

Compliance Audit, Financial Statements and  
Report of Independent Certified Public Accountants

**The State Board of the**

**Great Outdoors Colorado Trust Fund**

June 30, 2002

LIMITATIONS ON DISCLOSURE OF INFORMATION  
CONTAINED IN THIS DOCUMENT

The enclosed report is being distributed to you at this time for your information in accordance with Colorado Revised Statutes (C.R.S).

SECTION 2-3-103(2), C.R.S. states in part:

All reports shall be open to public inspection except for that portion of any report containing recommendations, comments, and any narrative statements which is **released only upon the approval of a majority vote of the committee (emphasis supplied)**.

SECTION 2-3-103.7(1), C.R.S. states in part:

Any state employee **or other individual acting in an oversight role as a member of a committee, board, or commission** who willfully and knowingly discloses the contents of any report prepared by, or at the direction of, the Office of the State Auditor prior to **the release of such report by a majority vote** of the committee as provided in Section 2-3-103(2), C.R.S. is guilty of a misdemeanor and, upon conviction thereof, shall be punished by a fine of not more than five hundred dollars (emphasis supplied).

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Grant Thornton LLP  
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September 26, 2002

Members of the Legislative Audit Committee:

We have completed the financial statement audit of the State Board of the Great Outdoors Colorado Trust Fund as of and for the year ended June 30, 2002. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America.

We were engaged to conduct our audit pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct or cause to be conducted audits of all departments, institutions, and agencies of state government. The reports that we have issued as a result of this engagement are set forth in the table of contents, which follows.



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The State Board of the Great Outdoors Colorado Trust Fund

REPORT SUMMARY

Financial and Compliance Audit  
For the Year Ended June 30, 2002

**Authority, Purpose and Scope**

The audit of the State Board of the Great Outdoors Colorado Trust Fund (GOCO) was completed under the authority of Article XXVII, Section 6(3) of the Colorado Constitution, that requires the State Auditor to conduct an annual audit of GOCO, and Section 2-3-103, C.R.S., that authorizes the State Auditor to conduct audits of political subdivisions as required by law. The State Auditor has contracted with Grant Thornton LLP to conduct this audit.

We conducted this audit in accordance with auditing standards generally accepted in the United States of America. We performed our audit work during the period from June through September 2002.

The purpose of this audit was to examine GOCO's financial records; review internal control systems including grant monitoring; and evaluate compliance with relevant state constitutional and statutory provisions.

We expressed an unqualified opinion on GOCO's financial statements for the Fiscal Year Ended June 30, 2002. Our opinion letter, dated September 16, 2002, is presented in the Financial Statement section of this report.

**SUMMARY OF CURRENT YEAR FINDINGS AND RECOMMENDATIONS**

We have identified five findings as follows:

**Findings:**

- There is a lack of segregation of duties related to the payroll function.
- All necessary account reconciliations are not being performed timely.
- GOCO currently does not review supporting documentation of qualifying grant expenditures from the Division of Wildlife (DOW) and Division of Parks and Outdoor Recreation (DPOR).
- While GOCO has made progress in recent years, further effort is needed to meet the requirement that "amounts expended for each of the [funding categories] ... be substantially equal" under Article XXVII.
- GOCO needs to begin planning for the implementation of Governmental Accounting Standards Board Statement No. 34 (GASB 34) which is effective for GOCO for Fiscal Year 2003.

The State Board of the Great Outdoors Colorado Trust Fund

REPORT SUMMARY (CONTINUED)

Financial and Compliance Audit  
For the Year Ended June 30, 2002

**SUMMARY OF PROGRESS IN IMPLEMENTING PRIOR AUDIT  
RECOMMENDATIONS**

The prior year report for the year ended June 30, 2001 included three recommendations. Two of the three recommendations have been fully implemented and one recommendation has been partially implemented (see page 15).

## RECOMMENDATION LOCATOR

All recommendations are addressed to the State Board of the Great Outdoors Colorado Trust Fund

Financial and Compliance Audit  
Fiscal Year ended June 30, 2002

Rec No.	Page No.	Recommendation Summary	Agency Response	Implemen- tation Date
1.	9	Establish adequate controls over the payroll function by having more than one employee responsible for the processes.	Agree	Implemented
2.	10	Ensure that appropriate reconciliations are performed on a routine basis and that all related adjustments are entered on the financial records in a timely manner.	Agree	October 2002
3.	11	Amend the Memorandum of Agreement with the Division of Wildlife to include the requirement for submission of documentation supporting expenditures with the monthly bills. A similar agreement should be developed with the Division of Parks and Outdoors Recreation.	Agree	December 2002
4.	13	Identify expenditure categories that are below the twenty-five percent level and focus on increasing those areas of spending.	Agree	June 2003
5.	14	Ensure that accounting personnel receive training on GASB 34 and guidance pertaining to implementation of the new standards. GOCO should then develop a plan to ensure that GASB 34 is fully implemented by June 30, 2003, by: <ul style="list-style-type: none"> <li>1) Identifying all new requirements that will impact GOCO.</li> <li>2) Developing timeframes and assigning responsibilities for accomplishing the defined tasks.</li> <li>3) Monitoring progress and making changes to the plan as appropriate.</li> </ul>	Agree	December 2002

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DESCRIPTION OF  
THE STATE BOARD OF THE GREAT OUTDOORS  
COLORADO TRUST FUND

The Great Outdoors Colorado Trust Fund (GOCO) and the State Board that oversees GOCO were created by Article XXVII of the Colorado Constitution. Article XXVII is the result of the passage of the Great Outdoors Colorado Initiative (Amendment 8) during the November 3, 1992 election. Fiscal Year 2002 is the ninth year of operations for GOCO. During 2002, House Bill 1250 extended the termination date of the State Lottery from July 1, 1999 to July 1, 2024, thus continuing funding for GOCO through July 1, 2024.

Article XXVII establishes procedures for the distribution of net proceeds from state-supervised Lottery games. The intent of Article XXVII is to use a portion of net Lottery proceeds to provide funding for wildlife, park, river, trail and open space resources and related programs. To ensure this, Article XXVII allocated part of net Lottery proceeds to the Conservation Trust Fund for administration by GOCO. In turn, GOCO is responsible for funding appropriate programs through designated state and local agencies as well as other qualifying entities.

