DIVISION OF GAMING,
DEPARTMENT OF REVENUE,
STATE OF COLORADO

Financial Statements
and
Independent Auditors' Report
June 30, 2004 and 2003

EKS&H

Ehrhardt
Keefe
Steiner &
Hottman PC

Certified Public Accountants
and Consultants

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DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

Table of Contents

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

REPORT SUMMARY
YEAR ENDED JUNE 30, 2004

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, 2004 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, 2004, 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 3, 2004, 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, 2004 and 2003, 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 3, 2004, 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, 2004

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 62 full-time employees and a budget of approximately $9.9 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.

EKS&H
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Keefe
Steiner &
Hottman PC

Certified Public Accountants
and Consultants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Division of Gaming, Department of Revenue, State of Colorado (the "Division") as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our 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, 2004 and 2003, 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, 2004 and 2003, and the changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Management's discussion and analysis and budgetary comparison information on Pages 6 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 3, 2004, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Ehrhardt Keefe Steiner & Hottman PC

Ehrhardt Keefe Steiner & Hottman PC

August 3, 2004
Denver, Colorado

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

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, 2004. Please read it in conjunction with the Division's financial statements, which begin on page 15.

1. FINANCIAL HIGHLIGHTS

- Gaming Tax revenues were $98,564,379 for the fiscal year ended June 30, 2004, which is an increase of $1,107,931 or 1.1%, over revenues of $97,456,448 for the prior fiscal year ended June 30, 2003.
- The Gaming distribution increased to $92,401,488 compared to last fiscal year's distribution of $90,982,115. This distribution amount represents an increase of $1,419,373 over last fiscal year, or 1.6%.

2. USING THIS REPORT

This financial report consists of financial statements for the fiscal years ended June 30, 2004 and 2003. The Balance Sheets provide comparative information on the Division's assets, liabilities, and fund balance for the current and previous fiscal years. The Statements of Revenues, Expenditures, and Changes in Fund Balance provide 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, 2002 and 2003 respectively, and the ending fund balances as of June 30, 2003 and 2004 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.

3. REVENUES

The excess of revenues over expenditures of the Division for fiscal year 2004 was $90,016,954. This represents a decrease of $1,804,387 or 2% compared to fiscal year 2003 excess of revenues over expenditures of $91,821,341. The net increase (decrease) in fair value of investments of ($2,244,189) and $795,675 represents the change in fair value of the Division's investments during the fiscal years ended June 30, 2004 and June 30, 2003, respectively. The largest source of revenue for the Division of Gaming is from gaming taxes paid by casinos.

The gaming tax revenues earned for the fiscal years ending June 30, 2004 and June 30, 2003 were $98,564,379 and $97,456,448, respectively. The taxes are paid on a graduated scale ranging from 0.25% to 20%. The tax rates remained constant for fiscal years 2004 and 2003.

3. REVENUES (continued)

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

	Increase (Decrease) Amount	Percent Change	Explanation
Gaming taxes	$ 1,107,931	1.1%	Gaming tax revenues have historically increased over the prior fiscal year.
License and application fees	10,432	1.9%	License fees increased in fiscal year 2004 due to an increase in the number of business license applications.
Background investigations	(51,224)	(25.7)%	There was a decrease in the background investigation activity during fiscal year 2004.
Fines and other	127,912	1,418.6%	The fines revenues vary from year to year and are dependent upon audit and investigative findings. In fiscal year 2004, the Division conducted a special investigation for another agency.
Interest income	(471,230)	(26.4)%	Interest rates declined on average 1.37% during fiscal year 2004.
Net increase (decrease) in fair value of investments	(3,039,864)	(382.0)%	Decrease in the fair market value of the Division's investments during fiscal year 2004.
Total revenues	$ (2,316,043)	(2.3)%	This number includes the change in fair value of investments. Revenues excluding the change in fair value of investments increased 0.72%

4. EXPENDITURES

Total expenditures for the Division were $8,469,063. This is a decrease of $511,656 or a 5.7% reduction over fiscal year 2003 expenditures of $8,980,719. The main reason for the decrease is the reduction in salaries and benefits in fiscal year 2004.

