DIVISION OF GAMING,
DEPARTMENT OF REVENUE, STATE OF COLORADO

Financial Statements
and
Independent Auditors' Report
June 30, 2008 and 2007

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

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7979 E. Tufts Avenue, Suite 400
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P: 303-740-9400 F: 303-740-9009

November 24, 2008

Members of the Legislative Audit Committee:

We have completed the financial and compliance audits of the Division of Gaming, Department of Revenue, State of Colorado as of and for the years ended June 30, 2008 and 2007. Our audits were conducted in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States of America.

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

Sincerely,

Ehrhardt Keefe Steiner + Hottman PC

Ehrhardt Keefe Steiner & Hottman PC

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

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DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

REPORT SUMMARY
YEAR ENDED JUNE 30, 2008

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, 2008, 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, 2008, 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 November 24, 2008, 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, 2008 and 2007, 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 November 24, 2008, 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.

DESCRIPTION OF THE COLORADO DIVISION OF GAMING
JUNE 30, 2008

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 $11.2 million. The Commission is made up of a five-member board appointed by the Governor and approved by the Colorado Senate. Gaming revenues deposited in the Limited Gaming Fund are used to pay operating expenses for the Division and the Commission during the year. After setting aside a reserve for two months' operating expenses at the end of each fiscal year, the remaining fund balance in the Limited Gaming Fund is distributed to state and local governments according to the provisions in the Colorado Constitution and the Act.

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INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the Division of Gaming, a special revenue fund of the Department of Revenue, State of Colorado (the "Division") as of and for the years ended June 30, 2008 and 2007, 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, 2008 and 2007, and the changes in its financial position and budgetary comparisons for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the special revenue fund of the Division as of June 30, 2008 and 2007, and the changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards,* we have also issued our report dated November 24, 2008, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and budgetary comparison information on Pages 5 through 22 and 41 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.

Ehrhardt Keefe Steiner + Hottman PC

Ehrhardt Keefe Steiner & Hottman PC

November 24, 2008
Denver, Colorado

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

This discussion and analysis of the financial performance of the Division of Gaming, Department of Revenue, State of Colorado (the "Division") provides an overview of financial activities for the year ended June 30, 2008. Please read it in conjunction with the Division's financial statements, which begin on Page 23.

FINANCIAL HIGHLIGHTS

- Gaming Tax revenues were $108,185,631 for the fiscal year ended June 30, 2008, which is a decrease of $3,819,922 or (3.4)%, compared to revenues of $112,005,553 for the prior fiscal year ending June 30, 2007.
- The decline in the Division's net income decreased the Gaming Distribution to $100,591,698 compared to last fiscal year's distribution of $106,356,714. This distribution amount represents a decrease of $5,765,016 over last fiscal year, or (5.4)%.

USING THIS REPORT

This financial report consists of financial statements for the fiscal years ended June 30, 2008 and 2007. The tax comparison (as summarized in the Division's internal financial statements) shows the tax rates and compares current and previous fiscal years' adjusted gross proceeds (similar to net income of the casinos) and taxes paid, broken down by tax bracket. It also lists how many casinos were in which tax bracket at the end of the fiscal year. The Balance Sheets provide comparative information on the Division's assets, liabilities, and fund balance as of the end of the current and previous fiscal years. The Statement of Revenues, Expenditures, and Changes in Fund Balance is the Division's income statement. The Statements of Revenues, Expenditures, and Changes in Fund Balance 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, 2006 and July 1, 2007, respectively, and the ending fund balances as of June 30, 2007 and 2008, respectively. The Statement of Revenues, Expenditures, and Changes in Fund Balance Budget to Actual reflects the initial budget amounts, the cumulative changes made throughout the course of the year, the revised budget amounts, and the actual amounts received or expended. Finally, the notes to the financial statements contain a summary of significant accounting policies and more specific information about items in the financial statements.

REVENUES

The excess of revenues over expenditures of the Division for fiscal year 2008 was $101,756,436. This represents a decrease of $5,264,988 or (4.9)% compared to fiscal year 2007 excess of revenues over expenditures of $107,021,424.

The net increase in fair value of investments of $982,009 and net increase of $646,281 represent the change in fair value of the Division's investments during the fiscal years ended June 30, 2008 and June 30, 2007, respectively.

REVENUES (continued)

The largest source of revenue for the Division is from gaming taxes paid by casinos. The gaming tax revenues earned for the fiscal years ending June 30, 2008 and 2007 were $108,185,631 and $112,005,553, respectively. The taxes are paid on a graduated scale ranging from 0.25% to 20% of adjusted gross proceeds. The tax rates remained constant for fiscal years 2008 and 2007. The adjusted gross proceeds of casinos decreased (3.2)% in fiscal year 2008. The tax decrease was (3.4)%. Taxes decreased at a higher rate than adjusted gross proceeds as there were two less casinos operating at the end of fiscal year 2008 compared to fiscal year 2007.

Below is a chart of the changes in revenues from fiscal year 2007 to fiscal year 2008:

	Increase (Decrease) Amount	Percent Change	Explanation
Gaming taxes	$ (3,819,922)	(3.41)%	Gaming taxes decreased due to a sluggish economy, high gas prices, and the legislative act which banned smoking that took effect January 1, 2008.
License and application fees	(27,638)	(5.02)%	Business license fees were down approximately $25,000 in 2008. In addition, the Division received 384 less individual license applications compared to fiscal year 2007, thereby reducing individual license fees in fiscal year 2008.
Background investigations	40,917	12.35%	There were increases in background investigation activity during fiscal year 2008.
Fines and other	(227,725)	(81.23)%	The fines revenues vary from year to year and are dependent upon audit and investigative findings.
Interest income	(260,869)	(11.75)%	Interest rates decreased (0.43)% on average during fiscal year 2008.
Change in fair value of investments	335,728	51.95%	This represents the net change in the fair market value of the Division's investments during fiscal year 2008 versus fiscal year 2007.
Total revenues	$ (3,959,509)	(3.41)%	This number includes the change in fair value of investments. Revenues excluding the change in fair value of investments decreased by (3.72)%.

For fiscal year 2007, the excess of revenues over expenditures was $107,021,424. This represents an increase of $7,705,283 or 7.8% compared to fiscal year 2006 excess of revenues over expenditures of $99,316,141.

REVENUES (continued)

The net increase in fair value of investments of $646,281 and net decrease of ($980,529) represent the change in fair value of the Division's investments during the fiscal years ended June 30, 2007 and June 30, 2006, respectively.

The gaming tax revenues earned for the fiscal years ending June 30, 2007 and 2006 were $112,005,553 and $106,142,555, respectively. The taxes are paid on a graduated scale ranging from 0.25% to 20% of adjusted gross proceeds. The tax rates remained constant for fiscal years 2007 and 2006. The adjusted gross proceeds of casinos increased 4.4% in fiscal year 2007. The tax increase was 5.5%. Taxes increased at a higher rate than adjusted gross proceeds as there were two casinos that moved into a higher tax rate during fiscal year 2007.