The State Board that oversees GOCO consists of two members of the public from each congressional district, appointed by the Governor, a representative designated by the State Board of Parks and Outdoor Recreation, a representative designated by the Colorado Wildlife Commission, and the Executive Director of the Department of Natural Resources. Monies allocated to GOCO are for the purposes established in Article XXVII and are not subject to appropriation for any other purpose. GOCO is a political subdivision of the State. GOCO had a permanent staff of 14 during Fiscal Year 2002.

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The State Board of the Great Outdoors Colorado Trust Fund

FINANCIAL HIGHLIGHTS

Financial and Compliance Audit  
For the Year Ended June 30, 2002

**GREAT OUTDOORS COLORADO OVERVIEW**

Article XXVII authorized GOCO to use net Lottery proceeds to preserve and enhance Colorado parks, wildlife, trails, rivers, open space and natural areas by making strategic investments fostering partnerships among diverse interests, and supporting education about the outdoor environment of the State of Colorado.

The following discussion and analysis of GOCO's financial performance provides an overview of GOCO's financial activities for the Fiscal Year Ended June 30, 2002. The narrative should be read in conjunction with the GOCO's financial statements, which begin on page 19.

**FINANCIAL HIGHLIGHTS**

Since GOCO was created to provide funding from net Lottery proceeds, it is primarily a pass through entity, receiving dollars from Lottery proceeds and distributing them for use in four areas. These include wildlife, parks and outdoor recreation, open space protection and local government projects. GOCO's distributions are primarily in the form of grants. In addition to grant expenditures, GOCO periodically makes loans for purchasing land or conservation easements for the protection of open space.

Financial activity highlights include:

**Assets and Fund Balance**

GOCO's expenditures were significantly lower than the current revenue received, thus total assets and fund balance increased by almost \$14 million during the fiscal year from \$36.9 million to \$50.8 million.

**Revenues**

The State Lottery experienced strong results during the year. GOCO received its maximum allowable Lottery proceeds for the year of \$46.5 million, as limited by the constitutional cap. This represented a 17.4% increase from Fiscal Year 2001 with proceeds of \$39.6 million.

Net investment income in the General Fund has increased from \$2.7 million to \$3.0 million due to the significant increase in cash and investment balances (from \$34.1 million to \$57.2 million).

The State Board of the Great Outdoors Colorado Trust Fund

FINANCIAL HIGHLIGHTS (CONTINUED)

Financial and Compliance Audit  
For the Year Ended June 30, 2002

**Expenditures**

GOCO distributed approximately \$33.9 million in grants, down 15.8% from the previous year and \$8.4 million less than budget.

Personnel services and operational costs were \$1.7 million in 2002 or under budget by \$69,536. Capital outlays were reduced from \$88,000 to \$18,500. During Fiscal Year 2001, GOCO purchased and implemented a new grants tracking system for approximately \$64,000. This significant expenditure was not repeated during Fiscal Year 2002.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

While Powerball significantly improved the Lottery's performance during Fiscal Year 2002, Colorado Lottery projects a decline in the proceeds it will generate going forward. GOCO's projections for Lottery proceeds available to GOCO are somewhat lower (reduced by 3%) than Lottery's projections. GOCO projects \$43.4 million in Lottery proceeds in Fiscal Year 2003, while the Lottery projects \$44.7 million. Both projections are less than the constitutional cap of \$48.7 million. Since GOCO does not have a supplemental revenue source, GOCO maintains a conservative perspective for budgeting Lottery proceeds to avoid the need to reduce mid-year grant payments to state agencies and other recipients.

At the November 6, 2001 election, Colorado voters provided GOCO with the authority to issue bonds up to \$115 million with a total repayment cost not to exceed \$180 million to carry out GOCO's constitutional purpose. Additionally, the Legislature authorized the extension of the Colorado State Lottery from 2009 to 2024, providing GOCO with the necessary time horizon to take advantage of the bonding opportunity. Any borrowing would be repaid prior to the sunset date of State Lottery. No bond issuances occurred in Fiscal Year 2002.

The State Board of the Great Outdoors Colorado Trust Fund

FINANCIAL HIGHLIGHTS (CONTINUED)  
 CONDENSED FINANCIAL INFORMATION  
 (General Fund Only)

Financial and Compliance Audit  
 For the Year Ended June 30, 2002

	Fiscal Year 2002 Amounts	Fiscal Year 2001 Amounts	Increase/ Decrease	Percent Increase/ Decrease
Total assets	\$ 60,247,592	\$ 44,157,274	\$ 16,090,318	36.4%
Total liabilities	(9,401,543)	(7,280,264)	(2,121,279)	29.1%
Fund balance				
Reserved	13,249,139	16,517,123	(3,267,984)	(19.8%)
Unreserved	37,596,910	20,359,887	17,237,023	84.7%
Total fund balance	<u>50,846,049</u>	<u>36,877,010</u>	<u>13,969,039</u>	37.9%
Revenues				
State Lottery proceeds	46,523,408	39,642,222	6,881,186	17.4%
Net investment and miscellaneous income	<u>3,011,715</u>	<u>2,655,232</u>	<u>356,483</u>	13.4%
Total revenues	<u>49,535,123</u>	<u>42,297,454</u>	<u>7,237,669</u>	17.1%
Expenditures				
Grants	<u>33,896,189</u>	<u>40,280,472</u>	<u>(6,384,283)</u>	(15.8%)
Administrative expenditures				
Services and benefits	1,027,258	1,032,933	(5,675)	(0.5%)
Operating	<u>624,091</u>	<u>689,155</u>	<u>(65,064)</u>	(9.4%)
Total administrative expenditures	<u>1,651,349</u>	<u>1,722,088</u>	<u>(70,739)</u>	(4.1%)
Capital outlay	<u>18,546</u>	<u>88,905</u>	<u>(70,359)</u>	(79.1%)
Total expenditures	<u>35,566,084</u>	<u>42,091,465</u>	<u>(6,525,381)</u>	(15.5%)
Excess of revenues over expenditures	<u>\$ 13,969,039</u>	<u>\$ 205,989</u>	<u>13,763,050</u>	6681.4%

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## FINDINGS AND RECOMMENDATIONS

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Our audit included an examination of GOCO's financial records, a review of internal control systems including grant monitoring and an evaluation of compliance with relevant state constitutional and statutory provisions.