4. EXPENDITURES (continued)

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

	Increase (Decrease) Amount	Percent Change	Explanation
Expenditures			
Salaries and benefits	$ (333,595)	(7.0)%	The Division had numerous vacancies in fiscal year 2004. More long-term employees retired in fiscal year 2003 than in fiscal year 2004.
State agency services	(2,014)	(0.1)%	
Materials, supplies, and services	(75,977)	(23.1)%	In fiscal year 2003, the Division purchased police radios for $42,573 and spent $14,995 on personal computers.
Travel and automobiles	(27,012)	(12.3)%	In fiscal year 2004, the Division made a concerted effort to reduce travel costs. The Division's leased vehicle costs declined due to an aging fleet.
Computer services	4,649	5.2%	In fiscal year 2004, the cost of running the CBI name check increased by $1.35 each.
Professional services	(67,138)	(51.6)%	In fiscal year 2003, the Division paid $34,665 in labor costs for new stairs and bathroom for the Central City office. In fiscal year 2004, the Division paid $10,000 less for CPA tax analysis and $7,000 less for the compulsive gaming hotline.
Other	(1,507)	(2.4)%	In fiscal year 2003, the Division designed educational brochures explaining slot machines and paid $1,929 for the printing costs.
Telephone	(9,381)	(24.5)%	In fiscal year 2004, local charges decreased $6,410 and long distance decreased $2,056.
Background investigation expenditures	(6,905)	(23.2)%	In fiscal year 2004, travel expenditures associated with background investigations decreased.
Leased space	7,224	15.3%	In February 2003, an addition to the Cripple Creek leased space was completed, the rent increased by $1,032 per month.
Total expenditures	$ (511,656)	(5.7)%	

5. ASSETS, LIABILITIES AND FUND BALANCE

The overall financial position of the Division is reflected by its fund balance at year-end, which was $1,859,108 at June 30, 2004 compared to $4,243,642 at June 30, 2003. Total assets of $94,972,514 at June 30, 2004, are $1,062,576 or 1.1% lower than the prior year balance of $96,035,090. The decrease in total assets is primarily due to the decrease in fair value of investments of $2,244,189.

The Division's total liabilities increased between years, to $93,113,406 at June 30, 2004 from $91,791,448 at June 30, 2003. The $1,321,958 net increase is primarily due to the $1,419,373 increase in the fiscal year 2004 gaming distribution over fiscal year 2003.

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

	Fiscal Year 2004	Fiscal Year 2003	Increase (Decrease) Dollars	Increase (Decrease) Percent
Cash and temporary cash investments	$ 84,343,262	$ 86,294,385	$ (1,951,123)	(2.3)%
Accounts receivable	10,597,499	9,711,209	886,290	9.1 %
Prepaid expenses	31,753	29,496	2,257	7.7 %
Total assets	$ 94,972,514	$ 96,035,090	$ (1,062,576)	(1.1)%
Accounts payable and accrued payroll	$ 372,304	$ 377,240	$ (4,936)	(1.3)%
Due to other State agencies, the State General Fund and other governments	92,527,770	91,186,623	1,341,147	1.5 %
Other liabilities	213,332	227,585	(14,253)	(6.3)%
Total liabilities	93,113,406	91,791,448	1,321,958	1.4 %
Fund balance	1,859,108	4,243,642	(2,384,534)	(56.2)%
Total liabilities and fund balance	$ 94,972,514	$ 96,035,090	$ (1,062,576)	(1.1)%

