

**The State Board of the
Great Outdoors Colorado Trust Fund**

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

June 30, 2006 and 2005

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August 10, 2006

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, 2006. Our audit was conducted 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. The basic financial statements of The State Board of the Great Outdoors Colorado Trust Fund as of and for the year ended June 30, 2005, were audited by other accountants whose report dated August 12, 2005, expressed an unqualified opinion on those statements.

We were engaged to conduct our audit pursuant to Article XXVII, Section 6(3), of the Colorado Constitution, which requires the State Auditor to conduct or cause to be conducted audits of The State Board of the Great Outdoors Colorado Trust Fund. The reports that we have issued as a result of this engagement are set forth in the table of contents, which follows.

\\ BKD, LLP

The State Board of the Great Outdoors Colorado Trust Fund

June 30, 2006 and 2005

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The State Board of the Great Outdoors Colorado Trust Fund

Report Summary

Financial and Compliance Audit

For the Years Ended June 30, 2006 and 2005

Authority, Purpose and Scope

The 2006 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, which requires the State Auditor to conduct an annual audit of GOCO, and Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of political subdivisions as required by law. The State Auditor has contracted with **BKD, LLP** to conduct this 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. We performed our audit work during the period from June through August 2006.

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, 2006. Our opinion letter, dated August 10, 2006, is presented in the Financial Statement section of this report. GOCO's financial statements for the Fiscal Year Ended June 30, 2005, were audited by other accountants whose report dated August 12, 2005, expressed an unqualified opinion on those statements.

Summary of Current Year Findings and Recommendations

We have identified one finding as follows:

Finding

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.

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the Fiscal Year Ended June 30, 2005, included three recommendations. The disposition of these audit recommendations as of August 31, 2006, was as follows:

Implemented	2
Partially implemented	1
Not implemented	<u>0</u>
	<u>3</u>

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The State Board of the Great Outdoors Colorado Trust Fund

Recommendation Locator

Our recommendation is addressed to
The State Board of the Great Outdoors Colorado Trust Fund

Financial and Compliance Audit

Fiscal Years Ended June 30, 2006 and 2005

Rec No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1.	8	Ensure that the percentage for grants authorized is at least 25 percent in the categories that are below the "substantially equal" expenditure level. Identify expenditure categories that are below the 25 percent level and focus on increasing those areas of spending by encouraging those divisions and entities to submit grant applications and to request reimbursement timely.	Agree	June 2007

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The State Board of the Great Outdoors Colorado Trust Fund

Description of The State Board of the Great Outdoors Colorado Trust Fund

Fiscal Years Ended June 30, 2006 and 2005

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 2006 is the thirteenth year of operations for GOCO. During 2002, House Bill 1250 extended the termination date of the State Lottery from July 1, 2009 to July 1, 2024, thus continuing funding for GOCO through June 30, 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 help ensure this, Article XXVII allocated part of net Lottery proceeds to 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 of the seven congressional districts, 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. During Fiscal Year 2006, GOCO had a permanent staff of 13 and received \$50.2 million in net Lottery proceeds, the maximum allowable for Fiscal Year 2006.

The State Board of the Great Outdoors Colorado Trust Fund

Finding and Recommendation

Fiscal Years Ended June 30, 2006 and 2005

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 area where additional efforts could be beneficial.

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. On December 12, 2001, the GOCO Board passed a new Overdue Grants Policy to facilitate better "throughput" of projects, minimize the number of old but unexpended grants, and to align the four categories' grant authorizations more equally.

The following two charts show the cumulative amounts in two 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 try and achieve the goal of equal spending across the four categories. The Grants Expended are cumulative actual expenditures.

GOCO Grants Cumulative through Fiscal Year 2006 (in thousands)

Program Category	Grants Authorized		Grants Expended		Over (Under) 25% Expended
	Amount	%	Amount	%	
Category 1 – Wildlife	\$ 125,747	23.6%	\$ 103,905	24.2%	\$ (3,220)
Category 2 – State parks and outdoor recreation	127,855	24.0	106,742	24.9	(383)
Category 3 – Competitive grants for open space	139,181	26.1	110,818	25.9	3,693
Category 4 – Competitive grants to local governments	<u>139,881</u>	<u>26.3</u>	<u>107,035</u>	<u>25.0</u>	0
	532,664	100.0%	428,500	100.0%	
Noncategorized – Discretionary	<u>1,070</u>	N/A	<u>1,070</u>	N/A	
Total	<u>\$ 533,734</u>		<u>\$ 429,570</u>		

Source: Data provided by GOCO

The State Board of the Great Outdoors Colorado Trust Fund
Finding and Recommendation
Fiscal Years Ended June 30, 2006 and 2005

GOCO Grants Cumulative through Fiscal Year 2005 (in thousands)

Program Category	Grants Authorized		Grants Expended		Over (Under) 25% Expended
	Amount	%	Amount	%	
Category 1 – Wildlife	\$ 116,526	23.4%	\$ 93,720	25.2%	\$ 980
Category 2 – State parks and outdoor recreation	115,637	23.2	91,487	24.7	(1,253)
Category 3 – Competitive grants for open space	132,150	26.6	97,176	26.2	4,436
Category 4 – Competitive grants to local governments	<u>133,516</u>	<u>26.8</u>	<u>88,577</u>	<u>23.9</u>	(4,163)
	497,829	100.0%	370,960	100.0%	
Noncategorized – Discretionary	<u>1,070</u>	N/A	<u>1,070</u>	N/A	
Total	\$ <u>498,899</u>		\$ <u>372,030</u>		

Source: Data provided by GOCO

This next chart compares the cumulative percentages in each category for Fiscal Year 2005 and Fiscal Year 2006 and calculates the variance of the percentages. During Fiscal Year 2006, three Grants Expended variances have become closer to compliance with the statutory requirement. Specifically, Category 2 expenditures for state parks and outdoor recreation have risen from 24.7% to 24.9%, Category 3 expenditures for competitive grants for open space fell from 26.2% to 25.9%, and Category 4 expenditures for competitive grants to local governments have risen from 23.9% to 25.0%. All three are moving closer to, or have reached, the goal of 25%. However, Category 1 expenditures for wildlife have moved farther from the statutory requirement of 25%, falling from 25.2% to 24.2%.