We identified the following areas where additional efforts could be beneficial.

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### **SEGREGATION OF DUTIES RELATED TO THE PAYROLL FUNCTION**

GOCO's total annual personnel costs, including salaries and benefits, are \$1,027,000, or 62% of operational expenses. GOCO has two employees responsible for accounting and human resources.

All payroll functions are performed by one administrative employee. These functions include: Informing external payroll services of new employees and changes to the pay rates, processing payroll through the payroll service, receiving signed payroll checks from the payroll service, reviewing the final payroll register and disbursing payroll checks to employees. There are no second-party verifications or reviews for any of these functions.

During the testing of internal controls, it was noted that out of a sample of three employees, one pay rate did not agree to the rate documented in the personnel file. The rate was higher than the documented rate due to documentation not being updated in the file. One key element of a system of internal controls is proper segregation of duties so that the appropriate checks and balances are in place for all accounting cycles. With an excessive concentration of duties, the possibility of errors or misappropriations of assets could occur and not be detected in a timely fashion.

#### **Recommendation No. 1:**

GOCO should establish adequate controls over the payroll function by having more than one employee responsible for the processes. For example, a second employee should be responsible for entering new employees and pay rate changes, and reviewing the preliminary and the final payroll registers.

#### **GOCO Response:**

Agree. Implemented. Due to the small number of GOCO employees, staff has limited access to payroll information in order to protect the confidentiality of the personal information contained in the payroll records. In order to establish adequate controls, GOCO has implemented a review process whereby the Executive Director will approve and sign off on all payrolls. This process ensures that controls are in place to protect against misappropriations, while protecting the confidential personal information of staff members.

## FINDINGS AND RECOMMENDATIONS (CONTINUED)

### **TIMELY RECONCILIATIONS**

At the end of the 2002 fiscal year a number of adjustments were required to correct accounts for differences that should have been identified and adjusted during normal reconciliation procedures. Some of the reconciliations and adjustments that had not been performed by GOCO include: routine reconciliation of the Fiscal Year 2001 general ledger to the final audited balances (\$25,000) for that year, adjustments to fixed asset accounts to reflect disposed items (\$67,500) and reconciliation and adjustment of the grant suspense account to the general ledger (\$400,000).

Without periodic account reconciliations, information provided to management was not as accurate as it should have been and may jeopardize subsequent management decisions. Furthermore, the probability that errors will occur and go undetected for extended periods is greatly increased. Finally, when accounts have not been reviewed and reconciled during the year, attempts to perform year-end account analyses in advance of the preparation of financial statements can become a time-consuming and costly process.

#### **Recommendation No. 2:**

GOCO should ensure that appropriate reconciliations are performed on a routine basis and that all related adjustments are entered on the financial records in a timely manner.

#### **GOCO Response:**

Agree. To be implemented by October 2002. GOCO agrees that all appropriate account reconciliations should be completed on an ongoing and timely basis. GOCO currently completes a monthly close process in a timely manner that includes account reconciliations. A partial list of the accounts reconciled as part of this process includes the operating cash account, GOCO's account with the Treasurer's Office, accounts receivable, accounts payable, and deposits held. With the implementation of GASB 34 during Fiscal Year 2003, GOCO will be maintaining prepaid expense and fixed asset schedules that will be reconciled on a monthly basis as part of the monthly close process.

### **SUPPORTING DOCUMENTATION RELATED TO MONTHLY BILLS**

GOCO is mandated by the Colorado Constitution and by statute to distribute funds to the Division of Wildlife (DOW) and to the Division of Parks and Outdoors Recreation (DPOR). GOCO receives an annual funding plan request from each Division. The funding plan request is reviewed and typically approved by GOCO and the Board as submitted from the Divisions. The Divisions each bill GOCO monthly. GOCO reviews the bills to ensure that the specific line items are within the original grant request amount.

GOCO grant administration procedures require that the terms for disbursement of grant monies be set forth in the grant document and that proper grantee documentation for such disbursements be available to GOCO for review. Without the proper documentation, there is a risk that GOCO could disburse grant monies prior to grantees incurring qualifying expenditures.

## FINDINGS AND RECOMMENDATIONS (CONTINUED)

Currently, GOCO does not require that DOW or DPOR maintain or submit documentation with monthly billings in support of labor allocations and direct expenses. Therefore, GOCO lacks assurance that reimbursements are based on qualifying expenditures. Subsequent to the June 30, 2002 year end, GOCO obtained a Memorandum of Agreement (MOA) with the Division of Wildlife establishing administrative procedures for funding; however, the MOA does not require adequate documentation be submitted with the billing or that documentation be maintained for GOCO's periodic review. GOCO is in the process of negotiating an MOA with DPOR.

### **Recommendation No. 3:**

GOCO should amend the Memorandum of Agreement with the Division of Wildlife to include, at a minimum, the requirement that documentation supporting expenditures on monthly bills be maintained for GOCO's review. A similar agreement should be developed with the Division of Parks and Outdoors Recreation. GOCO should develop procedures to perform quarterly reviews of the documentation at both Divisions during the fiscal year.

### **GOCO Response:**

Agree. To be implemented October 2002. GOCO will initiate discussions with the Division of Wildlife and the Division of Parks and Outdoor Recreation to develop a system for verifying the accuracy and appropriateness of the expenses being billed by the state agencies.

## **CONSTITUTIONAL REQUIREMENTS FOR SPENDING**

Article XXVII requires that "amounts expended for each of the [funding categories] . . . be substantially equal." The four funding categories are wildlife, state parks and outdoor recreation, open space and local governments. In Fiscal Year 2001, the auditors recommended that GOCO focus efforts to ensure that expenditures are equal across the four categories. During the Fiscal Year 2002 audit, we found that the GOCO Board had made efforts to address the spending levels by passing a new Overdue Grants Policy on December 12, 2001. This policy is expected to facilitate better "throughput" of projects and minimize the number of old but unexpended grants.