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

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

	Fiscal Year 2004	Fiscal Year 2003	Increase (Decrease) Dollars	Increase (Decrease) Percent
Revenues				
Gaming taxes	$ 98,564,379	$ 97,456,448	$ 1,107,931	1.1 %
License and application fees	569,394	558,962	10,432	1.9 %
Other revenue	(647,756)	2,786,650	(3,434,406)	(123.2)%
Total revenues	98,486,017	100,802,060	(2,316,043)	(2.3)%
Expenditures				
Operating expenditures	5,171,048	5,673,785	(502,737)	(8.9)%
Background expenditures	22,889	29,794	(6,905)	(23.2)%
State agency services	3,275,126	3,277,140	(2,014)	(0.1)%
Total expenditures	8,469,063	8,980,719	(511,656)	(5.7)%
Excess of revenues over expenditures	90,016,954	91,821,341	(1,804,387)	(2.0)%
Fund balance, beginning of year	4,243,642	3,404,416	839,226	24.7 %
Less: Gaming Fund distribution	92,401,488	90,982,115	1,419,373	1.6 %
Fund balance, end of year	$ 1,859,108	$ 4,243,642	$ (2,384,534)	(56.2)%

7. CONDITIONS AFFECTING FINANCIAL POSITION OR RESULTS OF OPERATIONS

Staffing and Organizational Changes

In September 2003, Mark Wilson was appointed as the Division Director. Mark came to the Division from the Colorado Bureau of Investigation, where he was the agent in charge of the Gaming and Organized Crime Unit. He also headed the Criminal Investigations, Criminal Intelligence and Missing Persons/Missing Children units.

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

Staffing and Organizational Changes (continued)

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.

The new 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 are able to be developed through a thoughtful process in a timelier manner.

Effective May 1, 2004 the Division's Accounting Section reports directly to the Department of Revenue, Director of Accounting and Financial Services (AFS). Open communications between Division management and the new AFS staff will be maintained. The controller level position will continue to be considered senior management and included in management and planning meetings of the Division. The staff is intended to support the accounting and managerial needs of the Division.

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. The cases associated with the Grand Jury investigation are expected to be concluded by June 2005.

8. DISTRIBUTION

At the end of each fiscal year, the Division distributes the balance remaining in the Limited Gaming Fund after reserving an amount equal to operating expenditures for the preceding two-month period. The distribution for fiscal year ended June 30, 2004 was $92,401,488.

The chart below compares the amounts distributed to the various recipients for both fiscal years 2003 and 2004.

Colorado Division of Gaming
Funds Distribution Comparison

	June 30, 2004	June 30, 2003	Difference	Percent Difference
Colorado Historical Society	$ 25,872,416	$ 25,474,992	$ 397,424	1.6 %
Department of Transportation	-	1,010,000	(1,010,000)	(100.0)%
Colorado Travel and Tourism Promotion Fund	-	181,964	(181,964)	(100.0)%
Local Government Limited Gaming Impact Fund	6,006,097	5,913,838	92,259	1.6 %
Total payments to other state agencies	31,878,513	32,580,794	(702,281)	(2.2)%
City of Black Hawk	6,710,104	6,599,843	110,261	1.7 %
City of Central City	644,870	662,896	(18,026)	(2.7)%
City of Cripple Creek	1,885,175	1,835,473	49,702	2.7 %
Gilpin County	8,825,969	8,715,286	110,683	1.3 %
Teller County	2,262,210	2,202,568	59,642	2.7 %
Total payment due to other governments	20,328,328	20,016,066	312,262	1.6 %
Due to the General Fund	40,194,647	38,385,255	1,809,392	4.7 %
Total distribution	$ 92,401,488	$ 90,982,115	$ 1,419,373	1.6 %

9. BUDGET

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

Changes approved:

In April 2004, the Colorado Limited Gaming Commission approved a decrease in spending authority as follows:

- Based on the passage of HB 04-1334, which amended appropriations for the Department of Revenue, payments due to the Division of Fleet Management were reduced by $12,210 due to the number of state vehicles leased being reduced by two (2) and no vehicle replacements in fiscal year 2004.
- Payments due to the Division of Risk Management were increased by $2,918. This expense is for the Division's pro rata share of FY 2005 Departmental costs for public liability and property damage insurance. The amount charged to the Division is based on the number of full time employees.
- Increased indirect cost spending authority by $11,673 for the on-going cost of the multi-use network project, increased communications costs, increased maintenance costs for the Pierce building and an increase in the enforcement line of business.
- Decreased operating budget by $11,673 to fund the increase in indirect costs noted above.