The State Board of the Great Outdoors Colorado Trust Fund
Finding and Recommendation
Fiscal Years Ended June 30, 2006 and 2005

GOCO Grants Cumulative Comparison Fiscal Year 2004, Fiscal Year 2005 and Fiscal Year 2006

Program Category	Grants Expended				
	FY2006	FY2005	FY2004	Increase (Decrease) from FY2005	Increase (Decrease) from FY2004
Category 1 – Wildlife	24.2%	25.2%	25.2%	(1.0%)	0.0%
Category 2 – State parks and outdoor recreation	24.9	24.7	26.2	0.2	(1.5)
Category 3 – Competitive grants for open space	25.9	26.2	25.5	(0.3)	0.7
Category 4 – Competitive grants to local governments	<u>25.0</u> <u>100.0%</u>	<u>23.9</u> <u>100.0%</u>	<u>23.1</u> <u>100.0%</u>	1.1	0.8
Noncategorized– Discretionary	N/A	N/A	N/A		N/A

Source: Data provided by GOCO and audited financial statements

Recommendation No. 1

GOCO should ensure that the percentage for grants authorized is at least 25 percent in the categories that are below the “substantially equal” expenditure level. In addition, GOCO should continue to identify expenditure categories that are below the 25 percent level and focus on increasing those areas of spending by encouraging those divisions and entities to submit grant applications and to request reimbursement timely.

GOCO Response

Agree. To be implemented by June 2007. At the end of Fiscal Year 2006, none of the funding purpose expenditures are significantly below 25%. The expenditures for each of the purposes are within 1% of being substantially equal.

Having the funding purposes be substantially equal continues to be a significant goal for the GOCO Board. The issue is discussed and considered whenever the Board is making a financial decision on allocating funds for grant awards. In addition, the Board continues to review procedures to evaluate if there are additional ways to encourage more timely reimbursement of awards.

The State Board of the Great Outdoors Colorado Trust Fund

Finding and Recommendation

Fiscal Years Ended June 30, 2006 and 2005

GOCO has addressed this area over the past several years:

First, Local Government grant reimbursement standards and procedures have been reviewed and simplified to encourage quick turn around for grant reimbursement.

Secondly, GOCO is also permitting Local Government grant recipients to get advance or progress payments. Previously, Local Government Grants were reimbursed only upon the completion of entire projects and review of all expenditure documentation. The new procedure will allow for a 50% progress or advance payment to be made to the grantees under certain circumstances. These improvements have expedited reimbursements for the Local Government grants. In Fiscal Year 2004, the expenditures for Local Government were only at 23.1% of total expenditures. In just two years, this has improved to 25.0%.

The Board also monitors the purpose allocations for grant awards recognizing that they have a direct impact on the expenditures. In past years, the Board has used this approach to assist in meeting this goal. In Fiscal Year 2003 and 2004, the Board was awarding more to the Local Government purpose in order to attempt to “boost” expenditures since this was the purpose that was substantially behind at that time.

In Fiscal Year 2005, a large-scale cycle of grants were awarded for \$60 million where approximately only 20% of the total awarded was to Colorado State Parks and the Division of Wildlife. To correct the substantially equal awards per purpose, the Board then awarded additional funds in Fiscal Year 2006 and Fiscal Year 2007 to both of these agencies. It is anticipated that at the end of Fiscal Year 2007 the awards and expenditures per purpose will all be within 1% of being substantially equal.

GOCO has continued to consult with the State Auditor on the purpose allocations.

The State Board of the Great Outdoors Colorado Trust Fund
Disposition of Prior Audit Recommendations
Fiscal Years Ended June 30, 2006 and 2005

The following audit recommendations are from The State Board of the Great Outdoors Colorado Trust Fund financial and compliance audit for the Fiscal Year Ended June 30, 2005.

Recommendation	Disposition
1. Ensure that the percentage for grants authorized is at least 25 percent in the categories that are below the “substantially equal” expenditure level. Identify expenditure categories that are below the 25 percent level and focus on increasing those areas of spending by encouraging those divisions and entities to submit grant applications and to request reimbursement timely.	Partially implemented. While GOCO has made efforts to ensure that awards are equal across quadrants, expenditures remain unequal.
2. GOCO should maintain personnel files at the corporate location in a secure area to alleviate the risk of loss or theft during the mailing process of personnel files.	Implemented.
3. GOCO should obtain and evaluate the Paychex Service Auditors’ Report (SAS 70, Type II report) for any findings or client control considerations and take appropriate actions as necessary.	Implemented.