The following chart shows the cumulative amounts in three different stages of the grants. The Grants Authorized is the amount, by category, approved by the GOCO Board. This authorization process is used by the GOCO Board to control the equal spending. The Grants Awarded includes the cumulative expenses as well as appropriated expenses. The Grants Expended are cumulative actual expenditures.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

**GOCO Grants  
Cumulative through Fiscal Year 2002  
(in thousands)**

Program Category	Grants Authorized		Grants Awarded		Grants Expended		Variance from 25%
	Amount	%	Amount	%	Amount	%	
Category 1 – Wildlife	\$ 74,612	25.7	\$ 59,835	25.4	\$ 55,325	24.9	\$ (155)
Category 2 – State parks and outdoor recreation	73,548	25.4	68,446	29.1	59,707	26.9	4,227
Category 3 – Competitive grants for open space	72,313	24.9	55,501	23.6	55,501	25.0	21
Category 4 – Competitive grants to local governments	<u>69,748</u>	<u>24.0</u>	<u>51,387</u>	<u>21.9</u>	<u>51,387</u>	<u>23.2</u>	(4,093)
	290,221	100.0	235,169	100.0	221,920	100.0	
Noncategorized – Discretionary	<u>1,195</u>	N/A	<u>1,195</u>	N/A	<u>1,195</u>	N/A	
Total	\$ <u>291,416</u>		\$ <u>236,364</u>		\$ <u>223,115</u>		

Source: Data provided by GOCO

This next chart compares the percentages in each category for Fiscal Year 2001 and Fiscal Year 2002 and calculates the variance of the percentage. The Grants Expended variances have changed to more closely comply with the statutory requirement. In each of the categories that show a variance between Fiscal Year 2001 and Fiscal Year 2002 the result of the variance brings the category closer to the twenty-five percent mark.

**GOCO Grant Comparison  
Fiscal Year 2001 and Fiscal Year 2002**

Program Category	Grants Expended		
	FY2001	FY2002	Variance
Category 1 – Wildlife	23.0%	24.9%	1.9%
Category 2 – State parks and outdoor recreation	27.0	26.9	-0.1
Category 3 – Competitive grants for open space	27.2	25.0	-2.2
Category 4 – Competitive grants to local governments	<u>22.8</u>	<u>23.2</u>	0.4
	100.0	100.0	
Noncategorized– Discretionary	N/A	N/A	N/A

Source: Data provided by GOCO and audited financial statements

## FINDINGS AND RECOMMENDATIONS (CONTINUED)

### **Recommendation No. 4:**

GOCO should identify expenditure categories that are below the twenty-five percent level and focus on increasing those areas of spending.

### **GOCO response:**

Agree. To be implemented by June 2003. Per the comments of the Legislative Audit Committee during the Fiscal Year 2001 audit, GOCO has taken measures to address quadrant expenditure imbalances. As a result, the “spread” of grant expenditures between the highest and lowest funded quadrants has been reduced from 9.9% at the end of Fiscal Year 2000 to 3.7% at the end of Fiscal Year 2002. At the end of Fiscal Year 2002, the only funding quadrant significantly below twenty-five percent is the Local Government quadrant. In an effort to boost expenditures in this quadrant, GOCO’s Spending Plan for Fiscal Year 2003 includes an additional \$1.0 million of scheduled grant awards compared to the other quadrants. GOCO also continues to work closely with grantees in this program area to complete their projects and close their grants on a timely basis.

## **IMPLEMENTATION OF GASB 34**

Under governmental accounting standards, GOCO will be required to adopt Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statement—and Management’s Discussion and Analysis—for State and Local Governments*, for Fiscal Year 2003. GASB 34 requires several financial reporting changes that will impact GOCO for Fiscal Year 2003, such as the capitalization and depreciation of all fixed assets. GOCO will also be required to write a Management’s Discussion and Analysis to accompany the Fiscal Year 2003 audited financial statements, that includes two-year comparative data with analysis of variances, impact of economic conditions, significant capital asset activities, and discussion of budget variances. During our audit, it was noted that planning for adoption of GASB 34 had not yet started.

For GOCO to be able to comply with the requirements of GASB 34, staff should begin planning for its implementation in early Fiscal Year 2003, including addressing the need to train GOCO’s accounting personnel on GASB’s requirements.

By developing a plan for implementing the new standards, GOCO can ensure that all necessary activities are completed within the required timeframe with minimal impact on routine accounting functions.

## FINDINGS AND RECOMMENDATIONS (CONTINUED)

### **Recommendation No. 5:**

GOCO should ensure that accounting personnel receive training on GASB 34 and guidance pertaining to implementation of the new standards. GOCO should then develop a plan to ensure that GASB 34 is fully implemented by June 30, 2003, by:

- 1) Identifying all new requirements that will impact GOCO.
- 2) Developing timeframes and assigning responsibilities for accomplishing the defined tasks.
- 3) Monitoring progress and making changes to the plan as appropriate.

### **GOCO Response:**

Agree. To be implemented by October 2002. GOCO will seek professional assistance in coordinating GASB 34 training to begin the implementation process. GOCO anticipates a successful implementation of the new reporting requirements and has already begun preparing fixed asset depreciation and other schedules necessary to comply with GASB 34.

## DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS

The following audit recommendations are from the State Board of the Great Outdoors Colorado Trust Fund financial and compliance audit for the year ended June 30, 2001.

<u>Recommendation</u>	<u>Disposition</u>
1. GOCO and the Division of Wildlife must work together to develop a method by which the DOW can provide GOCO the detailed information it needs to accurately track the grant expenditures on legacy projects and utilize consistent tracking numbers and names.	Implemented.
2. GOCO should take immediate steps to ensure that the cumulative grant expenditures in the new grant tracking system agree to the amounts in the financial reporting system.	Implemented.
3. GOCO must focus efforts to ensure that expenditures are equal across the four categories.	Partially implemented. While GOCO has made efforts to ensure that awards are equal across quadrants, expenditures remain unequal.

