hawk.

The following table provides additional analysis of the total net increase in the Division's expenditures of $1,377,985 between the years ended June 30, 2002 and 2001.

	INCREASE (DECREASE) DOLLARS	%	ANALYSIS
Salaries and benefits	$ 365,415	8.6%	The increase is primarily due to increases in the State's total compensation plan and an increase approved by the Colorado General Assembly for health insurance costs.
Materials, supplies, and services	126,371	42.1%	The increase includes an $86,100 increase for the purchase of police radios, a $14,500 increase in building maintenance, and a $14,500 increase in software expenditures.
Professional services	(47,297)	(37.6)%	This decrease is due to $21,500 in appraisal and other costs to purchase the building and $21,800 for IT staff training costs incurred in Fiscal Year 2001.
Background investigation expenditures	13,048	35.5%	Background expenditures in Fiscal Year 2002 were incurred to process an increase in background investigations during the year.
Leased space	(36,000)	(46.2)%	The decrease in leased space expenditures was the result of the purchase of a building in July 2001.
Capital outlay – contract price of land and building	730,000	100.0%	This represents the contract price of the Central City land and building, purchased in July 2001.
Capital outlay-other	(22,296)	(43.0)%	The decrease is attributed to Fiscal Year 2001 expenditures, including $26,233 for fingerprint machines and $25,700 for a Cripple Creek phone system.
Other miscellaneous expenditures	(5,461)	(1.1)%	
SUBTOTAL – INCREASE IN EXPENDITURES	1,123,780	21.2%	

EXPENDITURES CONTINUED)

State agencies	196,960	9.5%	The increase is due primarily to an increase in the Fiscal Year 2002 contracts with various agencies.
Indirect costs–Department of Revenue	57,245	11.0%	The increase is due to an increase in indirect costs allocated by the Department of Revenue to the Division.
SUBTOTAL - INCREASE IN STATE AGENCY SERVICES	254,205	9.9%	
TOTAL NET INCREASE IN EXPENDITURES	$ 1,377,985	17.5%	

ASSETS, LIABILITIES AND FUND BALANCES

The overall financial position of the Division is reflected by its fund balance at year end, which was $3,404,416 at June 30, 2002, compared to $2,515,250 at June 30, 2001. Total assets of $93,582,091 at June 30, 2002, are $6,345,267 (7.3%) higher than the prior year balance of $87,236,824. The increase in total assets is primarily due to a $5,967,178 increase in cash and temporary cash investments, which is attributable to the increase in revenues during Fiscal Year 2002.

The Division's total liabilities also increased between years, to $90,177,675 at June 30, 2002 from $84,721,574 at June 30, 2001. The $5,456,101 net increase is primarily due to the $5,512,372 increase in the Fiscal Year 2002 gaming distribution (approved by the Limited Gaming Control Commission in August 2002) over Fiscal Year 2001, and the related increases in the amounts due to state agencies.

			INCREASE (DECREASE)	
	2002	2001	DOLLARS	%
Cash and temporary cash investments	$ 83,329,130	$ 77,361,952	$ 5,967,178	7.7%
Receivables	10,217,523	9,842,010	375,513	3.8%
Prepaid expenses	35,438	32,862	2,576	7.8%
Total assets	$ 93,582,091	$ 87,236,824	$ 6,345,267	7.3%
Accounts payable	$ 46,181	$ 72,445	$ (26,264)	(36.2)%
Due to other state agencies, other governments, and the State General Fund	89,908,135	84,356,100	5,552,035	6.6%
Other	223,359	293,029	(69,670)	(23.8)%
Total Liabilities	90,177,675	84,721,574	5,456,101	6.4%
Fund balance	3,404,416	2,515,250	889,166	35.4%
TOTAL LIABILITIES AND FUND BALANCE	$ 93,582,091	$ 87,236,824	$ 6,345,267	7.3%

CONDITIONS AFFECTING FINANCIAL POSITION OR RESULTS OF OPERATIONS

Sunset Review

Unless continued by the General Assembly, the Division is scheduled to be abolished July 1, 2003. The sunset review required by law has begun and the recommendation as to whether or not the Division should continue is scheduled to be presented to the General Assembly in the fall of 2002. While the Division believes that it will be continued in statute, it is possible that statute changes could affect the Division's operations and potentially impact it financially.