Financial Statements Section

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Independent Accountants' Report

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the governmental activities and major fund of The State Board of the Great Outdoors Colorado Trust Fund, as of and for the year ended June 30, 2006, which collectively comprise The State Board of the Great Outdoors Colorado Trust Fund's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of The State Board of the Great Outdoors Colorado Trust Fund's management. Our responsibility is to express opinions on these financial statements based on our audit. The basic financial statements of The State Board of the Great Outdoors Colorado Trust Fund as of and for the year ended June 30, 2005, were audited by other accountants whose report dated August 12, 2005, expressed unqualified opinions on those statements.

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 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 audit provides a reasonable basis for our opinions.

In our opinion, the 2006 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of The State Board of the Great Outdoors Colorado Trust Fund as of June 30, 2006, and the respective changes in financial position thereof 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 August 10, 2006, 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 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.

The management's discussion and analysis on pages 15 through 18 and the major fund budgetary comparison information on pages 41 and 42 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to the management's discussion and analysis and the 2006 major fund budgetary information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The aforementioned other accountants disclaimed an opinion on the 2005 major fund budgetary comparison information in their report dated August 12, 2005.

\s\ **BKD, LLP**

August 10, 2006

The State Board of the Great Outdoors Colorado Trust Fund

Management's Discussion and Analysis

June 30, 2006 and 2005

The State Board of the Great Outdoors Colorado Trust Fund's (GOCO) discussion and analysis is designed to provide a financial performance overview of GOCO's financial activities for the Fiscal Years Ended June 30, 2006 and 2005. The management's discussion and analysis is intended to be read in conjunction with the GOCO financial statements beginning on page 21.

Financial Highlights

GOCO is primarily a pass-through entity; it receives funding from net Lottery proceeds and grants them for projects that preserve, protect and enhance Colorado's wildlife, park, river, trail and open space heritage. Grants are provided to four areas: wildlife; state parks and outdoor recreation; open space and natural areas; local governments' open space, parks and environmental education. The following table highlights significant variances between Fiscal Year 2006 and Fiscal Year 2005 and Fiscal Year 2005 and Fiscal Year 2004.

	Fiscal Year Ended June 30,			2006/2005 Variance	2005/2004 Variance
	2006	2005	2004		
Lottery revenues	\$ 50,230,238	\$ 50,176,516	\$ 49,639,294	\$ 53,722	\$ 537,222
Grant expenditures	\$ 57,540,024	\$ 58,682,461	\$ 43,601,606	\$ (1,142,437)	\$ 15,080,855

2006

- GOCO received its maximum allowable Lottery proceeds for the year of approximately \$50.2 million, per the Constitutional cap. This represents a \$54,000 increase over Fiscal Year 2005 in Lottery proceeds to GOCO.
- Grant expenditures decreased by 1.9% or \$1.1 million from Fiscal Year 2005. The higher expenditures in Fiscal Year 2005 can be attributed to two large projects closing for a total of \$14 million. Additional large-scale projects that were awarded in December 2004 continued to close during Fiscal Year 2006 and therefore the high level of grant expenditures was maintained from Fiscal Year 2005.

2005

- GOCO received its maximum allowable Lottery proceeds for the year of approximately \$50.2 million, per the Constitutional cap. This represents a \$537,000 increase over Fiscal Year 2004 in Lottery proceeds to GOCO.
- Grant expenditures increased by 34.6% or \$15 million from Fiscal Year 2004. The higher expenditures in Fiscal Year 2005 can be attributed to two large projects closing for a total of \$14 million.

The State Board of the Great Outdoors Colorado Trust Fund

Management's Discussion and Analysis

June 30, 2006 and 2005

Overview of the Financial Statements

GOCO's only source of income, other than investment income, is the Colorado Lottery. Net Lottery proceeds are distributed as follows:

- 40% to the Conservation Trust Fund,
- 10% to the Division of Parks & Outdoor Recreation,
- The remaining 50% to GOCO up to the statutory limit.

GOCO's funding is capped at \$35 million a year adjusted for inflation based on 1992 (\$50.2 million in Fiscal Year 2006 and Fiscal Year 2005); any remaining net Lottery proceeds in excess of the cap are distributed to the State Public School Fund.

Government-wide Statement

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets as of June 30, 2006, 2005, and 2004.

	June 30,		
	2006	2005	2004
Current and other assets	\$ 49,570,519	\$ 54,196,244	\$ 64,851,654
Capital assets	<u>105,984</u>	<u>90,754</u>	<u>104,528</u>
Total assets	49,676,503	54,286,998	64,956,182
Current liabilities	8,256,953	4,900,820	6,516,341
Net assets			
Invested in capital assets	105,984	90,754	104,528
Unrestricted	<u>41,313,566</u>	<u>49,295,424</u>	<u>58,335,313</u>
Total net assets	<u>\$ 41,419,550</u>	<u>\$ 49,386,178</u>	<u>\$ 58,439,841</u>

2006

The significant portions of current and other assets are cash and the Lottery proceeds receivable. Lottery proceeds receivable decreased to \$1.9 million in Fiscal Year 2006 from \$12.2 million in Fiscal Year 2005. The cash balance increased to \$46.7 million in Fiscal Year 2006 from \$42 million in Fiscal Year 2005. The decrease in the receivable is due to the timing of when the Constitutional cap is reached. In Fiscal Year 2006, the Constitutional amount was reached in April, whereas in Fiscal Year 2005 the maximum Lottery proceeds were reached in June resulting in a substantially higher receivable in Fiscal Year 2005 at year-end.