Below is a chart of the changes in revenues from fiscal year 2006 to fiscal year 2007:

	Increase (Decrease) Amount	Percent Change	Explanation
Gaming taxes	$ 5,862,998	5.52%	Gaming tax revenues have historically increased over the prior fiscal year.
License and application fees	(11,425)	(2.03)%	Individual license fees decreased in fiscal year 2007 due to the second year of the two-year individual licensing cycle, whereby more revenue is recognized in the first year in order to more closely match revenues with expenditures.
Background investigations	97,975	41.99%	There were increases in background investigation activity and rates during fiscal year 2007.
Fines and other	(9,799)	(3.38)%	The fines revenues vary from year to year and are dependent upon audit and investigative findings.
Interest income	450,261	25.43%	Interest rates increased 0.80% on average during fiscal year 2007.
Change in fair value of investments	1,626,810	165.91%	This represents the net change in the fair market value of the Division's investments during fiscal year 2007 versus fiscal year 2006.
Total revenues	$ 8,016,820	7.42%	This number includes the change in fair value of investments. Revenues excluding the change in fair value of investments increased 5.86%.

EXPENDITURES

Total expenditures for the Division in fiscal year 2008 were $10,318,449. This is an increase of $1,305,479 or a 14.5% increase over fiscal year 2007 expenditures of $9,012,970. The information below shows the changes in expenditures from fiscal year 2007 to fiscal year 2008 with explanations provided for large variances:

	Increase (Decrease) Amount	Percent Change	Explanation
Expenditures			
Salaries and benefits	$ 701,005	14.88 %	The average increase to health, dental, and life contributions by the State was 13.23%, which accounts for the majority of the increase. Additional PERA funding was also required in Fiscal Year 2008.
State agency services	512,252	15.30 %	In fiscal year 2008, Colorado State Patrol increased its costs billed to the Division by $591,760.
Materials, supplies and services	55,021	22.62 %	In fiscal year 2008, a new Cripple Creek office was built and furnished, the Central City office had repair work done to its outside stairs and handicap-ramp, and training registrations increased.
Travel and automobiles	21,164	11.90 %	In fiscal year 2008, the Division's travel expenditures increased due to higher airfare costs created by rising fuel prices.
Computer services	(5,513)	(4.92)%	In fiscal year 2008, there were 366 less non-background individual licenses applications; therefore, the cost of computer database name checks run for each applicant decreased.
Professional services	(1,791)	(2.65)%	In fiscal year 2007, the Division expended funds to identify a location for the new Cripple Creek office. In fiscal year 2008, no such expenditure incurred.
Other	(20,323)	(30.56)%	In fiscal year 2008, paperless regulation manuals were provided for the industry with less print cost incurred, and postage between Division offices was reduced.
Telephone	6,032	11.06 %	In fiscal year 2008, multi-use network services funding requirements increased by $4,319.
Background investigation	(5,056)	(7.30)%	In fiscal year 2008, there were less foreign travel expenditures than in 2007. A worldwide investigation was completed at the end of fiscal year 2007.
Leased space	3,250	2.25 %	In fiscal year 2008, the Division’s share of Capitol Complex leased space maintenance was $19,718 less, and Cripple Creek’s leased space was an additional $22,968.
Capital outlay	39,438	208.89 %	In fiscal year 2008, Central City’s roof repairs were $58,318. In fiscal year 2007 there were $1,020 in roof repairs and $17,860 for three new badge systems.
Total expenditures	$ 1,305,479	14.48 %	

EXPENDITURES (continued)

Total expenditures for the Division in fiscal year 2007 were $9,012,970. This is an increase of $311,537 or a 3.57% increase over fiscal year 2006 expenditures of $8,701,433. The information below shows the changes in expenditures from fiscal year 2006 to fiscal year 2007 with explanations provided for large variances:

	Increase (Decrease) Amount	Percent Change	Explanation
Expenditures			
Salaries and benefits	$ 156,125	3.43 %	Salaries increased slightly in fiscal year 2007.
State agency services	82,255	2.52 %	In fiscal year 2007, there was an increase in all state agency costs billed to the Division.
Materials, supplies and services	(97,494)	(28.61)%	In fiscal year 2007, Central City building, maintenance costs decreased significantly. PC equipment and software purchases also decreased in fiscal year 2007.
Travel and automobiles	14,755	9.05 %	In fiscal year 2007, the Division's leased vehicle costs increased due to two new fleet vehicles received.
Computer services	20,468	22.37 %	In fiscal year 2007, Communication services of $21,417 were included in this line item. In fiscal year 2006, Communication services were part of indirect costs paid by the Division.
Professional services	(31,726)	(31.97)%	In fiscal year 2007, there was a decrease in architectural services needed for the preservation of the historic Central City building.
Other	15,969	31.60 %	In fiscal year 2007, risk management increased by $10,205.
Telephone	16,843	44.69 %	In fiscal year 2007, multi-use network services of $18,421 were included in this line item. In fiscal year 2006, these services were part of indirect costs paid by the Division.
Background investigation	25,200	57.23 %	There was more background investigations conducted in fiscal year 2007.
Leased Space	90,262	165.97 %	In fiscal year 2007, the Division paid its share of capitol complex leased space maintenance, as well as Pierce building management costs.
Capital outlay	18,880	100.00 %	In fiscal year 2007, the Division paid $17,860 for new badge camera systems for licensing. There were no capital purchases in 2006.
Total expenditures	$ 311,537	3.58 %	

ASSETS, LIABILITIES, AND FUND BALANCE

The year end fund balance reflects the overall financial position of the Division, which was $2,119,297 at June 30, 2008 compared to $954,559 at June 30, 2007. Total assets of $103,767,394 at June 30, 2008, are $4,494,614 or (4.15)% lower than the prior year balance of $108,262,008. The decrease in total assets is primarily due to the decreases in cash and temporary cash investments and Gaming taxes receivable.

The Division's total liabilities were $101,648,097 at June 30, 2008 which is a decrease from $107,307,449 at June 30, 2007. The $5,659,352 net decrease is primarily due to the $5,765,016 decrease in the fiscal year 2008 gaming distribution.

The following compares fiscal year 2008 and fiscal year 2007 assets, liabilities, and fund balances:

	Fiscal Year 2008	Fiscal Year 2007	Increase (Decrease) Dollars	Increase (Decrease) Percent
Cash and temporary cash investments	$ 93,204,205	$ 95,932,328	$ (2,728,123)	(2.84)%
Gaming taxes receivable	10,528,255	12,296,429	(1,768,174)	(14.38)%
Prepaid expenses	34,934	33,251	1,683	5.06 %
Total assets	$ 103,767,394	$ 108,262,008	$ (4,494,614)	(4.15)%
Accounts payable, wages and accrued payroll payable	$ 498,404	$ 455,544	$ 42,860	9.41 %
Due to other state agencies, other governments, and the State General Fund	100,853,958	106,524,958	(5,671,000)	(5.32)%
Other liabilities	295,735	326,947	(31,212)	(9.55)%
Total liabilities	101,648,097	107,307,449	(5,659,352)	(5.27)%
Fund balance	2,119,297	954,559	1,164,738	122.02 %
Total liabilities and fund balance	$ 103,767,394	$ 108,262,008	$ (4,494,614)	(4.15)%

In fiscal year 2007, the year end fund balance reflects the overall financial position of the Division, which was $954,559 at June 30, 2007 compared to $289,849 at June 30, 2006. Total assets of $108,262,008 at June 30, 2007, are $6,866,341 or 6.77% higher than the prior year balance of $101,395,667. The increase in total assets is primarily due to the increase in cash and temporary cash investments.