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*Financial Statement Section*

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Members of the Legislative Audit Committee:

We have audited the accompanying general purpose financial statements of the State Board of the Great Outdoors Colorado Trust Fund as of and for the year ended June 30, 2002, as listed in the foregoing Table of Contents. These general purpose financial statements are the responsibility of the State Board of the Great Outdoors Colorado Trust Fund's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State Board of the Great Outdoors Colorado Trust Fund at June 30, 2002 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2002, on our consideration of the State Board of the Great Outdoors Colorado Trust Fund'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.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplemental information as listed in the Table of Contents is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the State Board of the Great Outdoors Colorado Trust Fund.

Denver, Colorado  
September 16, 2002



*General Purpose Financial Statements*

The State Board of the Great Outdoors Colorado Trust Fund

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

June 30, 2002  
(with comparative totals for June 30, 2001)

	Governmental Fund	Fiduciary Fund	Account Group
	General Fund	Pension Trust Fund	General Fixed Assets
ASSETS			
Cash and investments	\$ 57,194,675	\$ -	\$ -
Cash and investments held by trustees	-	305,450	-
Lottery proceeds receivable	2,469,568	-	-
Other receivables	176,713	-	-
Other assets	406,636	-	-
Property and equipment	-	-	306,392
Total assets	<u>\$ 60,247,592</u>	<u>\$ 305,450</u>	<u>\$ 306,392</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Grants payable	\$ 9,322,032	\$ -	\$ -
Accounts payable	41,185	-	-
Grants payable - Long-term	-	-	-
Compensated absences payable	38,326	-	-
Total liabilities	<u>9,401,543</u>	<u>-</u>	<u>-</u>
FUND EQUITY			
Investment in general fixed assets	-	-	306,392
Fund balance			
Reserved for pension benefits	-	305,450	-
Reserved for awarded grants	13,249,139	-	-
Unreserved and undesignated	37,596,910	-	-
Total fund equity	<u>50,846,049</u>	<u>305,450</u>	<u>306,392</u>
Total liabilities and fund equity	<u>\$ 60,247,592</u>	<u>\$ 305,450</u>	<u>\$ 306,392</u>

The accompanying notes are an integral part of these statements.

Totals  
(Memorandum Only)

2002	2001
\$ 57,194,675	\$ 34,129,490
305,450	435,177
2,469,568	10,024,726
176,713	
406,636	3,058
306,392	355,421
\$ 60,859,434	\$ 44,947,872

\$ 9,322,032	\$ 4,102,854
41,185	32,557
-	3,120,000
38,326	24,853
9,401,543	7,280,264

306,392	355,421
305,450	435,177
13,249,139	16,517,123
37,596,910	20,359,887
51,457,891	37,667,608
\$ 60,859,434	\$ 44,947,872

The State Board of the Great Outdoors Colorado Trust Fund

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GENERAL FUND

Year Ended June 30, 2002

(with comparative totals for the Year Ended June 30, 2001)

	2002	(Memorandum Only) 2001
Revenues		
State Lottery proceeds	\$ 46,523,408	\$ 39,642,222
Net investment income	3,011,056	2,655,232
Miscellaneous income	659	-
Total revenues	<u>49,535,123</u>	<u>42,297,454</u>
Expenditures		
Grants expended	33,896,189	40,280,472
Personnel services and benefits	1,027,258	1,032,933
Operating	624,091	689,155
Capital outlay	18,546	88,905
Total expenditures	<u>35,566,084</u>	<u>42,091,465</u>
Excess of revenues over expenditures	13,969,039	205,989
Fund balance - beginning of year	<u>36,877,010</u>	<u>36,671,021</u>
Fund balance - end of year	<u>\$ 50,846,049</u>	<u>\$ 36,877,010</u>

The accompanying notes are an integral part of these statements.

The State Board of the Great Outdoors Colorado Trust Fund

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

PENSION TRUST FUND

Year Ended June 30, 2002

(with comparative totals for the Year Ended June 30, 2001)

	2002	(Memorandum Only) 2001
Operating revenues		
Employer contributions	\$ 77,654	\$ 84,127
Interest and investment loss	(21,387)	(48,152)
Total operating revenues	<u>56,267</u>	<u>35,975</u>
Operating expenses		
Distributions	<u>185,994</u>	<u>37,053</u>
Net loss	(129,727)	(1,078)
Fund balance - beginning of year	<u>435,177</u>	<u>436,255</u>
Fund balance - end of year	<u><u>\$ 305,450</u></u>	<u><u>\$ 435,177</u></u>

The accompanying notes are an integral part of these statements.

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State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

NOTE A – DEFINITION OF REPORTING ENTITY

The State Board of the Great Outdoors Colorado Trust Fund (GOCO), a political subdivision of the State of Colorado, was established at the 1992 General Election through the electorate's adoption of Amendment 8, which resulted in Article XXVII of the Colorado Constitution. Article XXVII established the Great Outdoors Colorado Trust Fund and a Board as the trustee of the trust fund and allocates certain net proceeds of the Colorado Lottery to GOCO in trust. Article XXVII authorizes GOCO to use these funds to preserve and enhance Colorado parks, wildlife, trails, rivers, open space and natural areas by making strategic investments, fostering partnerships among diverse interests, and supporting education about the outdoor environment of the State of Colorado.

GOCO follows the Governmental Accounting Standards Board (GASB) accounting pronouncements that provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. The pension trust fund has been included in the reporting entity as a blended component unit based on this criteria. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

GOCO is a separate political subdivision of the State of Colorado as stated in Article XXVII. GOCO is not considered to be a component unit of the State for the purpose of the State's annual financial reporting.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies of GOCO are described as follows:

1. *Fund Accounting*

The accounts of GOCO are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. Fund types and account groups used by GOCO are described below.

State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2002

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Governmental Fund Type**

General Fund – The General Fund is the general operating fund of GOCO. It is used to account for all financial resources except those required to be accounted for in other funds. Substantially all of GOCO's resources are obtained from net Lottery proceeds received from the Colorado State Lottery, as set forth in Article XXVII. GOCO's resources are intended for the purposes established in Article XXVII.

**Fiduciary Fund Type**

Pension Trust Fund – Defined Contribution Plan – GOCO has established a pension plan for its employees in the form of an employer funded defined contribution plan.

**Account Group**

General Fixed Assets Account Group – This group of accounts is established to account for the recorded fixed assets of GOCO.