The State Board of the Great Outdoors Colorado Trust Fund
Management's Discussion and Analysis
June 30, 2006 and 2005

Additionally, GOCO entered into a zero interest promissory note with the City of Colorado Springs, Colorado in the amount of \$1,000,000 for the acquisition of Red Rock Canyon property which is reported as a note receivable as of June 30, 2006.

As of June 30, 2006 the current liabilities increased by \$3.4 million from June 30, 2005. The liabilities incurred at year-end consist mainly of monthly bills that are owed to the Colorado Division of Parks and Outdoor Recreation and the Colorado Division of Wildlife. In Fiscal Year 2005, each agency had the May and June 2005 bills outstanding. In Fiscal Year 2006, in addition to the May and June bills, the bills for Division of Parks and Outdoor Recreation for March and April 2006 were also in process at that time and therefore accrued. This resulted in an increase in the year-end amount of current liabilities as of June 30, 2006.

2005

The significant portions of current and other assets are cash and the Lottery proceeds receivable. The Lottery proceeds receivable increased to \$12.2 million in Fiscal Year 2005 from \$10.5 million in Fiscal Year 2004. The cash balance decreased to \$42 million in Fiscal Year 2005 from \$51.3 in Fiscal Year 2004. This decrease is due to increased grant expenditures in Fiscal Year 2005. The loan receivable from the Nature Conservancy, which had a balance of \$3,000,000 at June 30, 2004, was fully repaid to Great Outdoors Colorado during the Fiscal Year Ended June 30, 2005.

Statement of Activities

The following table reflects the condensed statement of activities for the Fiscal Years Ended June 30, 2006, 2005, and 2004.

	Fiscal Year Ended June 30,		
	2006	2005	2004
Revenue			
Lottery revenue	\$ 50,230,238	\$ 50,176,516	\$ 49,639,294
Investment earnings	<u>1,026,064</u>	<u>956,365</u>	<u>22,226</u>
Total revenue	51,256,302	51,132,881	49,661,520
Program expenses			
Grants expended	57,540,024	58,682,461	43,601,606
Personnel services and benefits	1,036,103	1,080,384	1,001,513
Operating	<u>646,803</u>	<u>423,699</u>	<u>619,907</u>
Total expenses	<u>59,222,930</u>	<u>60,186,544</u>	<u>45,223,026</u>
Change in net assets	(7,966,628)	(9,053,663)	4,438,494
Beginning net assets	<u>49,386,178</u>	<u>58,439,841</u>	<u>54,001,347</u>
Ending net assets	<u>\$ 41,419,550</u>	<u>\$ 49,386,178</u>	<u>\$ 58,439,841</u>

The State Board of the Great Outdoors Colorado Trust Fund

Management's Discussion and Analysis

June 30, 2006 and 2005

2006

Revenue was consistent with GOCO reaching the Constitutional cap each year from Fiscal Years 2004 through 2006. Operating expenses were increased in Fiscal Year 2006 due to expenses related to GOCO's Open Space Mapping project being completed in conjunction with Colorado State University. The GOCO Board agreed to undertake the mapping project at the request of Governor Bill Owens. It will provide an inventory of protected lands in Colorado, thereby providing an important planning tool to state agencies, local governments and land trusts for future land conservation work. It will provide a depth of information not previously gathered. Close coordination between GOCO, CSU's Natural Resource Ecology Laboratory, the Department of Natural Resources and others ensures that it complements and avoids duplicating data already collected. The project is estimated to be completed in June 2007. As of June 30, 2006, the Board had spent approximately \$130,000 on this project. It is estimated that an additional \$40,000 to \$80,000 will be invested.

2005

Two items should be mentioned in comparing the change in net assets from Fiscal Year 2004 to Fiscal Year 2005.

- As previously mentioned, grant expenses increased by 34.6% in Fiscal Year 2005. The higher expenses in Fiscal Year 2005 can be attributed to two legacy projects for which GOCO expended over \$14 million during Fiscal Year 2005. The staff has continued to increase its efforts to work with grantees in completing the required documentation for grant reimbursement.
- GOCO's net investment earnings increased by \$934,000 in Fiscal Year 2005 compared to Fiscal Year 2004. This large increase from the prior year is attributed to the large unrealized loss on investments held by the State incurred in Fiscal Year 2004. According to the State Treasurer's office, the Fiscal Year 2004 unrealized loss was due to a reduction in the investment pool and a shift from long-term to more short-term investments.

Economic Factors and Next Year's Budget

GOCO's projections for Lottery proceeds that will be available to GOCO are 5% lower than the Colorado Lottery's projections. Next year, GOCO is projecting \$45.84 million in revenue from the Lottery, while the Constitutional cap for Fiscal Year 2007 is projected to be \$51.2 million. Also, GOCO is budgeting \$1,891,880 for operating expenditures. This amount is classified as follows:

Salaries and Benefits	\$ 1,230,473
Operating expenses	645,907
Capital expenditures	<u>15,500</u>
	<u>\$ 1,891,880</u>

The budgeted increase over Fiscal Year 2006 actual operating expenditures is due to changes in our employee count. GOCO added a part-time employee in June 2006. In addition there is another FTE that is budgeted in Fiscal Year 2007. Also, additional costs for health insurance coverage has been budgeted; GOCO historically has been experiencing a 13%-15% increase each year.