In fiscal year 2007, the Division’s total liabilities increased between years, to $107,307,449 at June 30, 2007 from $101,105,818 at June 30, 2006. The $6,201,631 net increase is primarily due to the $6,209,248 increase in the fiscal year 2007 gaming distribution.

ASSETS, LIABILITIES, AND FUND BALANCE (continued)

The following chart compares fiscal year 2007 and fiscal year 2006 assets, liabilities, and fund balances:

	Fiscal Year 2007	Fiscal Year 2006	Increase (Decrease) Dollars	Increase (Decrease) Percent
Cash and temporary cash investments	$ 95,932,328	$ 90,229,565	$ 5,702,763	6.32 %
Gaming taxes receivable	12,296,429	11,133,763	1,162,666	10.44 %
Prepaid expenses	33,251	32,339	912	2.82 %
Total assets	$ 108,262,008	$ 101,395,667	$ 6,866,341	6.77 %
Accounts payable, wages and accrued payroll payable	$ 455,544	$ 432,527	$ 23,017	5.32 %
Due to other state agencies, other governments, and the State General Fund	106,524,958	100,378,339	6,146,619	6.12 %
Other liabilities	326,947	294,952	31,995	10.85 %
Total liabilities	107,307,449	101,105,818	6,201,631	6.13 %
Fund balance	954,559	289,849	664,710	229.33 %
Total liabilities and fund balance	$ 108,262,008	$ 101,395,667	$ 6,866,341	6.77 %

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

The following compares fiscal year 2008 and fiscal year 2007 revenues, expenditures, and changes in fund balance:

	Fiscal Year 2008	Fiscal Year 2007	Increase (Decrease) Dollars	Increase (Decrease) Percent
Revenues				
Gaming taxes	$ 108,185,631	$ 112,005,553	$ (3,819,922)	(3.41)%
License and application fees	522,571	550,209	(27,638)	(5.02)%
Other revenue	3,366,683	3,478,632	(111,949)	(3.22)%
Total revenues	112,074,885	116,034,394	(3,959,509)	(3.41)%
Expenditures				
Operating expenditures	6,393,007	5,594,724	798,283	14.27 %
Background investigation	64,177	69,233	(5,056)	(7.30)%
State agency services	3,861,265	3,349,013	512,252	15.30 %
Total expenditures	10,318,449	9,012,970	1,305,479	14.48 %
Excess of revenues over expenditures	101,756,436	107,021,424	(5,264,988)	(4.92)%
Fund balance, beginning of year	954,559	289,849	664,710	229.33 %
Less Gaming Fund distribution	100,591,698	106,356,714	(5,765,016)	(5.42)%
Fund balance, end of year	$ 2,119,297	$ 954,559	$ 1,164,738	122.02 %

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (continued)

The following chart compares fiscal year 2007 and fiscal year 2006 revenues, expenditures, and changes in fund balance:

	Fiscal Year 2007	Fiscal Year 2006	Increase (Decrease) Dollars	Increase (Decrease) Percent
Revenues				
Gaming taxes	$ 112,005,553	$ 106,142,555	$ 5,862,998	5.52 %
License and application fees	550,209	561,634	(11,425)	(2.03)%
Other revenue	3,478,632	1,313,385	2,165,247	164.86 %
Total revenues	116,034,394	108,017,574	8,016,820	7.42 %
Expenditures				
Operating expenditures	5,594,724	5,390,642	204,082	3.79 %
Background investigation	69,233	44,033	25,200	57.23 %
State agency services	3,349,013	3,266,758	82,255	2.52 %
Total expenditures	9,012,970	8,701,433	311,537	3.58 %
Excess of revenues over expenditures	107,021,424	99,316,141	7,705,283	7.76 %
Fund balance, beginning of year	289,849	1,121,174	(831,325)	(74.15)%
Less Gaming Fund distribution	106,356,714	100,147,466	6,209,248	6.20 %
Fund balance, end of year	$ 954,559	$ 289,849	$ 664,710	229.33 %

CONDITIONS AFFECTING FINANCIAL POSITION OR RESULTS OF OPERATIONS

Weak Economy

Recessionary concerns and rising gasoline prices during the first half of calendar year 2008 have adversely affected revenues generated by casinos nationwide, including Colorado. Recessionary concerns have forced casino patrons to re-evaluate their discretionary spending. At the same time, rising gas prices have greatly increased the cost of traveling to the casinos located in the mountain towns west of densely populated metro areas.

Smoking Ban

Coupled with the weak economy, casinos have felt the economic impact of a statutory change that went into effect January 1, 2008, banning smoking in Colorado casinos. The Colorado Clean Indoor Act passed in 2006 originally exempted casinos from a statewide smoking ban in public places. Casinos anticipated that revenues would be adversely impacted when the ban went into effect because of the number of patrons that had previously smoked in casinos. The corresponding weak economy, however, has made it difficult to adequately quantify how much of the casino revenue decline in the first half of calendar 2008 is attributable to the smoking ban.

Staffing Changes

At the beginning of this fiscal year, the Audit Section was fully staffed for the first time in over three years; however, this was short lived. This section struggled with recruitment and retention difficulties throughout the fiscal year. The Audit Section's Chief Auditor position changed with the vacating and re-staffing of the position which took place in May 2008 and July 2008 respectively. Additionally, audit positions located in field offices in the mountains west of Denver and Colorado Springs saw staff retention and recruitment hampered by the rising gas prices. The cost of commuting to the audit positions located in the field offices is a growing disincentive to potential applicants.

The Technology Section continues to evolve after undergoing several process improvement endeavors in the prior fiscal year. The section has made important strides in this fiscal year related to the adoption of new gaming technologies such as external bonusing and wireless ticket redemption functionalities and continues to proactively assess the regulatory impact of new technologies.

Early in fiscal year 2008, the Limited Gaming Control Commission authorized the addition of four new positions (FTE or full-time equivalent), two in the field operations area, and two in the background investigations group, to offset increased workload. The Technology Section and Investigation Section became fully staffed by the middle of fiscal year 2008. Near the end of fiscal year 2008, the Commission approved an additional investigator FTE for the Central City office to replace the one that was transferred to the background unit in November 2006. The Commission also approved two additional FTE in the Audit Section. These positions should be filled early in fiscal year 2009. This is a total of seven new positions approved by the Commission in fiscal year 2008.

CONDITIONS AFFECTING FINANCIAL POSITION OR RESULTS OF OPERATIONS (continued)

Field Offices

In September 2007, the Division moved into a new office facility in Cripple Creek. This new facility, located at 350 West Carr Avenue, will provide for future expansion needs and a more efficient work environment for staff. The Division entered into a 10-year lease contract with the developer with an option to purchase the building. The Division received approval to purchase this facility from the Capital Construction Development Committee and the Legislature approved the funding for the purchase using proceeds from the Limited Gaming Fund. The Division expects to close on the purchase of the building during fiscal year 2009.

DISTRIBUTION

At the end of each fiscal year, the Division distributes the balance remaining in the Limited Gaming Fund after reserving an amount equal to expenditures for the preceding two-month period. The distribution for fiscal year ended June 30, 2008 was $100,591,698.