2. *Basis of Accounting*

The modified accrual basis of accounting is followed in the governmental fund type. Revenue is recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Lottery proceeds, grant proceeds and interest are susceptible to accrual. Expenditures are recorded when the liability is incurred. Grant expenditures are recorded when the grantee has expended the funds and requested reimbursement from GOCO.

The accrual basis of accounting is utilized in the pension trust fund. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Plan investments are reported at fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair values.

3. *Budgets*

GOCO's budget is not legislatively adopted, therefore a statement of revenues and expenditures-budget and actual is not a required part of these financial statements. A schedule of revenue and expenditures-budget and actual is included for information purposes in the supplemental information.

State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2002

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. *Property and Equipment*

GOCO includes items with a cost greater than \$250 and a useful life greater than one year in the General Fixed Asset Account Group.

Property and equipment are stated at cost. No depreciation is provided on general fixed assets.

5. *Accrual for Compensated Absences*

GOCO has a policy that allows permanent full-time employees to accumulate unused vacation benefits. GOCO also allows the accumulation of compensatory time up to a maximum of 40 hours. (Sick leave is forfeited upon termination of employment with GOCO and therefore is not accrued on GOCO's financial statements). A liability has been recorded for compensated absences in the financial statements.

6. *State Lottery Proceeds*

State Lottery proceeds are a distribution from the Colorado State Lottery based on the calculation of net proceeds and allocations established in Article XXVII. The calculation of net proceeds incorporates Lottery revenue, operation expenses, prize payments, and certain reserves. Article XXVII provides for net proceeds to be distributed not less than quarterly to the Conservation Trust Fund and Division of Parks and Outdoor Recreation in amounts allocable by statute as amended as of January 1, 1992; to certain debt service payments through November 1998; and to GOCO.

GOCO's share is limited by Article XXVII to \$35 million annually plus increases in the Consumer Price Index compounded annually. The share for Fiscal Year 2002 was approximately \$46.5 million, which was the maximum amount allowable under statute. Lottery proceeds have been estimated to be \$43.4 million for Fiscal Year 2003 which is less than the amount allowed of approximately \$48.7 million.

State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2002

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7. *Fund Equity*

**Fund Balance**

The fund balance has been reserved for that portion of the fund balance that is legally segregated or is not subject to future utilization. Designations of unreserved fund balances indicate GOCO's intention for future utilization of such funds and are subject to change by GOCO.

**Reserved Fund Balance**

The reserved fund balance in the General Fund in the amount of \$13,503,065 represents the amount of grants awarded, but not yet expended.

The reserved fund balance in the Pension Trust Fund represents a reserve for pension benefits payable.

8. *Totals (Memorandum Only)*

Total columns on the combined statements are captioned "(Memorandum Only)" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations, in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

NOTE C – CASH DEPOSITS AND INVESTMENTS

**Cash Deposits**

The Colorado Public Deposit Protection Act (PDPA) requires that all political subdivisions of the State deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits.

State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2002

NOTE C – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

**Cash Deposits (Continued)**

The Colorado Divisions of Banking and Financial Services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

Deposits are categorized to give an indication of the level of credit risk related to custody of assets assumed by the government at the end of the year. Category 1 includes deposits that are insured, Category 2 includes collateralized deposits held by the pledging institution's trust department or agent in GOCO's name and Category 3 includes uncollateralized, uninsured deposits.

At June 30, 2002, GOCO's cash deposits had a bank balance and a carrying balance as follows:

	Bank Balance	Carrying Balance
Cash on hand	\$ -	\$ 53
Insured deposits – Category 1	178,107	200,000
Deposits collateralized in single institution pools – Category 2	<u>205,450</u>	<u>272,798</u>
	<u>\$ 383,557</u>	<u>\$ 472,851</u>

**Investments**

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which a political subdivision may invest, which include:

- Obligations of the United States and certain U.S. government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2002

NOTE C – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

**Investments (Continued)**

Additionally, pension trust funds may invest in railroad equipment trust certificates, real property, loans for real property other than residential property, notes, bonds, debentures, stocks (common and preferred), life insurance company agreements and any other type of investment agreement.

GOCO's investments are categorized below to give an indication of the level of credit risk assumed by GOCO at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in GOCO's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in GOCO's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in GOCO's name.

Investments in the State Treasurer's cash pool, mutual funds and money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Investments are stated at fair value.

Category 1		
Corporate stocks, bonds and notes	\$	-
Not Subject to Categorization		
State Treasurer's cash pool		57,027,327
Money Market Mutual Funds – Pension		<u>-</u>
Total investments	\$	<u>57,027,327</u>

**State Treasurer's Cash Pool**

Article XXVII created and established the Great Outdoors Colorado Trust Fund (Trust Fund) in the Treasury of the State of Colorado. Article XXVII requires that all net Lottery proceeds are to be deposited into the Trust Fund to be used for the purposes set forth in Article XXVII. The State Treasurer has invested the monies held in the Trust Fund in the State Treasurer's cash pool. A detailed composition of the cash and investments is available in the annual State Treasurers' Report.

State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2002

NOTE C – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

**Summary**

Total cash deposits and investments at June 30, 2002 are as follows:

Cash deposits	\$ 472,798
Investments	<u>57,027,327</u>
	<u>\$ 57,500,125</u>

Cash deposits and investments are reflected on the balance sheet as follows:

Cash and investments	\$ 57,194,675
Cash and investments held by trustees	<u>305,450</u>
	<u>\$ 57,500,125</u>

NOTE D – LOTTERY PROCEEDS RECEIVABLE

At June 30, 2002, GOCO had distributions owed from the Colorado State Lottery amounting to \$2,469,568. This represents GOCO's allocation of net proceeds from the Colorado State Lottery for the months of April through June 2002. GOCO received these revenues in August 2002.