In May 2004, a supplemental was approved to authorize a transfer of funds from the operating expenditure line to the leased vehicle line in the amount of $2,748. The Division had received new cost allocation reports from the Division of Fleet Management.

The budget approved at the beginning of the year was $9,873,667. The amendments to the budget resulted in a net decrease of $9,292. Therefore, the final approved budget for fiscal year 2004 was $9,864,375. Total actual expenditures were $8,469,063 resulting in excess appropriations, or a savings of $1,395,312 for fiscal year 2004.

10. ECONOMY AND NEXT YEAR'S BUDGET

The Division considers several factors when determining estimates for the following year's budget. The fiscal year 2005 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 2005. The Division's request totaled $7,194,523, which represents a 3.9% decrease from the fiscal year 2004 appropriation. The largest decreases are in the estimates of expenses in base personal services and departmental indirect costs. The Colorado Limited Gaming Commission approved a budget request submitted by the Department of Public Safety for $2,319,914 and a budget request submitted by Local Affairs for $102,437. These funds are used for gaming related purposes.

Assumptions that were made when preparing the revenue projection for fiscal year 2005 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 2005 revenue estimates total $104.2 million, a $5.7 million increase over fiscal year 2004 actual revenue.

The poor economy and low interest rates had a direct impact on the Division earning $471,230 less in interest revenue compared to last fiscal year.

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 13 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.

11. CONTACTING THE DIVISION OF GAMING'S FINANCIAL MANAGEMENT

This financial report is designed to provide Colorado citizens, Colorado government officials, the casino industry, and other interested parties with a general overview of the Division's finances. It is also designed to show the Division's accountability of the funds it receives from the gaming industry. If you have questions about this report or need additional financial information, contact the Division of Gaming's accounting section at: Colorado Division of Gaming, 1881 Pierce Street, Suite 112, Lakewood, CO 80214-1496.

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

Balance Sheets - Special Revenue Fund

	June 30, 2004	June 30, 2003
Assets		
Cash and temporary cash investments	$ 84,343,262	$ 86,294,385
Gaming taxes receivable	10,595,000	9,708,007
Other receivables	2,499	3,202
Prepaid expenses	31,753	29,496
Total assets	$ 94,972,514	$ 96,035,090
Liabilities and Fund Balance		
Liabilities		
Accounts payable	$ 19,342	$ 27,087
Accrued payroll	352,962	350,153
Due to other State agencies	32,004,795	32,785,302
Due to State General Fund	40,194,647	38,385,255
Due to other governments	20,328,328	20,016,066
Other liabilities	213,332	227,585
Total liabilities	93,113,406	91,791,448
Fund balance		
Reserved for statutory purposes	1,367,428	1,507,773
Unreserved		
Designated unrealized investment gains	491,680	2,735,869
Total fund balance	1,859,108	4,243,642
Total liabilities and fund balance	$ 94,972,514	$ 96,035,090

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,	
	2004	2003
Revenues		
Gaming taxes	$ 98,564,379	$ 97,456,448
License and application fees	569,394	558,962
Background investigations	148,043	199,267
Fines and other	136,929	9,017
Interest income	1,311,461	1,782,691
Net (decrease) increase in fair value of investments	(2,244,189)	795,675
Total revenues	98,486,017	100,802,060
Expenditures		
Current		
Salaries and benefits	4,422,568	4,756,163
State agency services	3,275,126	3,277,140
Materials, supplies and services	253,069	329,046
Travel and automobiles	193,131	220,143
Computer services	94,358	89,709
Professional services	62,871	130,009
Other	61,716	63,223
Telephone	28,951	38,332
Background investigation expenditures	22,889	29,794
Leased space	54,384	47,160
Total expenditures	8,469,063	8,980,719
Excess of revenues over expenditures	90,016,954	91,821,341
Other financing uses		
Gaming distribution	(92,401,488)	(90,982,115)
Net change in fund balance	(2,384,534)	839,226
Fund balance, beginning of year	4,243,642	3,404,416
Fund balance, end of year	$ 1,859,108	$ 4,243,642