Basic Financial Statements

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The State Board of the Great Outdoors Colorado Trust Fund
Statement of Net Assets and Governmental Fund Balance Sheet
June 30, 2006

Assets

	General Fund	Adjustments (Note 3)	Statement of Net Assets
Cash and investments	\$ 46,694,274	\$ -	\$ 46,694,274
Lottery proceeds receivable	1,852,837	-	1,852,837
Note receivable	1,000,000	-	1,000,000
Other assets	23,408	-	23,408
Capital assets, net of accumulated depreciation	-	105,984	105,984
Total assets	\$ 49,570,519	105,984	49,676,503

Liabilities

Grants payable	\$ 8,192,981	-	8,192,981
Accounts payable	29,023	-	29,023
Compensated absences payable	34,949	-	34,949
Total liabilities	8,256,953	-	8,256,953

Fund Balances/Net Assets

Fund balances			
Designated for subsequent year's expenditures	12,346,880	(12,346,880)	-
Unreserved and undesignated	28,966,686	(28,966,686)	-
Total fund balances	41,313,566	(41,313,566)	-
Total liabilities and fund balances	\$ 49,570,519		
Net assets			
Invested in capital assets		105,984	105,984
Unrestricted		41,313,566	41,313,566
Total net assets		\$ 41,419,550	\$ 41,419,550

The State Board of the Great Outdoors Colorado Trust Fund
Statement of Net Assets and Governmental Fund Balance Sheet
June 30, 2005

Assets

	General Fund	Adjustments (Note 3)	Statement of Net Assets
Cash and investments	\$ 41,980,086	\$ -	\$ 41,980,086
Lottery proceeds receivable	12,198,467	-	12,198,467
Other assets	17,691	-	17,691
Capital assets, net of accumulated depreciation	-	90,754	90,754
Total assets	\$ 54,196,244	90,754	54,286,998

Liabilities

Grants payable	\$ 4,727,196	-	4,727,196
Accounts payable	135,837	-	135,837
Compensated absences payable	37,787	-	37,787
Total liabilities	4,900,820	-	4,900,820

Fund Balances/Net Assets

Fund balances			
Designated for subsequent year's expenditures	9,638,762	(9,638,762)	-
Unreserved and undesignated	39,656,662	(39,656,662)	-
Total fund balances	49,295,424	(49,295,424)	-
Total liabilities and fund balances	\$ 54,196,244		
Net assets			
Invested in capital assets		90,754	90,754
Unrestricted		49,295,424	49,295,424
Total net assets		\$ 49,386,178	\$ 49,386,178

The State Board of the Great Outdoors Colorado Trust Fund
Statement of Activities and Governmental Fund Revenues, Expenditures, and
Changes In Fund Balance
For the Year Ended June 30, 2006

	General Fund	Adjustments (Note 3)	Statement of Activities
Expenditures/expenses			
Grants expended	\$ 57,540,024	\$ -	\$ 57,540,024
Personnel services and benefits	1,036,103	-	1,036,103
Operating	622,306	24,497	646,803
Capital outlay	<u>39,727</u>	<u>(39,727)</u>	<u>-</u>
Total expenditures/expenses	<u>59,238,160</u>	<u>(15,230)</u>	<u>59,222,930</u>
Program revenues			
State lottery proceeds	<u>50,230,238</u>	-	<u>50,230,238</u>
Net program revenues (expenses)			<u>(8,992,692)</u>
General revenues			
Investment earnings	<u>1,026,064</u>	-	<u>1,026,064</u>
Excess (deficiency) of revenues over expenditures	(7,981,858)	7,981,858	-
Change in net assets	<u>-</u>	<u>(7,966,628)</u>	<u>(7,966,628)</u>
Fund balance/net assets			
Beginning of the year	<u>49,295,424</u>	<u>90,754</u>	<u>49,386,178</u>
End of the year	<u>\$ 41,313,566</u>	<u>\$ 105,984</u>	<u>\$ 41,419,550</u>

The State Board of the Great Outdoors Colorado Trust Fund
Statement of Activities and Governmental Fund Revenues, Expenditures, and
Changes In Fund Balance
For the Year Ended June 30, 2005

	General Fund	Adjustments (Note 3)	Statement of Activities
Expenditures/expenses			
Grants expended	\$ 58,682,461	\$ -	\$ 58,682,461
Personnel services and benefits	1,080,384	-	1,080,384
Operating	398,020	25,679	423,699
Capital outlay	<u>11,905</u>	<u>(11,905)</u>	<u>-</u>
Total expenditures/expenses	<u>60,172,770</u>	<u>13,774</u>	<u>60,186,544</u>
Program revenues			
State lottery proceeds	<u>50,176,516</u>	<u>-</u>	<u>50,176,516</u>
Net program revenues (expenses)			<u>(10,010,028)</u>
General revenues			
Investment earnings	<u>956,365</u>	<u>-</u>	<u>956,365</u>
Excess (deficiency) of revenues over expenditures	(9,039,889)	9,039,889	-
Change in net assets	<u>-</u>	<u>(9,053,663)</u>	<u>(9,053,663)</u>
Fund balance/net assets:			
Beginning of the year	<u>58,335,313</u>	<u>104,528</u>	<u>58,439,841</u>
End of the year	\$ <u>49,295,424</u>	\$ <u>90,754</u>	\$ <u>49,386,178</u>

The State Board of the Great Outdoors Colorado Trust Fund

Notes to Financial Statements

June 30, 2006 and 2005

Note 1: 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 the State 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. 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 does not have any component units.

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 2: Summary of Significant Accounting Policies

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

Government-wide and fund financial statements

Because GOCO is a special-purpose government engaged in a single governmental program, it has presented its government-wide financial statements and fund financial statements together with an adjustment column to show the reconciliation between the two required basic statements.