800 MHz Digitally Trunked Radio Project

Conversion to an 800 MHz Digitally Trunked Radio (DTR) project is a statewide project being developed and built through partnerships between state and local governments to replace existing VHF/UHF two-way radio systems. Conversion to the DTR system has been in progress since 1993. The new network will replace the various analog systems with a single shared network that will provide digital wireless voice and data communication. The network will also be available for use by federal and local government agencies.

In September 2001, the Division received the first twenty-five 800MHz digital radios at a cost of $86,070. The Division plans to receive an additional sixteen digital radios in Fiscal Year 2003 at a cost of $60,800.

DISTRIBUTION

Subsequent to each fiscal year-end, 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 the fiscal year ended June 30, 2002 was $89,696,218. The chart below compares the amounts distributed to the various recipients for both Fiscal Years 2002 and 2001.

			INCREASE (DECREASE)	
	2002	2001	DOLLARS	%
Colorado State Historical Fund	$ 25,114,941	$ 23,571,477	$ 1,543,464	6.6%
Colorado Department of Transportation	4,762,318	5,089,000	(326,682)	(6.4)%
Colorado Travel and Tourism Promotion Fund	179,392	168,368	11,024	6.5%
Local Government Limited Gaming Impact Fund	4,933,292	4,630,111	303,181	6.5%
Total distributions to other state agencies	34,989,943	33,458,956	1,530,987	4.6%
City of Black Hawk	6,472,837	5,871,402	601,435	10.2%
City of Central City	712,727	781,731	(69,004)	(8.8%)
City of Cripple Creek	1,784,058	1,765,252	18,806	1.0%
City of Victor	224,240	210,459	13,781	6.6%
City of Woodland Park	672,722	631,379	41,343	6.6%
Gilpin County	8,622,676	7,983,760	638,916	8.0%
Teller County	2,140,870	2,118,302	22,568	1.0%
Total distributions to other governments	20,630,130	19,362,285	1,267,845	6.5%
Distribution to the General Fund	34,076,145	31,362,605	2,713,540	8.6%
Total distribution	$ 89,696,218	$ 84,183,846	$ 5,512,372	6.5%

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. The following changes to the Fiscal Year 2002 budget were approved:

- Budgeted personal services expenditures were reduced by $27,000 and reallocated to operating expenditures to fund the financial audit cost.

- Budgeted personal services expenditures were reduced by $80,000 and reallocated to operating expenditures to fund the enforcement radios which the Division was required to purchase due to a statewide effort to standardize radio communications.

BUDGET (CONTINUED)

- A supplemental $2,699 was approved in state agency services pursuant to State Patrol's request due to increased costs associated with the leased office space and related utilities in Woodland Park, Colorado.

- Based on the passage of HB02-1384, the Division requested the Commission to adjust the budget by decreasing the Risk Management appropriation by $6,292 and transferring $761 from the Leased Vehicle spending authority into the Indirect Cost appropriation in order to meet the additional funding requirements for the Enforcement Business Group.

The budget that was approved at the beginning of the year was $9,836,011. The amendments to the budget resulted in a net decrease in budgeted expenditures of $3,593. Therefore, the final approved budget for Fiscal Year 2002 was $9,832,418. Total actual expenditures in Fiscal Year 2002 were $9,256,726 resulting in excess appropriations, or a savings of $575,692 for Fiscal Year 2002.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Division considers several factors when determining estimates for the following year's budget. The Fiscal Year 2003 budget request was prepared according to statewide standards and guidelines issued by the Governor's Office of State Planning and Budgeting (OSPB) and the Joint Budget Committee (JBC). The Division's request totaled $7,409,634 (not including State Agency services of $2,225,850), which represented a 2.6% decrease from the Fiscal Year 2002 appropriation. The largest increases in the estimates of expenditures were in personal services and departmental indirect costs.

Assumptions that were made when preparing the revenue projection for Fiscal Year 2003 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 2003 revenue estimates total $109.7 million, a $9.8 million increase, or 9.9%, over Fiscal Year 2002 actual revenue.

The tragedy of September 11, 2001 did not appear to have a negative impact on the profitability of Colorado casinos. The overall increase in Fiscal Year 2002 adjusted gross proceeds is believed to be in part due to higher local travel/tourism as a result of the September 11th tragedy.