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, 2004

	Commission Approved Budget	Supplemental Changes	Final Budget*	Actual Amounts	Variance with Final Budget Over (Under)	Percent Earned Percent Expended
Revenues						
Gaming taxes	$ 101,175,588	$ -	$ 101,175,588	$ 98,564,379	$ (2,611,209)	97.42 %
License and application fees	636,140	-	636,140	569,394	(66,746)	89.51 %
Background investigations	243,009	-	243,009	148,043	(94,966)	60.92 %
Fines and other	-	-	-	136,929	136,929	100.00 %
Interest income	2,119,864	-	2,119,864	1,311,461	(808,403)	61.87 %
Investment (loss)/gain	-	-	-	(2,244,189)	(2,244,189)	100.00 %
Total revenues	104,174,601	-	104,174,601	98,486,017	(5,688,584)	94.54 %
Expenditures						
Personal services	5,047,541	-	5,047,541	4,489,787	(557,754)	88.95 %
Operating expenditures	667,667	(14,421)	653,246	429,352	(223,894)	65.73 %
Workers' compensation	24,407	-	24,407	24,407	-	100.00 %
Risk management	12,039	2,918	14,957	14,957	-	100.00 %
Licensure activities	181,497	-	181,497	94,358	(87,139)	51.99 %
Legal services	165,349	-	165,349	101,900	(63,449)	61.63 %
Pierce building	195,608	-	195,608	195,608	-	100.00 %
Leased space	54,384	-	54,384	54,384	-	100.00 %
Vehicle lease payments	104,772	(9,462)	95,310	92,558	(2,752)	97.11 %
Department of Revenue indirect costs	778,808	11,673	790,481	790,481	-	100.00 %
State agency services	2,377,631	-	2,377,631	2,158,382	(219,249)	90.78 %
Total division expenditures	9,609,703	(9,292)	9,600,411	8,446,174	(1,154,237)	87.98 %
Background expenditures	263,964	-	263,964	22,889	(241,075)	8.67 %
Total expenditures	9,873,667	(9,292)	9,864,375	8,469,063	(1,395,312)	85.86 %
Excess of revenues over expenditures	$ 94,300,934	$ 9,292	$ 94,310,226	90,016,954	$ (4,293,272)	95.45 %
Other financing uses						
Gaming distribution				(92,401,488)		
Net change in fund balance				(2,384,534)		
Fund balance, beginning of year				4,243,642		
Fund balance, end of year				$ 1,859,108		

* 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 accounting policies of the Division conform to accounting principles generally accepted in the United States of America, as applicable to 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 are reported 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 2004 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:

	June 30,	
	2004	2003
Appropriations	$ 9,873,667	$ 9,748,483
Supplemental appropriations	(9,292)	(17,382)
Total appropriations	$ 9,864,375	$ 9,731,101

Accrued Payroll

Prior to fiscal year 2003, salaries and wages earned through the end of the fiscal year were paid to employees on June 30. Because of Senate Bill 03-197, monthly salaries still are to be paid as of the last working day of the month except the salaries for the month of June. These are to be paid on the first working day of July. This created an accrual for fiscal years 2004 and 2003 of $352,315 and $349,997, 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 Colorado Revised Statutes (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, 2004 and 2003, was approximately $84.3 million and $86.3 million, respectively.

Note 2 - Cash and Temporary Cash Investments (continued)

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, 2004 and 2003, the Division's share of unrealized (losses)/gains was $(2,244,189) and $795,675, 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 net increase (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 current fiscal year.