The chart below compares the amounts distributed to the various recipients for fiscal years 2008 and 2007:

Funds Distribution Comparison

	For the Years Ended			Percent
	June 30, 2008	June 30, 2007	Difference	Difference
Colorado State Historical Fund	$ 28,165,675	$ 29,779,880	$ (1,614,205)	(5.42)%
Colorado Department of Transportation	14,292,757	5,259,411	9,033,346	171.76 %
Colorado Travel and Tourism Promotion Fund	20,107,662	19,676,799	430,863	2.19 %
Local Government Limited Gaming Impact Fund	6,538,460	6,913,186	(374,726)	(5.42)%
Colorado Council on the Arts Cash Fund	1,587,447	1,553,431	34,016	2.19 %
Film Incentives Cash Fund	634,979	621,373	13,606	2.19 %
New Jobs Incentives Cash Fund	3,174,894	3,106,863	68,031	2.19 %
Bioscience Discovery Evaluation Grant Program	-	2,500,000	(2,500,000)	(100.00)%
Clean Energy Fund	3,959,650	7,000,000	(3,040,350)	(43.43)%
Total payments to other state agencies	78,461,524	76,410,943	2,050,581	2.68 %
City of Black Hawk	7,172,188	7,530,055	(357,867)	(4.75)%
City of Central City	972,722	1,067,821	(95,099)	(8.91)%
City of Cripple Creek	1,914,260	2,037,795	(123,535)	(6.06)%
Gilpin County	9,773,892	10,317,452	(543,560)	(5.27)%
Teller County	2,297,112	2,445,354	(148,242)	(6.06)%
Total payment due to other governments	22,130,174	23,398,477	(1,268,303)	(5.42)%
Due to the General Fund	-	6,547,294	(6,547,294)	(100.00)%
Total distribution	$ 100,591,698	$ 106,356,714	$ (5,765,016)	(5.42)%

DISTRIBUTION (continued)

The distribution for fiscal year ended June 30, 2007 was $106,356,714.

The chart below compares the amounts distributed to the various recipients for fiscal years 2007 and 2006:

Funds Distribution Comparison

	For the Years Ended			Percent
	June 30, 2007	June 30, 2006	Difference	Difference
Colorado State Historical Fund	$ 29,779,880	$ 28,041,290	$ 1,738,590	6.20 %
Colorado Department of Transportation	5,259,411	-	5,259,411	100.0 %
Colorado Travel and Tourism Promotion Fund	19,676,799	19,000,000	676,799	3.56 %
Local Government Limited Gaming Impact Fund	6,913,186	6,509,585	403,601	6.20 %
Colorado Council on the Arts Cash Fund	1,553,431	1,500,000	53,431	3.56 %
Film Incentives Cash Fund	621,373	500,000	121,373	24.27 %
New Jobs Incentives Cash Fund	3,106,863	3,000,000	106,863	3.56 %
Bioscience Discovery Evaluation Grant Program	2,500,000	2,000,000	500,000	25.00 %
Clean Energy Fund	7,000,000	-	7,000,000	100.00 %
Total payments to other state agencies	76,410,943	60,550,875	15,860,068	26.19 %
City of Black Hawk	7,530,055	7,110,170	419,885	5.91 %
City of Central City	1,067,821	903,931	163,890	18.13 %
City of Cripple Creek	2,037,795	2,000,646	37,149	1.86 %
Gilpin County	10,317,452	9,616,921	700,531	7.28 %
Teller County	2,445,354	2,400,775	44,579	1.86 %
Total payment due to other governments	23,398,477	22,032,443	1,366,034	6.20 %
Due to the General Fund	6,547,294	17,564,148	(11,016,854)	(62.72)%
Total distribution	$ 106,356,714	$ 100,147,466	$ 6,209,248	6.20 %

DISTRIBUTION (continued)

In accordance with Section 12-47.1-701, C.R.S. and amended by House Bill 06-1201, House Bill 06-1360, House Bill 07-246, House Bill 07-1060, House Bill 07-1206, and House Bill 08-1001, 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 13% is to be distributed to the Local Government Limited Gaming Impact Fund. In addition, of the 50%, $14,292,757 is to be distributed to the Colorado Department of Transportation, $20,107,662 ($19,676,799 + 2.19% change in CPI) is to be distributed to the Colorado Travel and Tourism Promotion Fund, $1,587,447 ($1,553,431 + 2.19% change in CPI) is to be distributed to the Colorado Council on the Arts Cash Fund, $634,979 ($621,373 + 2.19% change in CPI) is to be distributed to the Film Incentives Cash Fund, $3,174,894 ($3,106,863 + 2.19% change in CPI) is to be distributed to the New Jobs Incentives Cash Fund, and $3,959,650 is to be distributed to the Clean Energy Fund;

- 28% to the Colorado State Historical Fund;

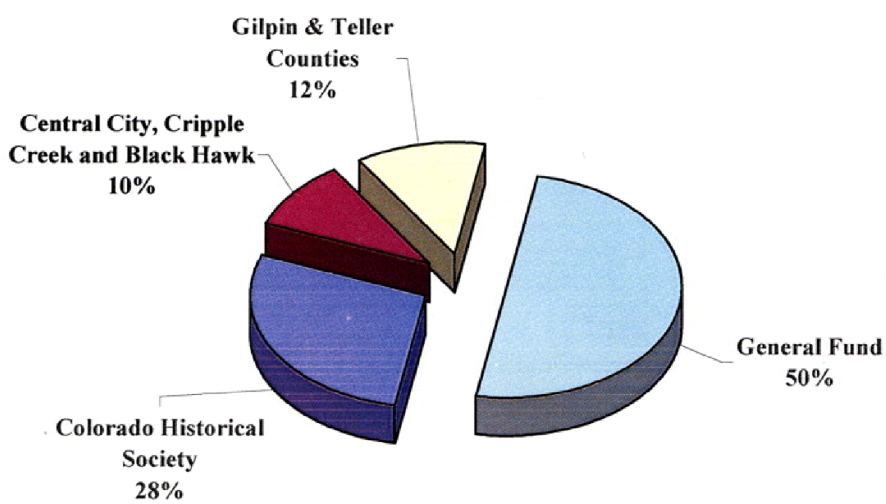
- 12% to Gilpin and Teller Counties, in proportion to the gaming revenues generated in these respective counties; and

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

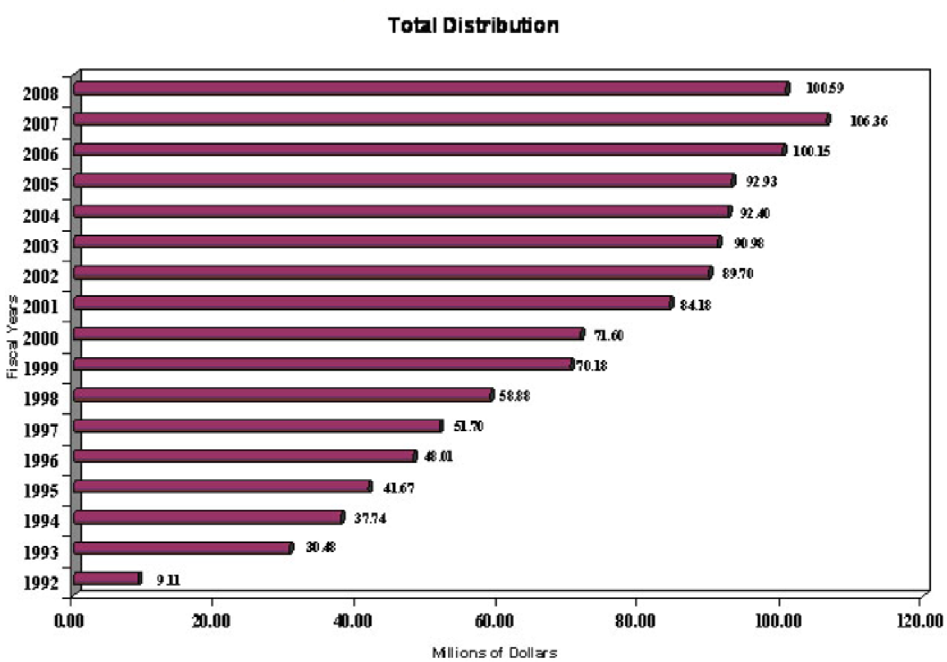
DISTRIBUTION (continued)