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of GOCO.

Both of the government-wide financial statements are designed to distinguish functions of GOCO that are principally supported by intergovernmental revenues and operating grants (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The primary governmental activities of GOCO include the distribution of funds to preserve and enhance Colorado parks, wildlife, trails, rivers, open space and natural areas. GOCO has no business-type activities.

The State Board of the Great Outdoors Colorado Trust Fund

Notes to Financial Statements

June 30, 2006 and 2005

The statement of activities demonstrates the degree to which the direct expenses of a given function or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include grants, contributions and other revenues that are restricted to use in the operational or capital requirements of a specific function or program. Other revenues not directly related to a particular function or program are reported separately as general revenues.

Since GOCO does not operate any enterprise fund or internal service fund activities, there are no proprietary funds to include in this report. The general fund, because it is considered to be a major governmental fund and is GOCO's only fund, is reported as a separate column in the fund financial statements.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as expenditures when all of the eligibility and reimbursement requirements of the grantor have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, GOCO considers revenues to be available if they are collectible within approximately sixty days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Under the modified accrual basis of accounting, as used in the governmental fund financial statements, acquisition costs of capital assets are recorded as expenditures at the time of purchase and depreciation is not recognized on these capital assets.

GOCO reports the following major governmental fund:

The general fund is the primary operating fund. It accounts for all general operating financial resources of GOCO. There are no resources required to be accounted for in another fund.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB).

Budgets

GOCO's budget is not legislatively adopted.

The State Board of the Great Outdoors Colorado Trust Fund

Notes to Financial Statements

June 30, 2006 and 2005

Capital Assets

The capital assets of GOCO consist primarily of furniture and fixtures, computer hardware and software, equipment and leasehold improvements used in the routine operation of GOCO. Durable items with a useful life greater than one year and a cost greater than \$1,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Capital assets of GOCO are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Type</u>	<u>Years</u>
Furniture and fixtures	10
Computer hardware and software	3-10
Equipment	5-7

Leasehold improvements are amortized over the life of the lease or expected useful life, whichever is less.

Accrual for compensated absences

GOCO has a policy that allows permanent employees to accumulate unused vacation benefits. GOCO also allows the accumulation of compensatory time up to a maximum of 240 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.

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 adjusted for changes in the Consumer Price Index compounded annually based on 1992. GOCO's share for Fiscal Years 2006 and 2005 was approximately \$50.2 million each year, which was the maximum amount allowable under statute. GOCO has estimated Lottery proceeds to be \$45.8 million for Fiscal Year 2007 which is less than the estimated maximum amount allowable of approximately \$51.2 million for that year.

The State Board of the Great Outdoors Colorado Trust Fund
Notes to Financial Statements
June 30, 2006 and 2005

Fund equity

Designations of unreserved fund balances indicate GOCO's intention for future utilization of such funds and are subject to change by GOCO. The designated fund balance in the General Fund in the amount of \$12,346,880 and \$9,638,762 as of June 30, 2006 and 2005, respectively, represents the amount of budgeted subsequent year expenditures in excess of revenues.

Note 3: Reconciliation of Government-wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The statement of net assets and governmental fund balance sheet includes an adjustment between fund balance – total governmental fund and net assets – governmental activities as reported in the government-wide statement of net assets. The only element of that adjustment pertains to capital assets. Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund. The \$105,984 and \$90,754 adjustments as of June 30, 2006 and 2005, respectively, to capital assets, net of accumulated depreciation, represent the capital assets of GOCO, net of accumulated depreciation.

Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities

The statement of activities and governmental fund revenues, expenditures and changes in fund balance includes an adjustment between net changes in fund balance – total governmental fund and change in net assets of governmental activities as reported in the government-wide statement of activities. The only element of that adjustment pertains to capital assets.

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This adjustment represents the amount by which depreciation expense exceeded capital outlays (capital outlays exceeded depreciation expense) in the periods presented. The details of this adjustment are as follows:

	Year Ended June 30,	
	2006	2005
Capital outlay, net of proceeds on sale of fixed assets of \$65 and \$- for 2006 and 2005, respectively	\$ (39,662)	\$ (11,905)
Depreciation expense	24,432	25,679
Net adjustment to (increase) decrease net changes in fund balances – total governmental fund to arrive at change in net assets of governmental activities	\$ (15,230)	\$ 13,774

The State Board of the Great Outdoors Colorado Trust Fund
Notes to Financial Statements
June 30, 2006 and 2005

Note 4: 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 specified under 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.

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.

As of June 30, 2006, GOCO's cash deposits had a bank balance and a carrying balance as follows:

	Bank Balance	Carrying Balance
Cash on hand	\$ —	\$ 267
Insured deposits	100,000	12,746
Deposits collateralized in single institution pools	425,653	—
	\$ 525,653	\$ 13,013

As of June 30, 2005, GOCO's cash deposits had a bank balance and a carrying balance as follows:

	Bank Balance	Carrying Balance
Cash on hand	\$ —	\$ 335
Insured deposits	100,000	100,000
Deposits collateralized in single institution pools	555,546	291,308
	\$ 655,546	\$ 391,643

Because GOCO's deposits are either FDIC insured or collateralized under PDPA in single institution pools, none are deemed to be exposed to custodial credit risk under GASB 40, *Deposit and Investment Risk Disclosures*.

The State Board of the Great Outdoors Colorado Trust Fund

Notes to Financial Statements

June 30, 2006 and 2005

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

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.