The Governor signed Senate Bill 03-184 on March 5, 2003, authorizing the State Treasurer to charge a fee per cash management transaction at a rate of eighty-six cents per transaction. For fiscal years 2004 and 2003, the amount of the fee charged was $1,741 and $1,740, respectively. The fee will continue to be charged to the Division on an annual basis.

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

Unreserved Designated Fund Balance of $491,680 and $2,735,869 at June 30, 2004 and 2003, respectively, 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, 2004 and 2003, $1,311,461 and $1,782,691, respectively, were earned on the average daily cash and temporary cash investments balances. During fiscal years 2004 and 2003, the State Treasurer paid interest at 3.03% and 4.40%, respectively, based on average annualized monthly interest rates.

Note 3 - Accounts Receivable

As of June 30, 2004 and 2003, the Division had an accounts receivable balance of $10,597,499 and $9,711,209, respectively. The Division had $10,595,000 and $9,708,007 of gaming taxes receivable from 45 and 43 Colorado casinos at June 30, 2004 and 2003, respectively. These receivables primarily represent June 2004 and 2003 gaming taxes, which were due on July 15, 2004 and July 15, 2003, respectively, and were subsequently collected by the Department of Revenue in July 2004 and 2003 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.

All fixed assets are stated at historical cost, or estimated historical cost if actual historical cost is not available. Donated fixed assets are stated at their estimated fair value on the date donated. The capitalization criteria for fixed assets is $50,000 for buildings and leasehold improvements, $5,000 for furniture and equipment, and all land is capitalized regardless of cost. No stand-alone software 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 and 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, July 1, 2002	$ 628,911	$ 421,000	$ 331,118	$ 1,381,029
Additions	-	-	-	-
Deletions	(5,730)	-	-	(5,730)
Balances, July 1, 2003	623,181	421,000	331,118	1,375,299
Additions	-	-	-	-
Deletions	(14,600)	-	-	(14,600)
Balances, June 30, 2004	608,581	421,000	331,118	1,360,699
Accumulated depreciation				
Balances, June 30, 2002	(197,887)	-	(7,062)	(204,949)
Additions	(80,927)	-	(7,704)	(88,631)
Deletions	5,730	-	-	5,730
Balances, July 1, 2003	(273,084)	-	(14,766)	(287,850)
Additions	(76,149)	-	(7,704)	(83,853)
Deletions	14,600	-	-	14,600
Balances, June 30, 2004	(334,633)	-	(22,470)	(357,103)
Total fixed assets, net	$ 273,948	$ 421,000	$ 308,648	$ 1,003,596

Note 5 - Other Liabilities

Included in other liabilities are deposits and deferred revenue. Deposits of $85,467 and $68,771 at June 30, 2004 and 2003, respectively, primarily represent background investigation deposits, as well as $11,165 and $10,494 of funds at June 30, 2004 and 2003, respectively, seized during criminal investigations or from gaming patrons, and are pending court order releases or adjudication. 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, 2004 and 2003, deferred license fees are $116,700 and $148,320, respectively.

Note 6 - Accrued Compensated Absences

Pursuant to the provisions of GASB 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, 2004:

	Annual Leave	Sick Leave	Total
Balances, July 1, 2002	$ 368,694	$ 75,773	$ 444,467
Increases	246,694	19,758	266,452
Decreases	(290,757)	(33,371)	(324,128)
Balances, July 1, 2003	324,631	62,160	386,791
Increases	225,902	35,491	261,393
Decreases	(231,447)	(41,691)	(273,138)
Balances, June 30, 2004	$ 319,086	$ 55,960	$ 375,046

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. Under Senate Bill 03-274, a 0.2% distribution from the General Fund Share to the Colorado Travel and Tourism Promotion Fund created pursuant to Section 24-49.7-106 C.R.S., was suspended for fiscal year 2004. The State General Fund is further distributed as follows: 13% to the Local Governmental Limited Gaming Impact Fund, and an amount determined by the General Assembly to the Colorado Department of Transportation, which was $0 and $1,010,000 in fiscal years 2004 and 2003, respectively;

- 28% to the Colorado State Historical Fund;

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

- 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, 2004 and 2003, the amount calculated as reserved fund balance by the Division based on expenditures for the preceding two-month period was $1,367,428 and $1,507,773, respectively.