The charts below reflect the distribution formula and the Colorado Limited Gaming Fund distribution from the inception of Colorado gaming in 1991 through 2008:

Colorado Limited Gaming Distribution Formula



Total Distribution



BUDGET

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

On March 19, 2008, Governor Ritter signed House Bill 08-1299 concerning the supplemental request for the Department of Revenue. Following are the adjustments in this bill and other changes approved by the Colorado Limited Gaming Commission that impacted the Division's budget and changed the spending authority throughout fiscal year 2008.

Changes approved in July 2007

- Personal services appropriation was increased by $295,147, operating by $2,000 and capital outlay by $18,000. This was due to the approval of four new FTE.

Changes approved in October 2007

- Indirect costs were increased by $11,019 for the Division's share of Enforcement Administration costs.

Changes approved in January 2008

- Indirect costs were increased by $8,825, the variable vehicle appropriation was decreased by ($40,000), and capital outlay was decreased by ($16,251).

Changes approved in February 2008

- Decreased personal services by ($25,000) and increased operating by the same amount.

Changes approved in April 2008

- The payment due to the Department of Personnel and Administration for workman's compensation decreased by ($9,795). All State agencies are assessed their share of the State's workman's compensation costs based on historical claim information by department.
- Payments due to the Division of Risk Management decreased by ($2,320). This expense is for the Division's pro rata share of Departmental costs for public liability and property damage insurance. The amount charged to the Division is based on FTE.
- The leased vehicle fixed costs appropriation was reduced by ($2,860).
- The capitol complex leased space appropriation increased by $676.
- The Division's share of the Multi-Use-Network (MNT) charges from the Department of Personnel and Administration (DPA) increased by $1,966. Statewide communication services also increased by $2,163.

BUDGET (continued)

Changes approved in April 2008 (continued)

- Indirect costs were reduced by ($2,742).

Changes approved in May 2008

- Decreased the legal services appropriation by ($50,000).

Changes approved in June 2008

- The leased vehicle fixed costs appropriation was increased by $1,100.

The budget approved at the beginning of the year was $10,961,249. The amendments and rollforwards to the budget resulted in a net increase of $249,431. Therefore, the final approved budget for fiscal year 2008 was $11,210,680. Total actual expenditures were $10,318,449 resulting in excess appropriations, or a savings of $892,233 for fiscal year 2008.

ECONOMY AND NEXT YEAR'S BUDGET

The Division considers several factors when determining estimates for the following year's budget. The fiscal year 2009 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 2009. The Division's request totaled $8,233,163, which represents a 4.29% increase from the fiscal year 2008 appropriation. The largest increase is in the estimate of expenses in personal services due to the increase in full-time positions in the Division, as discussed previously. The Colorado Limited Gaming Control Commission approved a budget request submitted by the Department of Public Safety for $3,123,135 and a budget request submitted by the Department of Local Affairs for $147,678. These funds are used for gaming related purposes.

Assumptions that were made when preparing the revenue projection for fiscal year 2009 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 2009 revenue estimates total $114.1 million, a $3 million increase over fiscal year 2008 actual revenue. Subsequent to the aforementioned assumptions and estimates the tax structure for fiscal year 2009 was revised from the fiscal year 2008 structure.

During the almost 17 years of gaming in Colorado, we have seen the market change. Initially there were many small casinos; now there are fewer casino properties, many of which are owned by large publicly traded companies. Gaming in Colorado continues to do well. The Division continually positions itself to respond effectively to new technology, regulations, and growth of the industry.

CONTACTING THE DIVISION OF GAMING'S FINANCIAL MANAGEMENT

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

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

Balance Sheets

	June 30, 2008	June 30, 2007
Assets		
Cash and temporary cash investments	$ 93,204,205	$ 95,932,328
Gaming taxes receivable	10,526,668	12,290,265
Other receivables	1,587	6,164
Prepaid expenses	34,934	33,251
Total assets	$ 103,767,394	$ 108,262,008
Liabilities and Fund Balance		
Liabilities		
Accounts payable	$ 44,617	$ 39,922
Accrued payroll	453,787	415,622
Due to State General Fund	-	6,547,294
Due to other state agencies	78,723,784	76,579,187
Due to other governments	22,130,174	23,398,477
Other liabilities	295,735	326,947
Total liabilities	101,648,097	107,307,449
Commitments and contingencies		
Fund balance		
Reserved for statutory purposes	1,683,522	1,500,793
Unreserved		
Designated	435,775	(546,234)
Total fund balance	2,119,297	954,559
Total liabilities and fund balance	$ 103,767,394	$ 108,262,008

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, 2008	2007
Revenues		
Gaming taxes	$ 108,185,631	$ 112,005,553
License and application fees	522,571	550,209
Background investigations	372,198	331,281
Fines and other	52,622	280,347
Interest income	1,959,854	2,220,723
Net increase in fair value of investments	982,009	646,281
Total revenues	112,074,885	116,034,394
Expenditures		
Current		
Salaries and benefits	5,410,664	4,709,659
State agency services	3,861,265	3,349,013
Materials, supplies, and services	298,246	243,225
Travel and automobiles	198,977	177,813
Computer services	106,446	111,959
Professional services	65,713	67,504
Other	46,186	66,509
Telephone	60,561	54,529
Background investigation	64,177	69,233
Leased space	147,896	144,646
Capital outlay	58,318	18,880
Total expenditures	10,318,449	9,012,970
Excess of revenues over expenditures	101,756,436	107,021,424
Other financing uses		
Gaming distribution	(100,591,698)	(106,356,714)
Net change in fund balance	1,164,738	664,710
Fund balance, beginning of year	954,559	289,849
Fund balance, end of year	$ 2,119,297	$ 954,559

See notes to financial statements.

Note 1 - Summary of Significant Accounting Policies

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

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

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

Fund Structure and Basis of Accounting

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

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 2008 revenue estimates were provided by the Division, based on the tax rate structure established by the Commission.