NOTE E – PROPERTY AND EQUIPMENT

An analysis of the changes in property and equipment for the year ended June 30, 2002 follows:

	<u>Balance at July 1, 2001</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2002</u>
Equipment	\$ 118,010	\$ 10,896	\$ (61,761)	\$ 67,145
Software	95,167	7,134	(3,583)	98,718
Furniture	61,226	470	(2,185)	59,511
Improvements	<u>81,018</u>	<u>-</u>	<u>-</u>	<u>81,018</u>
	<u>\$ 355,421</u>	<u>\$ 18,500</u>	<u>\$ (67,529)</u>	<u>\$ 306,392</u>

State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2002

NOTE F – AWARDED GRANTS AND EXPENDED GRANTS

The following is a summary of grants awarded and grants expended from inception in 1995 through June 30, 2002:

**Grants Awarded:**

	Cumulative Awarded Grants at <u>June 30, 2001</u>	Transfers/ Additions	Transfers/ Deletions	Cumulative Awarded Grants at <u>June 30, 2002</u>
Colorado Division of Wildlife	\$ 51,125,383	\$ 10,711,082	\$ (2,001,631)	\$ 59,834,834
Colorado State Parks and Outdoor Recreation	59,403,072	9,624,278	(581,414)	68,445,936
Open space	51,158,019	4,408,453	(65,716)	55,500,756
Local governments	42,774,123	9,148,444	(535,465)	51,387,102
Noncategorized – Discretionary	<u>1,275,000</u>	<u>174</u>	<u>(80,000)</u>	<u>1,195,174</u>
	<u>\$ 205,735,597</u>	<u>\$ 33,892,431</u>	<u>\$ (3,264,226)</u>	<u>\$ 236,363,802</u>

**Grants Expended:**

	Cumulative Expended for Grants at <u>June 30, 2001</u>	Net Additions and Transfers	Cumulative Expended for Grants at <u>June 30, 2002</u>
Colorado Division of Wildlife	\$ 43,186,767	\$ 12,138,008	\$ 55,324,775
Colorado State Parks and Outdoor Recreation	50,804,532	8,902,324	59,706,856
Open space	51,158,019	4,342,737	55,500,756
Local governments	<u>42,874,156</u>	<u>8,512,946</u>	<u>51,387,102</u>
	188,023,474	33,896,015	221,919,489
Noncategorized – Discretionary	<u>1,195,000</u>	<u>174</u>	<u>1,195,174</u>
	<u>\$ 189,218,474</u>	<u>\$ 33,896,189</u>	<u>\$ 223,114,663</u>

State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2002

NOTE F – AWARDED GRANTS AND EXPENDED GRANTS (CONTINUED)

Fund balance is reserved for grants as they are approved and awarded by GOCO. An analysis of the changes in reserved fund balance for approved grants for the year ended June 30, 2002 follows:

Reserved fund balance at June 30, 2001	\$ 16,517,123
Net approved grants for the year ended June 30, 2002	30,628,205
Grant expenditures for the year ended June 30, 2002	<u>(33,896,189)</u>
Reserved fund balance at June 30, 2002	\$ <u>13,249,139</u>

NOTE G – COMMITMENTS AND CONTINGENCIES

**Operating Lease**

GOCO leases facilities under an operating lease, which expires in April 2004 with a one year renewal option. Total facilities and equipment rental lease expense for the year ended June 30, 2002 was \$125,978. The future minimum lease payments under the facilities lease are as follows:

Fiscal year ended June 30:	
2003	\$ 155,903
2004	130,971
2005	6,312
2006	6,312
2007	<u>1,052</u>
	\$ <u>300,550</u>

NOTE H – PENSION PLANS

As a political subdivision of the State, GOCO has elected not to use the Public Employees' Retirement Association of Colorado (PERA). GOCO has established a retirement plan that consists of an employer funded Defined Contribution Pension Plan and an employee funded Deferred Compensation Plan.

State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2002

NOTE H – PENSION PLANS (CONTINUED)

**Defined Contribution Plan**

The employees of GOCO participate in a defined contribution plan maintained and administered by the Trust Division of the Colorado State Bank and Trust. At June 30, 2002, there were 34 plan members, which includes current and former employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. GOCO's Defined Contribution Pension Plan covers all permanent employees with no probationary period for the employees to become participants in the plan. GOCO contributions are calculated based on 10.2% of each eligible employee's gross salary (base salary plus performance awards). Employees become vested at a rate of 50% after one year of employment and 100% after two years of employment. Unvested GOCO contributions for employees who leave employment before two years of participation are forfeited by the employee. These forfeitures can be used to reduce GOCO's required contributions in the fiscal year after the employee's separation date. There is no liability for benefits under the plan beyond GOCO's required contributions. A committee comprised of GOCO's Finance Committee and Executive Director act as trustees for the plan, directing investments of the plan. The trustees hired an investment management firm to actively manage these funds. Plan provisions and contribution requirements are established and may be amended by GOCO.

GOCO's contributions were calculated using the gross salaries total of \$761,314. GOCO made the required 10.2% contribution amounting to \$77,654 for Fiscal Year 2002.

**Deferred Compensation Plan**

GOCO has a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is administered by a financial institution at the direction of each employee for his/her own account. The plan allows the employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement or death or unforeseen emergencies.

Contributions to the plan are made by GOCO's employees through a pre-tax payroll deduction. Contributions to the plan are mandatory for all permanent employees with a minimum required contribution of 6.2% of each employee's gross salary. Contributions above 6.2% are allowed on a voluntary basis. No vesting period is required for the Deferred Compensation Plan. Assets of the plan are held in trust for the exclusive benefit of participating employees. Therefore, the plan assets are not reflected as an asset of GOCO.

State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2002

NOTE I – RELATED PARTIES – STATE AGENCIES

**Board Composition and Approval of Grants**

The Board of GOCO is composed of seventeen members, fourteen of whom are public members appointed by the Governor, subject to the consent of the Senate. The three ex-officio members include the Executive Director of the Colorado Department of Natural Resources; a representative designated by the State Board of Parks and Outdoor Recreation; and a representative designated by the Colorado Wildlife Commission. The State Board of Parks and Outdoor Recreation and the Colorado Wildlife Commission are the governing bodies of the Colorado Division of Parks and Outdoor Recreation and the Colorado Division of Wildlife, respectively. These State agencies are under the administrative direction of the Colorado Department of Natural Resources.