Note 7 - Gaming Distribution (continued)

On August 19, 2004, the Commission approved the distribution of $92,401,488 for the fiscal year ended June 30, 2004 in accordance with Section 12-47.1-701 C.R.S. In August 2003, $90,982,115 was approved as the 2003 distribution. The distributions are summarized as follows:

	June 30,	
	2004	2003
State General Fund Restricted	$ 40,194,647	$ 38,385,255
Distributions to other State agencies		
Colorado State Historical Fund	25,872,416	25,474,992
Local Government Limited Gaming Impact Fund	6,006,097	5,913,838
Colorado Department of Transportation	-	1,010,000
Colorado Travel and Tourism Promotion Fund	-	181,964
Total distributions to other governmental agencies	31,878,513	32,580,794
Distributions to other governments		
Gilpin and Teller Counties	11,088,179	10,917,854
Cities of Cripple Creek, Central City and Black Hawk	9,240,149	9,098,212
Total distributions to other governments	20,328,328	20,016,066
Total distributions	$ 92,401,488	$ 90,982,115

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 now ends in June 2007. Cripple Creek lease expenditures were approximately $54,000 and $47,000 in 2004 and 2003. Future minimum annual rentals are approximately $54,000 for each of the years ending June 30, 2005 through 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 the Division will continue or not.

Licensing System

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

Note 9 - Pension Plan

Plan Description

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

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

Note 9 - Pension Plan (continued)

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 gross covered wages to an individual account in the Plan. During fiscal year 2004, the state contributed 10.15% (12.85% for state troopers and 12.66% for the Judicial Branch) of the employee's gross covered wages. As of January 1, 2003, 1.10% of the total contribution was allocated to the Health Care Trust Fund. Through May 31, 2004, 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.

The Division's contributions to the three programs described above for the fiscal years ended June 30, 2004, 2003 and 2002, were $373,702, $400,709 and $383,131, respectively. These contributions met the contribution requirement for each year.

Note 10 - Voluntary Tax-Deferred Retirement Plans

Beginning on January 1, 2001, the Matchmaker Program established a State match for PERA members' voluntary contributions to tax-deferred retirement plans. For calendar years 2001 and 2002, the match was 100% of up to 3% of the employee's gross covered wages paid during the month (7% for judges in the Judicial Branch). For calendar year 2003, the match was 100% up to 2% of employees' gross covered wages paid during the month (6% for judges in the Judicial Branch). For calendar year 2004 through May 31, 2004, the match was 100% of up to 1% of the employee's gross covered wages paid during the month (5% for judges in the Judicial Branch). The PERA Board sets the level of the match with 2% of gross salary plus 50% of any reduction in the overall contribution rate due to overfunding of the pension plan available for the match. While the Plan was not overfunded in the current year, the maximum one-year change in the match rate is statutorily limited to 1%, and therefore, the match changed from 2% to 1% on January 1, 2004. Legislation passed in the 2004 session of the General Assembly terminated the match for pay periods ending after May 31, 2004. The match will resume when the actuarial value of the defined benefit plan assets are 110% of actuarially accrued plan liabilities.

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.

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 2004, the premium subsidy was $115 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, 2003, there were 37,067 enrollees in the Program.