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

Total appropriations for the fiscal years are as follows:

	Year Ended June 30,	
	2008	2007
Appropriations	$ 10,961,249	$ 10,210,503
Supplemental appropriations	249,431	36,934
Total appropriations	$ 11,210,680	$ 10,247,437

Accrued Payroll

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

Note 2 - Cash and Temporary Cash Investments

The State Treasury acts as a bank for all state agencies. Monies deposited in the Treasury are invested until the cash is needed. The Division deposits cash with the Colorado State Treasurer as required by C.R.S. Interest earnings on these investments are credited to the General Fund unless a specific statute directs otherwise. Cash held by the State Treasurer for the Division as of June 30, 2008 and 2007, was approximately $93.0 and $96.0 million, respectively.

Note 2 - Cash and Temporary Cash Investments (continued)

The State Treasurer pools these deposits and invests them in securities approved by C.R.S. 24-75-601.1. The Division reports its share of the State Treasury's unrealized gains and losses based on its participation in the State Treasurer's pool. During the years ended June 30, 2008 and 2007, the Division's share of unrealized gains was $982,009 and $646,281 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 included in "Investment Income" in the Statements of Revenues, Expenditures, and Changes in Fund Balance, reflect only the change in fair value during the fiscal year.

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

Designated Unreserved Fund Balance of $435,775 and the Unreserved Fund Balance of $(546,234) at June 30, 2008 and 2007, respectively, represent the cumulative unrealized net gain/(loss) 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, 2008 and 2007, $1,959,854 and $2,220,723, respectively, was earned on the average daily cash and temporary cash investments balances. During fiscal years 2008 and 2007, the State Treasurer paid interest at 4.27% and 4.70%, respectively, based on average annualized monthly interest rates.

Note 3 - Accounts Receivable

As of June 30, 2008 and 2007, the Division had accounts receivable balances of $10,528,255 and $12,296,429, respectively. The Division had $10,526,668 and $12,290,265 of gaming taxes receivable from 42 and 44 Colorado casinos at June 30, 2008 and 2007, respectively. These receivables primarily represent June 2008 and 2007 gaming taxes, which were due on July 15, 2008, and July 16, 2007, respectively, and were subsequently collected by the Department of Revenue in July 2008 and 2007 on behalf of the Division. Based on past collection history with similar accounts, no allowance for doubtful accounts is deemed necessary by management.

Note 4 - Changes in Capital Assets and Accumulated Depreciation

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

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

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

	Capital Assets Not Being Depreciated			Capital Assets Being Depreciated			
	Land	Construction in Progress	Subtotal	Vehicles and Equipment	Building	Subtotal	Total
Cost							
Balances, June 30, 2006	$ 421,000	$ -	$ 421,000	$ 563,903	$ 331,118	$ 895,021	$ 1,316,021
Additions	-	1,020	1,020	17,860	-	17,860	18,880
Disposals	-	-	-	-	-	-	-
Balances, June 30, 2007	421,000	1,020	422,020	581,763	331,118	912,881	1,334,901
Additions	-	58,318	58,318	-	-	-	58,318
Disposals	-	-	-	(29,600)	-	(29,600)	(29,600)
Balances, June 30, 2008	421,000	59,338	480,338	552,163	331,118	883,281	1,363,619
Accumulated depreciation							
Balances, June 30, 2006	-	-	-	(385,395)	(37,878)	(423,273)	(423,273)
Additions	-	-	-	(48,019)	(7,704)	(55,723)	(55,723)
Disposals	-	-	-	-	-	-	-
Balances, June 30, 2007	-	-	-	(433,414)	(45,582)	(478,996)	(478,996)
Additions	-	-	-	(47,020)	(7,704)	(54,724)	(54,724)
Disposals	-	-	-	28,503	-	28,503	28,503
Balances, June 30, 2008	-	-	-	(451,931)	(53,286)	(505,217)	(505,217)
Total capital assets, net	$ 421,000	$ 59,338	$ 480,338	$ 100,232	$ 277,832	$ 378,064	$ 858,402

Note 5 - Other Liabilities

Included in other liabilities are deposits and deferred revenue. Applicants applying for gaming licenses are required to remit deposits to the Division, which are used to perform background investigations of these applicants. These deposits are recorded as liabilities until the Division incurs expenditures to perform the background investigations, or until any remaining balance is refunded to the applicant. Deposits of $171,495 and $185,597 at June 30, 2008 and 2007, respectively, primarily represent background investigation deposits, as well as $8,010 and $8,820 of monies at June 30, 2008 and 2007, respectively, seized during criminal investigations or from gaming patrons, and are pending court order releases or adjudication.

The Division issues a two-year license to individuals who are subject to an investigative review on an annual basis. The fees for the second year of the license period are recorded as deferred revenue until the Division incurs the expense during the review period. As of June 30, 2008 and 2007, deferred license fees are $116,230 and $132,530, respectively.

Note 6 - Accrued Compensated Absences

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

All permanent employees of the Division may accrue annual and sick leave based on length of service. The accrued amount will be paid upon termination, subject to certain limitations. Annual leave and sick leave benefits consist of the following and are all considered long term as of June 30, 2008:

	Annual Leave	Sick Leave	Total
Balances, June 30, 2006	$ 300,625	$ 38,132	$ 338,757
Increase	228,816	36,602	265,418
Decrease	(214,072)	(26,660)	(240,732)
Balances, June 30, 2007	315,369	48,074	363,443
Increase	253,956	40,867	294,823
Decrease	(210,292)	(36,929)	(247,221)
Balances, June 30, 2008	$ 359,033	$ 52,012	$ 411,045

Note 7 - Gaming Distribution

In accordance with Section 12-47.1-701, C.R.S. and amended by House Bill 06-1201, House Bill 06-1360, House Bill 07-246, House Bill 07-1060, House Bill 07-1206, and House Bill 08-1001 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 13% is to be distributed to the Local Government limited Gaming Impact Fund. In addition, of the 50%, $14,292,757 is to be distributed to the Colorado Department of Transportation, $20,107,662 ($19,676,799 + 2.19% change in CPI) is to be distributed to the Colorado Travel and Tourism Promotion Fund, $1,587,447 ($1,553,431 + 2.19% change in CPI) is to be distributed to the Colorado Council on the Arts Cash Fund, $634,979 ($621,373 + 2.19% change in CPI) is to be distributed to the Film Incentives Cash Fund, $3,174,894 ($3,106,863 + 2.19% change in CPI) is to be distributed to the New Jobs Incentives Cash Fund, and $3,959,650 is to be distributed to the Clean Energy Fund;

- 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, 2008 and 2007, the amount calculated as reserved fund balance by the Division based on expenditures for the preceding two month period was $1,683,522 and $1,500,793, respectively.

Note 7 - Gaming Distribution (continued)

On August 21, 2008, the Commission is expected to approve the distribution of $100,591,698 for the fiscal year ended June 30, 2008, in accordance with Section 12-47.1-701 C.R.S. In August 2007, $106,356,714 was approved as the 2007 distribution. The distributions are summarized as follows:

	Year Ended June 30,	
	2008	2007
State General Fund Restricted	$ -	$ 6,547,294
Distribution to other state agencies		
Colorado State Historical Fund	28,165,675	29,779,880
Local Government Limited Gaming Impact Fund	6,538,460	6,913,186
Colorado Travel and Tourism Promotion Fund	20,107,662	19,676,799
Colorado Council on the Arts Cash Fund	1,587,447	1,553,431
Film Incentives Cash Fund	634,979	621,373
New Jobs Incentives Cash Fund	3,174,894	3,106,863
Bioscience Discovery Evaluation Grant Program	-	2,500,000
Clean Energy Fund	3,959,650	7,000,000
Colorado Department of Transportation	14,292,757	5,259,411
Total distributions to other state agencies	78,461,524	76,410,943
Distributions to other governments		
Gilpin and Teller Counties	12,071,004	12,762,806
Cities of Cripple Creek, Central City and Black Hawk	10,059,170	10,635,671
Total distributions to other governments	22,130,174	23,398,477
Total distributions	$ 100,591,698	$ 106,356,714

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 with an expiration of June 30, 2007. In February 2007, the Division exercised a hold over agreement extending the lease until completion of construction of a new office location, which occurred in September 2007. Expenditures associated with this lease were $11,065 for the fiscal year ended June 30, 2008. Total Cripple Creek lease expenditures were $77,352 in fiscal year 2008. The additional amounts shown on the Statement of Revenues, Expenditures, and Changes in Fund Balance represent the Division’s share of Capitol Complex lease cost.