Under the Colorado Constitution, the Board of GOCO is responsible for ensuring that expenditures are made for purposes stipulated, including investing in wildlife resources through the Colorado Division of Wildlife and investing in outdoor recreation resources through the Colorado Division of Parks and Outdoor Recreation. In addition, the Colorado Division of Wildlife and the Colorado Division of Parks and Outdoor Recreation are eligible to apply for competitive grants for open space and natural areas of statewide significance, along with local governmental entities and non-profit land conservation organizations.

NOTE J – RISK MANAGEMENT

GOCO is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God. GOCO carries commercial insurance coverage for all risks of loss including workers compensation and employee health and accident insurance. GOCO has settled one claim since inception, which did not exceed commercial coverage.

State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2002

NOTE K – TAX, SPENDING AND DEBT LIMITATIONS

In November 1992, Colorado voters passed Section 20, Article X of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains revenue, spending, tax, and debt limitations that apply to the State of Colorado and all local governments. In the same general election, Article XXVII was passed creating GOCO. The simultaneous passage of these two constitutional amendments raised questions as to whether there are irreconcilable conflicts between the two amendments.

The General Assembly determined, in Section 24-77-102(17)(b)(ix) C.R.S., that the net proceeds from the Colorado Lottery that are deposited in GOCO are excluded from the scope of "state fiscal year spending" for purposes of TABOR. The Colorado Supreme Court, in response to an interrogatory from the General Assembly, approved that determination.

TABOR is complex and subject to further legislative and judicial interpretation. GOCO believes it is in compliance with both of these constitutional amendments.

NOTE L – FUTURE EFFECT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and No. 37, *Basic Financial Statements Discussion and Analysis – for State and Local Governments: Omnibus*. GASB 34 and 37 are required to be adopted for periods beginning after June 15, 2001 on a phase-in basis and will be applicable to GOCO's June 30, 2003 financial statements. GASB 34 and 37 establish that the basic financial statements and required supplementary information for governments should consist of management's discussion and analysis, government-wide financial statements, consisting of a statement of net assets and a statement of activities using the accrual basis of accounting, fund financial statements that report governmental fund financial statements using the modified accrual basis of accounting and that report proprietary fund financial statements using the accrual basis of accounting, notes to the financial statements, and required supplementary information.

## *Supplemental Information*

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The State Board of the Great Outdoors Colorado Trust Fund

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

GENERAL FUND

Year Ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	Variance- Favorable (Unfavorable)
Revenues			
State Lottery proceeds	\$ 35,900,000	\$ 46,523,408	\$ 10,623,408
Net investment and miscellaneous income	377,318	3,011,715	2,634,397
Total revenues	<u>36,277,318</u>	<u>49,535,123</u>	<u>13,257,805</u>
Expenditures			
Grants expended	42,300,000	33,896,189	8,403,811
Personnel services and benefits	1,148,481	1,027,258	121,223
Operating expenditures	572,404	624,091	(51,687)
Capital outlay	30,000	18,546	11,454
Total expenditures	<u>44,050,885</u>	<u>35,566,084</u>	<u>8,484,801</u>
Excess (deficiency) of revenues over expenditures	(7,773,567)	13,969,039	21,742,606
Fund balance - beginning of year	<u>36,877,010</u>	<u>36,877,010</u>	-
Fund balance - end of year	<u>\$ 29,103,443</u>	<u>\$ 50,846,049</u>	<u>\$ 21,742,606</u>

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

Members of the Legislative Audit Committee

We have audited the accompanying general purpose financial statements of the State Board of the Great Outdoors Colorado Trust Fund (GOCO) as of and for the year ended June 30, 2002 and have issued our report thereon dated September 16, 2002. 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.

**COMPLIANCE**

As part of obtaining reasonable assurance about whether GOCO's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to the Members of the Legislative Audit Committee in the Findings and Recommendations section as listed in the foregoing Table of Contents.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered GOCO's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect GOCO's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item No. 1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amount 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the State of Colorado's Legislative Audit Committee and GOCO and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Denver, Colorado  
September 16, 2002

### **Members of the Legislative Audit Committee:**

We have audited the general purpose financial statements of the State Board of the Great Outdoors Colorado Trust Fund (GOCO) for the year ended June 30, 2002. Auditing standards generally accepted in the United States of America require that we communicate the following matters related to our audit with the audit committee. The matters discussed herein are those that we have noted as of September 16, 2002. We have not updated our procedures regarding these matters since that date to the current date. Accordingly, we advise you of the following with respect to The State Board of the Great Outdoors Colorado Trust Fund for the Year Ended June 30, 2002:

### **Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards***

Our responsibility, as prescribed by auditing standards generally accepted in the United States of America promulgated by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. An audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* does not provide absolute assurance or guarantee the accuracy of the financial statements and is subject to the inherent risk that errors or fraud (or illegal acts), or noncompliance with the provisions of laws, regulations, contracts and grants, if existing have not been detected. Such standards also require that we obtain a sufficient understanding of the GOCO's internal control to plan the audit. However, such understanding and any tests performed with respect to such internal controls, or as to compliance with laws, regulations, contracts and grants, were for the purpose of expressing our opinion on the GOCO's financial statements and not to opine or provide any assurance concerning such internal controls or compliance.

### **Auditors' Responsibility for Other Information in Documents Containing Audited Financial Statements**

Pursuant to professional standards, the auditors' responsibility for other information in documents containing the GOCO's audited financial statements (e.g. bond offerings) 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 these required communications, 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 which could be significant to the GOCO's financial statements or the audit report. We are pleased to report that no such disagreements arose during the course of our audit.

There are no disagreements with management on accounting or financial reporting matters that, if not resolved in our favor, would have caused us to modify our opinion on the financial statements.

## **Audit Adjustments**

During the audit, audit adjustments were posted for approximately \$5.8 million related to year-end grant and operating expenditure accruals. Additionally, an audit adjustment for approximately \$778,000 was made to adjust the investments in the State Treasurer's Cash Pool to fair value at June 30, 2002. There was one passed audit adjustment for approximately \$190,000 related to prior period prepaid expense.

## **Audit Process**

The staff of GOCO and the Divisions of Wildlife and Parks and Outdoor Recreation were most cooperative throughout the audit.

This letter is intended for the information of the Legislative Audit Committee. However, it is a matter of public record and its distribution is not limited.

Denver, Colorado  
September 16, 2002

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