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 for 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.

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 listed in the table of contents as of June 30, 2002 and 2001, and for the years then ended. 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 *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 results of operations of the special revenue fund of only that portion of the financial reporting entity of the Department of Revenue, State of Colorado that is attributable to the transactions of the Division.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Division as of June 30, 2002 and 2001, and the results of its operations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Division adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments* and Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus,* as of July 1, 2001. This results in a change in the format and content of the basic financial statements.

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Management's Discussion and Analysis on pages 4 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 15, 2002, on our consideration of the Division's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. 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.

August 15, 2002

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO
BALANCE SHEETS - SPECIAL REVENUE FUND
JUNE 30, 2002 AND 2001

	2002	2001
ASSETS:		
Cash and temporary cash investments (Note 2)	$ 83,329,130	$ 77,361,952
Gaming taxes receivable (Note 3)	10,216,748	9,767,263
Accounts receivable from other agencies (Note 3)		71,121
Other receivables	775	3,626
Prepaid expenses	35,438	32,862
TOTAL ASSETS	$ 93,582,091	$ 87,236,824
LIABILITIES AND FUND BALANCE:		
Liabilities:		
Accounts payable	$ 46,181	$ 72,445
Due to other State agencies (Note 12)	35,201,860	33,631,210
Due to the State General Fund (Note 12)	34,076,145	31,362,605
Due to other governments (Note 12)	20,630,130	19,362,285
Other liabilities (Note 5)	223,359	293,029
Total liabilities	90,177,675	84,721,574
Fund balance-unreserved:		
Unrestricted fund balance (Note 7)	1,464,222	1,316,532
Designated fund balance (Note 2)	1,940,194	1,198,718
Total fund balance	3,404,416	2,515,250
TOTAL LIABILITIES AND FUND BALANCE	$ 93,582,091	$ 87,236,824

See accompanying notes to financial statements.

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO
ATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALAN
YEARS ENDED JUNE 30, 2002 AND 2001

	2002	2001
REVENUES:		
Gaming taxes	$ 95,625,913	$ 88,814,394
License and application fees	619,669	685,551
Background investigations	263,023	182,966
Fines and other	472,165	147,547
Interest income (Note 2)	2,119,864	2,173,265
Investment income (Note 2)	741,476	1,812,737
TOTAL REVENUES	99,842,110	93,816,460
EXPENDITURES:		
Current:		
Salaries and benefits	4,597,073	4,231,658
State agency services (Note 12)	2,829,514	2,575,309
Materials, supplies, and services	426,475	300,104
Travel and automobiles	228,962	228,978
Computer services	131,444	113,667
Professional services	78,605	125,902
Other	60,214	73,878
Telephone	53,070	62,628
Background investigation expenditures	49,769	36,721
Leased space (Note 8)	42,000	78,000
Capital outlay (Note 4)	759,600	51,896
TOTAL EXPENDITURES	9,256,726	7,878,741
EXCESS OF REVENUES OVER EXPENDITURES	90,585,384	85,937,719
OTHER FINANCING USES:		
Gaming distribution (Note 7)	(89,696,218)	(84,183,846)
NET CHANGE IN FUND BALANCE	889,166	1,753,873
FUND BALANCE, BEGINNING OF YEAR	2,515,250	761,377
FUND BALANCE, END OF YEAR	$ 3,404,416	$ 2,515,250