Note 8 - Commitments and Contingencies (continued)

Cripple Creek Lease (continued)

In April 2007, the Division entered into a lease and option to purchase agreement with a third party to lease office space at a new location in Cripple Creek, Colorado. The initial term of the lease is ten years. The lease began upon substantial completion of construction of the building, which occurred in September 2007. The option to purchase the building expires on June 30, 2013.

Fiscal Year		
2009	$	94,668
2010		96,684
2011		98,751
2012		100,870
2013		103,042
2014-2017		434,992
Total estimated payments	$	929,007

Sunset Review

Under Section 12-47.1-206 C.R.S., the Division is subject to a "sunset" law, which provides that the Division's existence is to terminate on a specified date. Sunset laws require the General Assembly to periodically review, and update as necessary, the laws that create entities such as the Division. The original sunset date for the Division was July 1, 2003. During fiscal year 2003, a sunset review was completed, the law was amended and the sunset date was extended to July 1, 2013. The Division's existence will continue after July 1, 2013, only through the passage of a bill by the General Assembly. The General Assembly is expected to conduct a sunset review prior to the sunset date. A sunset review report is anticipated to be available after October 15, 2012, after which time the General Assembly will determine whether or not the Division will continue.

Licensing System

In December 2004, the Division entered into a three-year contract with a third party for maintenance and service of the Division's regulatory licensing and document imaging computer system. This contract required the Division to pay approximately $51,500 to $55,000 per year through November 30, 2007. In November 2007, the Division entered into an amendment of the original three-year contract which extended the option to renew the maintenance and service agreement through November 2009. During fiscal years 2008 and 2007, the Division expended $55,592 and $53,973, respectively, under this contract.

Note 9 - Pension Plan

Plan Description

Virtually all of the Division's employees participate in a defined benefit pension plan. The plan'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 PERA's financial statements, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting www.copera.org.

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

Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan, or the institution's optional retirement plan. Currently, higher education employees, except for community college employees, are required to participate in their institution's optional plan, if available, unless they are active or inactive members of PERA with at least one year of service credit. In that case they may elect either PERA or their institution's optional plan. Community college employees hired after January 1, 2008, are required to become members of PERA and must elect either PERA's defined benefit or defined contribution plan with 60 days, unless they had been a PERA member within the prior twelve months. In that case they are required to remain in the PERA plan in which they participated previously.

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

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

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

Note 9 - Pension Plan (continued)

Plan Description (continued)

- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired on or after January 1, 2007 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service.

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

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- Hired on or after January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more.

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

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

Retiree benefits are increased annually based on their original hire date as follows:

- Hired before July 1, 2005 – 3.5 percent, compounded annually.
- Hired between July 1, 2005 and December 31, 2006 – the lesser of 3 percent or the actual increase in the national Consumer Price Index.
- Hired on or after January 1, 2007 – lesser of 3 percent or the actual increase in the national Consumer Price Index, limited to a 10 percent reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)

Note 9 - Pension Plan (continued)

Plan Description (continued)

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 may be entitled to a single payment or monthly benefit payments. If there is no eligible child or spouse then financially dependent parents, beneficiaries, or the member's estate, may be entitled to a survivor's benefit.

Funding Policy

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

Most employees contribute 8.0 percent of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2007 to December 31, 2007, the state contributed 11.15 percent of the employee's salary. From January 1, 2008, through June 30, 2008, the state contributed 12.05 percent. During all of Fiscal Year 2008, 1.02 percent of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2007, the division of PERA in which the state participates was underfunded with an infinite amortization period, which means that the unfunded actuarially accrued liability would never be fully funded at the current contribution rate.

In the 2004 legislative session, the general assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional .5 percent of salary beginning January 1, 2006, another .5 percent of salary in 2007, and subsequent year increases of .4 percent of salary until the additional payment reaches 3.0 percent in 2012.

In the 2006 legislative session, the general assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries paid beginning January 1, 2008. The SAED is scheduled to increase by one-half percentage point through 2013 resulting in a cumulative increase of three percentage points. For state employers, each year's one-half percentage point increase in the SAED will be deducted from the amount of changes to state employees' salaries and used by the employer to pay the SAED. Both the AED and SAED will terminate when funding levels reach 100 percent.

Note 9 - Pension Plan (continued)

Funding Policy (continued)

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

The Division's contributions to PERA and/or the state defined contribution plan for the fiscal years ending June 30, 2008, 2007, and 2006 were $451,640, $377,748, and $351,560, respectively. These contributions met the contribution requirement for each year.

Note 10 - Voluntary Tax Deferred Retirement Plans

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

Note 11 - Post Retirement Health Care and Life Insurance Benefits

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

After the PERA subsidy, the recipient pays the balance of the premium through an automatic deduction from the monthly retirement benefit. Monthly premium costs for participants depend on the health care plan selected, the PERA subsidy amount, Medicare eligibility, and the number of persons covered. Effective July 1, 2000, the maximum monthly subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; and $115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5 percent for each year less than 20 years.

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

Health Care Program (continued)

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed above in Note 9. Beginning July 1, 2004, state agencies are required to contribute 1.02 percent of gross covered wages to the Health Care Trust Fund. The Division contributed $41,740, $38,045, and $37,248 as required by statute in Fiscal Years 2008, 2007, and 2006, respectively. In each year the amount contributed was 100 percent of the required contribution.

The Health Care Trust Fund offers two general types of plans: fully-insured plans offered through health care organizations and self-insured plans administered for PERA by third party vendors. As of December 31, 2007, there were 44,214 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2007, the Health Care Trust Fund had an unfunded actuarial accrued liability of $1.045 billion, a funded ratio of 19.9 percent, and a 38-year amortization period.

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, SB 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 the building located at 1881 Pierce Street, Lakewood, Colorado. The lease purchase of the building occurred on October 31, 1996. The Division's share of the purchase price was approximately $2,000,000, including both principal and interest. The Division transferred funds annually to the Department of Revenue for its share of the building purchase. Approximately $177,000 was paid in fiscal year 2007 with no future obligations remaining for fiscal year 2008.