Note 11 - Post Retirement Health Care and Life Insurance Benefits (continued)

Life Insurance Program

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

Note 12 - Risk Management

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

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

Note 13 - Related Party Transactions

On May 23, 1996, Senate Bill 96-216 was signed, authorizing the Department of Personnel to execute a ten-year lease purchase agreement on behalf of the Department of Revenue for the acquisition of a building located at 1881 Pierce Street, Lakewood, Colorado. The lease purchase occurred on October 31, 1996. The Division estimates that its share of the purchase price, including both principal and interest will be approximately $2,100,000. The Division transfers funds annually to the Department of Revenue for its share of the building purchase. The future obligations to be paid to the Department of Revenue for the Division's portion for the purchase of the building are estimated to be approximately $196,000 per year through 2007. The Division paid approximately $196,000 and $206,000 in fiscal years 2004 and 2003, respectively. Total paid through 2004 is approximately $1,468,000.

Note 13 - Related Party Transactions (continued)

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

	For the Year Ended June 30, 2004	For the Year Ended June 30, 2003
State agency services		
Colorado State Patrol	$ 1,311,388	$ 1,323,210
Colorado Bureau of Investigation	616,350	725,657
Colorado Division of Fire Safety	135,192	142,277
Legal Services (Department of Law)	101,900	112,924
Indirect costs (Department of Revenue)	986,089	862,068
Office of the State Auditor	28,755	21,238
Department of Local Affairs	95,452	89,766
Total payments to state agencies	$ 3,275,126	$ 3,277,140

As of June 30, 2004 and 2003, the Division had liabilities to other state agencies, the State's General Fund and other governments as follows:

	June 30, 2004	June 30, 2003
State agencies		
Colorado Historical Society	$ 25,872,416	$ 25,474,992
Colorado Department of Transportation	-	1,010,000
Colorado Department of Local Affairs	6,006,097	5,913,838
Office of Economic Development	-	181,964
Colorado State Patrol	103,665	116,383
Colorado Bureau of Investigation	-	65,784
Colorado Division of Fire Safety	22,567	21,561
Colorado Department of Revenue	50	780
Total liabilities to state agencies	32,004,795	32,785,302
State's General Fund	40,194,647	38,385,255
Other governments		
City of Black Hawk	6,710,104	6,599,843
City of Central City	644,870	662,896
City of Cripple Creek	1,885,175	1,835,473
Gilpin County	8,825,969	8,715,286
Teller County	2,262,210	2,202,568
Total liabilities to other governments	20,328,328	20,016,066
Total liabilities to state agencies, State General Fund and other governments	$ 92,527,770	$ 91,186,623

Note 13 - Related Party Transactions (continued)

Total related party liabilities of $92,527,770 and $91,186,623 at June 30, 2004 and 2003, respectively, include amounts due to the Colorado State Patrol, Bureau of Investigation, Division of Fire Safety and Department of Revenue which total $126,282 and $204,508, respectively, and represent liabilities related to agreements with these agencies. The remaining liabilities of $92,401,488 and $90,982,115, respectively, are related to the fiscal years 2004 and 2003 gaming distributions.

EKS&H Ehrhardt Keefe Steiner & Hottman PC

Certified Public Accountants
and Consultants

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

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

We have audited the financial statements of the Division of Gaming, Department of Revenue, State of Colorado (the "Division") as of and for the year ended June 30, 2004, and have issued our report thereon dated August 3, 2004. 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.*

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

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 3, 2004
Denver, Colorado

EKS&H Ehrhardt Keefe Steiner & Hottman PC

Certified Public Accountants and Consultants

REQUIRED AUDITOR COMMUNICATIONS TO THE LEGISLATIVE AUDIT COMMITTEE

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

We have audited the financial statements of the Division of Gaming, Department of Revenue, State of Colorado (the "Division") for the year ended June 30, 2004, and have issued our report thereon dated August 3, 2004. Professional standards require that we provide you with the following information related to our audits.

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our contract, we 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, 2004.

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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 with the June 30, 2004 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 consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

ISSUES DISCUSSED PRIOR TO RETENTION OF INDEPENDENT AUDITORS

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

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

This information is intended solely for the information and use of the Legislative Audit Committee, 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 3, 2004
Denver, Colorado

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

Distribution Page
Years Ended June 30, 2004 and 2003

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