See accompanying 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, 2002

	COMMISSION APPROVED BUDGET	SUPPLE-MENTAL CHANGES	FINAL BUDGET *	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET OVER / (UNDER)	% EARNED % EXPENDED
REVENUES:						
Gaming taxes	$ 99,356,396		$ 99,356,396	$ 95,625,913	$ (3,730,483)	96.25%
License and application fees	729,783		729,783	619,669	(110,114)	84.91%
Background investigations	229,058		229,058	263,023	33,965	114.83%
Fines and other				472,165	472,165	100.00%
Interest income	2,173,264		2,173,264	2,119,864	(53,400)	97.54%
Investment income				741,476	741,476	100.00%
TOTAL REVENUES	102,488,501		102,488,501	99,842,110	(2,646,391)	97.42%
EXPENDITURES:						
Personal services	4,856,554	$ (107,000)	4,749,554	4,655,728	(93,826)	98.02%
Operating expenditures	621,351	107,000	728,351	635,500	(92,851)	87.25%
Workers compensation	19,950		19,950	19,950		100.00%
Risk management	11,719	(6,292)	5,427	5,427		100.00%
Licensure activities	181,497		181,497	164,643	(16,854)	90.71%
Legal services	143,825		143,825	114,205	(29,620)	79.41%
Pierce building	206,408		206,408	205,883	(525)	99.75%
Leased space	42,000		42,000	42,000		100.00%
Central City land and building - contract price	730,000		730,000	730,000		100.00%
Vehicle lease payments	172,678	(761)	171,917	151,165	(20,752)	87.93%
Department of Revenue indirect costs	352,567	761	353,328	353,328		100.00%
State agency services	2,225,850	2,699	2,228,549	2,129,128	(99,421)	95.54%
Division expenditures	9,564,399	(3,593)	9,560,806	9,206,957	(353,849)	96.30%
Background expenditures	271,612		271,612	49,769	(221,843)	18.32%
TOTAL EXPENDITURES	9,836,011	(3,593)	9,832,418	9,256,726	(575,692)	94.14%
EXCESS OF REVENUES OVER EXPENDITUR	$ 92,652,490	$ 3,593	$ 92,656,083	90,585,384	$ (2,070,699)	97.77%
OTHER FINANCING USES:						
Gaming distribution (Note 7)				(89,696,218)		
NET CHANGE IN FUND BALANCE				889,166		
FUND BALANCE, BEGINNING OF YEAR				2,515,250		
FUND BALANCE, END OF YEAR				$ 3,404,416		

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

See accompanying notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. 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. The accounts used to account 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.

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.

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 collectible 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. 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 2002 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 Commission must approve all budget modifications that can or may result from roll-forward authorizations or supplemental appropriations.

Appropriations lapse at fiscal year-end unless a roll-forward of the unexpended budget is approved by the State Controller's Office. Total appropriations for the fiscal years ended June 30, 2002 and 2001 were as follows:

	2002	2001
Appropriations	$ 9,836,011	$ 8,546,190
Supplemental appropriations	(3,593)	65,766
Total appropriations	$ 9,832,418	$ 8,611,956

C. 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 prior years 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. In addition, certain amounts reported in the Fiscal Year 2001 financial statements have been reclassified to conform to the Fiscal Year 2002 presentation. The adoption of GASB 34 and GASB 37 did not have an effect on the Division's Fiscal Year 2001 excess of revenues over expenditures or its fund balance.

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 state law. 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, 2002 and 2001, was approximately $83.3 million and $77.4 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, 2002 and 2001, the Division's share of unrealized gains was $741,476 and $1,812,737, 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.

Designated Unreserved Fund Balance of $1,940,194 at June 30, 2002, represents the cumulative unrealized net 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, 2002 and 2001, $2,119,864 and $2,173,265, respectively, was earned on the average daily cash and temporary cash investments balance. In June 2002 and 2001, the State Treasurer was paying interest at 4.60% and 5.54%, respectively, on an annualized basis.

3. ACCOUNTS RECEIVABLE

The Division had $10,216,748 and $9,767,263 of gaming taxes receivable from 42 and 43 Colorado casinos at June 30, 2002 and June 30, 2001, respectively. These receivables primarily represent June 2002 and 2001 gaming taxes, which were due on July 15, 2002 and July 16, 2001, respectively, and were substantially collected by the Department of Revenue in July 2002 and July 2001 on behalf of the Division.

Accounts receivable from other agencies of $71,121 at June 30, 2001, primarily represent amounts held by the Department of Revenue for license fees, background deposits, and other fees. There were no accounts receivable from other agencies at June 30, 2002.