Note 13 - Related Party Transactions (continued)

The Division, as an agency of the State of Colorado, paid fees to the State for auditing, investigative, and legal services, the Division's share of the building purchase, and other direct and indirect expenses incurred. In fiscal year 2008, the legal services expenditures returned to having their own appropriation and line item on the Statement of Revenues, Expenditures, and Changes in Fund Balance. In fiscal years 2006 and 2007, legal services were appropriated and therefore included in the Department of Revenue indirect costs. Interagency charges consist of the following:

	For the Years Ended	
	2008	2007
State agency services		
Colorado State Patrol	$ 2,120,652	$ 1,528,892
Colorado Bureau of Investigations	708,104	689,447
Colorado Division of Fire Safety	170,987	154,445
Indirect costs (Colorado Department of Revenue)	553,509	818,034
Legal Services (Colorado Department of Law)	141,349	-
Office of the State Auditor	32,220	31,431
Colorado Department of Local Affairs	134,444	126,764
Total payments to state agencies	$ 3,861,265	$ 3,349,013

Note 13 - Related Party Transactions (continued)

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

	June 30, 2008	June 30, 2007
State agencies		
Colorado State Historical Society	$ 28,165,675	$ 29,779,880
Colorado Department of Local Affairs	6,538,460	6,913,186
Office of Economic Development	25,504,982	27,458,466
Colorado Department of Transportation	14,292,986	5,259,411
Colorado Bureau of Investigation	58,325	-
Governor's Energy Office	3,959,650	7,000,000
Colorado State Patrol	162,390	148,102
Colorado Department of Revenue	1,330	-
Colorado Division of Fire Safety	39,986	20,142
Total liabilities of state agencies	78,723,784	76,579,187
State's General Fund	-	6,547,294
Other governments		
City of Black Hawk	7,172,188	7,530,055
City of Central City	972,722	1,067,821
City of Cripple Creek	1,914,260	2,037,795
Gilpin County	9,773,892	10,317,452
Teller County	2,297,112	2,445,354
Total liabilities to other governments	22,130,174	23,398,477
Total liabilities to state agencies, State General Fund and other governments	$ 100,853,958	$ 106,524,958

Beginning fiscal year 2007, the State Council on the Arts is included with the Office of Economic Development.

Total related party liabilities of $100,853,958 and $106,524,958 at June 30, 2008 and 2007, respectively, include amounts due to the Colorado Bureau of Investigation, State Patrol, Department of Revenue, Department of Transportation, and Division of Fire Safety which total $262,260 and $168,244, respectively. The remaining liabilities of $100,591,698 and $106,356,714, respectively, are related to the fiscal years 2008 and 2007 gaming distributions.

REQUIRED SUPPLEMENTARY INFORMATION

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual (Unaudited)
Year Ended June 30, 2008

	Commission Approved Budget	Supplemental Changes	Final Budget*	Actual Amounts	Variance with Final Budget Over (Under)	Percent Earned Percent Expended
Revenues						
Gaming taxes	$ 119,827,850	$ -	$ 119,827,850	$ 108,185,631	$ (11,642,219)	90.28 %
License and application fees	579,862	-	579,862	522,571	(57,291)	90.12 %
Background investigations	230,698	-	230,698	372,198	141,500	161.34 %
Fines and other	-	-	-	52,622	52,622	100.00 %
Interest income	1,311,461	-	1,311,461	1,959,854	648,393	149.44 %
Net increase in fair value of investments	-	-	-	982,009	982,009	100.00 %
Total revenues	121,949,871	-	121,949,871	112,074,885	(9,874,986)	91.90 %
Expenditures						
Personal services	5,158,213	270,147	5,428,360	5,127,917	(300,443)	94.47 %
Personal services rollforward	-	1,855	1,855	1,854	(1)	99.95 %
Health, dental and life insurance	284,207	-	284,207	284,207	-	100.00 %
Short-term disability	5,198	-	5,198	5,198	-	100.00 %
Amortization equalization disbursement	47,980	-	47,980	47,980	-	100.00 %
Supplemental amount. equal. disbursement	9,995	-	9,995	9,995	-	100.00 %
Operating expenditures	552,734	27,000	579,734	502,984	(76,750)	86.76 %
Operating expenditures rollforward	-	30,648	30,648	30,579	(69)	99.77 %
Workers' compensation	39,455	(9,795)	29,660	29,660	-	100.00 %
Risk management	12,599	(2,320)	10,279	10,279	-	100.00 %
Licensure activities	181,497	-	181,497	93,525	(87,972)	51.53 %
Leased space	98,950	-	98,950	77,352	(21,598)	78.17 %
Vehicle lease payments - fixed	48,323	(1,760)	46,563	46,514	(49)	99.89 %
Vehicle lease payments - variable	56,551	(40,000)	16,551	16,551	-	100.00 %
Utilities	25,465	-	25,465	16,361	(9,104)	64.25 %
Capital outlay	16,251	1,749	18,000	12,086	(5,914)	67.14 %
EDO-MNT	20,774	1,966	22,740	22,740	-	100.00 %
EDO-Communications	16,924	2,163	19,087	19,087	-	100.00 %
Capital complex leased space	69,868	676	70,544	70,544	-	100.00 %
Legal services	133,711	(50,000)	83,711	83,710	(1)	100.00 %
Department of Revenue indirect costs	536,407	17,102	553,509	553,509	-	100.00 %
State agency services	3,316,370	-	3,316,370	3,134,187	(182,183)	94.51 %
Central City building repairs	65,813	-	65,813	57,453	(8,360)	87.30 %
Total expenditures	10,697,285	249,431	10,946,716	10,254,272	(692,444)	93.67 %
Background expenditures	263,964	-	263,964	64,177	(199,787)	24.31 %
Total expenditures	10,961,249	249,431	11,210,680	10,318,449	(892,231)	92.04 %
Excess of revenues over expenditures	$ 110,988,622	$ (249,431)	$ 110,739,191	101,756,436	$ (8,982,755)	
Other financing uses						
Gaming distribution				(100,591,698)		
Net change in fund balance				1,164,738		
Fund balance, beginning of year				954,559		
Fund balance, end of year				$ 2,119,297		

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

See notes to financial statements.

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

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the Division of Gaming, Department of Revenue, State of Colorado (the "Division") as of and for the year ended June 30, 2008, and have issued our report thereon dated November 24, 2008. 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 the Division's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Division's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Division's financial statements that is more than inconsequential will not be prevented or detected by the Division's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Division's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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COMPLIANCE AND OTHER MATTERS

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

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

November 24, 2008
Denver, Colorado

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REQUIRED AUDITOR COMMUNICATIONS TO THE LEGISLATIVE AUDIT COMMITTEE

Members of the Legislative Audit Committee:

We have audited the financial statements of the Division of Gaming, Department of Revenue, State of Colorado (the "Division") for the year ended June 30, 2008, and have issued our report thereon dated November 24, 2008. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter dated June 9, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

SIGNIFICANT AUDIT FINDINGS

Management has the responsibility for the selection and use of appropriate accounting policies. The significant accounting policies used by the Division are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the Division during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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ACCOUNTING ESTIMATES

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

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

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of the audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. There were no audit adjustments for the year ended June 30, 2008.

DISAGREEMENTS WITH MANAGEMENT

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

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated November 24, 2008.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

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

OTHER AUDIT FINDINGS OR ISSUES

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

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

November 24, 2008
Denver, Colorado

DIVISION OF GAMING
DEPARTMENT OF REVENUE, STATE OF COLORADO

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YEARS ENDED JUNE 30, 2008 AND 2007

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