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 only reported 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 only reported 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 are $50,000 for buildings and leasehold improvements, $5,000 for furniture and equipment, and land is capitalized regardless of cost. 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 computer 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:

	Computer equipment and software	Office equipment	Investigative equipment	Land	Building	Leasehold improvements	Total
Cost:							
Balances, July 1, 2000	$ 507,044	$ 53,185	$ 6,090			$ 159,979	$ 726,298
Additions	26,223	25,673				7,350	59,246
Deletions	(13,182)					(24,428)	(37,610)
Balances, June 30, 2001	520,085	78,858	6,090			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	543,963	78,858	6,090	421,000	331,118		1,381,029
Accumulated depreciation:							
Balances, June 30, 2001							
GASB 34 adjustment *	(99,317)	(21,112)	(5,278)			(7,023)	(132,730)
Additions	(66,689)	(13,730)	(609)		(7,062)		(88,090)
Deletions	8,848					7,023	15,871
Balances, June 30, 2002	(157,158)	(34,842)	(5,887)		(7,062)		(204,949)
Total fixed assets, net	$ 386,805	$ 44,016	$ 203	$ 421,000	$ 324,056		$ 1,176,080

* 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.

5. OTHER LIABILITIES

Included in the other liabilities are deposits and deferred revenue. Deposits of $97,409 and $129,859 at June 30, 2002 and 2001, respectively, primarily represent background investigation deposits, as well as approximately $21,000 and $9,000 of funds at June 30, 2002 and 2001, respectively, seized during criminal investigations. Seized funds are held by the State Treasurer until a legal determination is made as to who these funds are disbursed to. 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, 2002 and 2001, deferred license fees are $125,950 and $163,170, respectively.

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, 2002:

	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, June 30, 2002	$ 368,694	$ 75,773	$ 444,467

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 .2% is to the Colorado Tourism Promotion Fund. The State General Fund is further distributed as follows: 2% to the Municipal Limited Gaming Impact Fund, 11% to the Local Government Limited Gaming Impact Fund, and an annually determined amount to the Colorado Department of Transportation;

- 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, 2002 and 2001, the amount calculated as fund balance by the Division based on expenditures for the preceding two-month period was $1,464,222 and $1,316,532, respectively.

On August 15, 2002, the Commission approved the distribution of $89,696,218 for the fiscal year ended June 30, 2002 in accordance with C.R.S., 12-47.1-701. In August 2001, $84,183,846 was approved as the 2001 distribution. The distributions are summarized as follows:

Distribution entity	2002	2001
State General Fund Restricted	$ 34,076,145	$ 31,362,605
Municipal Limited Gaming Impact Fund	896,962	841,838
Local Government Limited Gaming Impact Fund	4,933,292	4,630,112
Colorado Department of Transportation	4,762,318	5,089,000
Subtotal - distributions to other governmental agencies	44,668,717	41,923,555

7. GAMING DISTRIBUTION (CONTINUED)

Distribution entity	2002	2001
Colorado Tourism Promotion Fund	179,392	168,368
Colorado State Historical Fund	25,114,941	23,571,477
Gilpin and Teller Counties	10,763,546	10,102,061
Cities of Cripple Creek, Central City, and Black Hawk	8,969,622	8,418,385
Subtotal - distributions to other governments	45,027,501	42,260,291
Total distribution	$ 89,696,218	$ 84,183,846

8. COMMITMENTS AND CONTINGENCIES

A. 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. 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.

B. 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 $42,000 in 2002 and 2001. Future minimum annual rentals are approximately $54,000 for each of the years ending June 30, 2003 through June 30, 2007.

C. SUNSET REVIEW

The Division is subject to a “sunset” law which provides that the Division’s existence is to terminate on July 1, 2003. Sunset laws require the General Assembly to periodically review, and update as necessary, the laws that create entities such as the Division. The Division’s existence will continue after July 1, 2003, 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, 2002, after which time the General Assembly will determine whether the Division will continue or not.

8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

D. OTHER

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 2002 and Fiscal Year 2001, the Division expended $50,000 and $45,000, respectively, under this contract.

9. PENSION PLAN

A. PLAN DESCRIPTION

Virtually all of the Division's employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA.

Changes to the plan require legislation by the General Assembly. 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.

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 one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

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

9. PENSION PLAN (CONTINUED)

B. 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 2002, the state contributed 9.9% (12.6% for state troopers and 13.5% for the Judicial Branch) of the employee's gross covered wages. Before January 1, 2002, 1.42% was allocated to the Health Care Trust Fund, and after January 1, 2002, 1.64% 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.

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, 2002, 2001, and 2000, are the Division's contributions to PERA of $383,131, $363,765, and $392,191, respectively. These contributions met the contribution requirement for each year.

10. VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

Beginning on January 1, 2001, the Matchmaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. The match was 100 percent of up to 3% of the employee's gross covered wages paid during the month (7% 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 fifty percent of any reduction in the overall contribution rate due to overfunding of the pension plan was available for the match.

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.

11. POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

A. HEALTH CARE PROGRAM

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund. 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, 2002, the premium subsidy was $115 for those with 20 years of service credit, reduced by 5% for each year under 20.

11. POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (CONTINUED)

A. HEALTH CARE PROGRAM (CONTINUED)

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

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, 2001, there were 34,235 participants, including spouses and dependents, from all contributors to the plan.

B. 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.

12. 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. The Division paid approximately $206,000 in each of the fiscal years ended June 30, 2002 and 2001.

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 in Fiscal Year 2002 and Fiscal Year 2001, consist of the following:

State agency services:	2002	2001
Colorado State Patrol	$ 1,229,069	$ 1,066,536
Colorado Bureau of Investigation	693,824	661,717
Colorado Division of Fire Safety	134,331	141,915

12. RELATED PARTY TRANSACTIONS (CONTINUED)

Legal Services (Department of Law)	114,205	108,484
Indirect costs (Department of Revenue)	559,211	501,966
Office of the State Auditor	26,970	25,782
Department of Local Affairs	71,904	68,909
Total payments to state agencies	$ 2,829,514	$ 2,575,309

As of June 30, 2002 and 2001, the Division had liabilities to other state agencies, the State's General Fund, and other governments as follows:

State agencies:	2002	2001
Colorado Historical Society	$ 25,114,941	$ 23,571,477
Colorado Department of Transportation	4,762,318	5,089,000
Colorado Department of Local Affairs	4,933,292	4,630,111
Office of Economic Development	179,392	168,368
Colorado State Patrol	137,851	93,734
Colorado Bureau of Investigation	60,892	55,944
Colorado Division of Fire Safety	13,174	22,576
Total liabilities to state agencies	35,201,860	33,631,210
State's General Fund:	34,076,145	31,362,605
Other governments:		
City of Black Hawk	6,472,838	5,871,403
City of Central City	712,726	781,731
City of Cripple Creek	1,784,058	1,765,251
City of Victor	224,240	210,460
City of Woodland Park	672,722	631,379
Gilpin County	8,622,677	7,983,760
Teller County	2,140,869	2,118,301
Total liabilities to other governments	20,630,130	19,362,285
Total liabilities to state agencies, State General Fund, and other governments	$ 89,908,135	$ 84,356,100

12. RELATED PARTY TRANSACTIONS (CONTINUED)

Total related party liabilities of $89,908,135 and $84,356,100 at June 30, 2002 and 2001, respectively, include amounts due to the Colorado State Patrol, Bureau of Investigation, and Division of Fire Safety, which total $211,917 and $172,254, respectively, and represent liabilities related to agreements with these agencies. The remaining liabilities of $89,696,218 and $84,183,846, respectively, are related to the Fiscal Year 2002 and Fiscal Year 2001 gaming distributions.

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:

We have audited the financial statements of the Division of Gaming, Department of Revenue, State of Colorado (the "Division") as of June 30, 2002 and 2001, and for the years then ended, and have issued our report thereon dated August 15, 2002. 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, and contracts, 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 audits 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 audits, we considered the 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 not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

August 15, 2002

August 15, 2002

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 June 30, 2002 and June 30, 2001, and for the years then ended, and have issued our report thereon dated August 15, 2002. 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

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 of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts 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.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, 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. As described in Note 1 to the financial statements, the Division adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and local Governments: Omnibus,* as of July 1, 2001. This results in a change in the format and content of the basic financial statements.

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.

Management Judgments and 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 connection with the June 30, 2002 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 come 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.

Independence

In our professional judgment, we are independent of the Division and its related entities within the meaning of the AICPA's Professional Code of Conduct. In addition, we are not aware of any relationships between Gelfond Hochstadt Pangburn, P.C. and its related entities and the Colorado Division of Gaming and its related entities that in our professional judgment may reasonably be thought to bear on independence.

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 and its distribution is not limited.

Sincerely,

GELFOND HOCHSTADT PANGBURN, P.C.

Donald D. Pangburn, CPA
Director

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO
DISTRIBUTION PAGE
YEARS ENDED JUNE 30, 2002 AND 2001

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