State Treasurer's Cash Pool

GOCO invests its net Lottery proceeds with the State Treasurer. 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 that also provides GASB 40 disclosures regarding investment risk for GOCO's investments held by the State Treasurer. See Note 14 regarding GOCO's adoption of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures* during the Year Ended June 30, 2005.

Summary

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

	2006	2005
Cash deposits	\$ 13,013	\$ 391,643
Investments	46,681,261	41,588,443
	\$ 46,694,274	\$ 41,980,086

The State Board of the Great Outdoors Colorado Trust Fund

Notes to Financial Statements

June 30, 2006 and 2005

Investment Earnings

Investment earnings for the Fiscal Year Ended June 30, are composed of the following:

	<u>2006</u>	<u>2005</u>
Investment income	\$ 1,473,187	\$ 1,333,317
Net unrealized loss on investments held by the State	<u>(447,123)</u>	<u>(376,952)</u>
Investment earnings	<u>\$ 1,026,064</u>	<u>\$ 956,365</u>

Because of the significance of the net unrealized loss on investments held by the State for 2006 and 2005, investment earnings were not sufficient to cover personnel services and benefits and other operating expenditures. Accordingly, state Lottery proceeds were used to fund the excess expenditures.

Note 5: Lottery Proceeds Receivable

As of June 30, 2006 and 2005, GOCO had distributions owed from the Colorado State Lottery amounting to \$1,852,837 and \$12,198,467, respectively. For the receivable as of June 30, 2006, this represents GOCO's allocation of net proceeds from the Colorado State Lottery for the month of April 2006, the month in which GOCO reached the Constitutional cap (Note 2). For the receivable as of June 30, 2005, this represents GOCO's allocation of net proceeds from the Colorado State Lottery for the months of April through June 2005. These revenues are both measurable and available to finance expenditures of the fiscal period.

Note 6: Note Receivable

On June 9, 2006, GOCO entered into a zero interest promissory note (with annually renewable one year terms) with the City of Colorado Springs, Colorado (the City) in the amount of \$1,000,000 for the acquisition of Red Rock Canyon property in El Paso County, Colorado. Because the City utilized Certificates of Participation (COPs) to purchase the property, an easement on the property cannot be recorded until the COPs are paid in full. Accordingly, the easement has been placed in escrow and will remain there until the COPs have been paid in full by the City, estimated to be in 2015. Upon the due date of the note, the note will be considered paid in full without the transfer of any principal or interest to GOCO provided that: 1) the COPs have been redeemed, 2) all other terms (relating to items such as project scope, loan/grant conditions, budget, timeline, etc.) of the loan agreement have been satisfied and 3) there is no event of default. Under GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the note is considered an advance until these requirements are met. At the time the requirements are met, GOCO will reclassify the note to grant expense.

The State Board of the Great Outdoors Colorado Trust Fund

Notes to Financial Statements

June 30, 2006 and 2005

Note 7: Capital Assets

An analysis of the changes in capital assets for the Year Ended June 30, 2006, follows:

	Balance at July 1, 2005	Additions	Retirements	Balance at June 30, 2006
Equipment	\$ 85,225	\$ 13,053	\$ (16,850)	\$ 81,428
Software	77,789	25,475	—	103,264
Furniture	27,995	1,199	—	29,194
Leasehold improvements	<u>81,018</u>	<u>—</u>	<u>—</u>	<u>81,018</u>
	272,027	39,727	(16,850)	294,904
Less accumulated depreciation	<u>(181,273)</u>	<u>(24,432)</u>	<u>16,785</u>	<u>(188,920)</u>
Total capital assets, net	<u>\$ 90,754</u>	<u>\$ 15,295</u>	<u>\$ (65)</u>	<u>\$ 105,984</u>

An analysis of the changes in capital assets for the Year Ended June 30, 2005, follows:

	Balance at July 1, 2004	Additions	Retirements	Balance at June 30, 2005
Equipment	\$ 73,320	\$ 11,905	\$ —	\$ 85,225
Software	81,064	—	(3,275)	77,789
Furniture	27,995	—	—	27,995
Leasehold improvements	<u>81,018</u>	<u>—</u>	<u>—</u>	<u>81,018</u>
	263,397	11,905	(3,275)	272,027
Less accumulated depreciation	<u>(158,869)</u>	<u>(25,679)</u>	<u>3,275</u>	<u>(181,273)</u>
Total capital assets, net	<u>\$ 104,528</u>	<u>\$ (13,774)</u>	<u>\$ —</u>	<u>\$ 90,754</u>

The State Board of the Great Outdoors Colorado Trust Fund

Notes to Financial Statements

June 30, 2006 and 2005

Note 8: Awarded Grants and Expended Grants

The following is a summary of grants authorized and grants expended from inception in 1993 through June 30, 2006 and June 30, 2005:

Grants Awarded

	Cumulative Authorized Grants at June 30, 2005	Transfers/ Additions	Transfers/ Deletions	Cumulative Authorized Grants at June 30, 2006
Colorado Division of Wildlife	\$ 116,526,092	\$ 10,250,000	\$ (1,028,440)	\$ 125,747,652
Colorado State Parks and Outdoor Recreation	115,636,782	12,472,018	(254,134)	127,854,666
Open space	132,150,353	7,341,284	(310,882)	139,180,755
Local governments	133,515,373	7,866,623	(1,501,295)	139,880,701
Noncategorized – Discretionary	<u>1,070,174</u>	<u>—</u>	<u>—</u>	<u>1,070,174</u>
	<u>\$ 498,898,774</u>	<u>\$ 37,929,925</u>	<u>\$ (3,094,751)</u>	<u>\$ 533,733,948</u>
	Cumulative Authorized Grants at June 30, 2004	Transfers/ Additions	Transfers/ Deletions	Cumulative Authorized Grants at June 30, 2005
Colorado Division of Wildlife	\$ 101,786,711	\$ 15,000,000	\$ (260,619)	\$ 116,526,092
Colorado State Parks and Outdoor Recreation	100,172,128	15,660,048	(195,394)	115,636,782
Open space	98,869,819	33,860,730	(580,196)	132,150,353
Local governments	100,180,740	33,817,657	(483,024)	133,515,373
Noncategorized – Discretionary	<u>1,070,174</u>	<u>—</u>	<u>—</u>	<u>1,070,174</u>
	<u>\$ 402,079,572</u>	<u>\$ 98,338,435</u>	<u>\$ (1,519,233)</u>	<u>\$ 498,898,774</u>

The State Board of the Great Outdoors Colorado Trust Fund
Notes to Financial Statements
June 30, 2006 and 2005

Grants Expended

	Cumulative Expended for Grants at June 30, 2005	Net Additions and Transfers	Cumulative Expended for Grants at June 30, 2006
Colorado Division of Wildlife	\$ 93,719,900	\$ 10,184,560	\$ 103,904,460
Colorado State Parks and Outdoor Recreation	91,487,151	15,254,891	106,742,042
Open space	97,175,697	13,642,566	110,818,263
Local governments	88,576,832	18,458,007	107,034,839
Noncategorized – Discretionary	<u>1,070,174</u>	<u>—</u>	<u>1,070,174</u>
	<u>\$ 372,029,754</u>	<u>\$ 57,540,024</u>	<u>\$ 429,569,778</u>

	Cumulative Expended for Grants at June 30, 2004	Net Additions and Transfers	Cumulative Expended for Grants at June 30, 2005
Colorado Division of Wildlife	\$ 78,663,957	\$ 15,055,943	\$ 93,719,900
Colorado State Parks and Outdoor Recreation	81,792,288	9,694,863	91,487,151
Open space	79,632,272	17,543,425	97,175,697
Local governments	72,188,602	16,388,230	88,576,832
Noncategorized – Discretionary	<u>1,070,174</u>	<u>—</u>	<u>1,070,174</u>
	<u>\$ 313,347,293</u>	<u>\$ 58,682,461</u>	<u>\$ 372,029,754</u>

Note 9: Commitments and Contingencies

Operating Lease

GOCO leases facilities, copy machines and vehicles under operating leases that expire in April 2011, March 2009, August 2008, and January 2007, respectively. Additionally, GOCO leases a postage meter under an operating lease that does not have an expiration date. Total facilities and equipment rental lease expense for the Years Ended June 30, 2006 and 2005 was \$127,002 and \$27,539, respectively. The facility lease contains an escalation clause, however, lease payments are presented on a straight-line basis for financial reporting procedures. The future minimum lease payments under the leases are as follows:

The State Board of the Great Outdoors Colorado Trust Fund
Notes to Financial Statements
June 30, 2006 and 2005

Year Ending June 30,	Amount
2007	\$ 117,670
2008	118,784
2009	118,216
2010	114,241
2011	<u>100,096</u>
Total	<u>\$ 569,007</u>

Note 10: 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.

Defined Contribution Pension Plan

As of July 1, 2002, GOCO amended and restated the State Board, Great Outdoors Colorado Trust Fund Pension Plan. Unified Trust Company administers this plan at the direction of each employee for his/her own account.

There are no age or service requirements determining eligibility and participation is mandatory. Employer contributions are calculated based on 10.2% of each eligible employee's gross salary (base salary plus performance awards). 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.

GOCO contributed \$84,245 and \$89,362 to the plan for the Fiscal Years Ended June 30, 2006 and 2005, respectively.

Deferred Compensation Plan

GOCO has a State Board of the Great Outdoors Colorado Trust Fund Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. This plan is administered by Unified Trust Company 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.

The State Board of the Great Outdoors Colorado Trust Fund

Notes to Financial Statements

June 30, 2006 and 2005

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 not to exceed a maximum permissible amount. 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.

Note 11: 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 (two from each congressional district) 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 12: 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.

Note 13: 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, Amendment 8 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 State Board of the Great Outdoors Colorado Trust Fund

Notes to Financial Statements

June 30, 2006 and 2005

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 14: Adoption of GASB Statement No. 40

Effective July 1, 2004, GOCO adopted Governmental Accounting Standards Board Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures*. GASB 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. Adoption of GASB 40 had no effect on net assets as of July 1, 2004 or changes in net assets for the Fiscal Year Ended June 30, 2005. GOCO invests net lottery proceeds with the State Treasurer. A detailed composition of cash and investments held in the State Treasurer’s cash pool and the related disclosures required under GASB 40 is available in the annual State Treasurer’s Report.

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Required Supplementary 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, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Revenues			
State Lottery proceeds	\$ 46,460,000	\$ 50,230,238	\$ 3,770,238
Net investment and miscellaneous income	<u>725,000</u>	<u>1,026,064</u>	<u>301,064</u>
Total revenues	<u>47,185,000</u>	<u>51,256,302</u>	<u>4,071,302</u>
Expenditures			
Grants expended	55,000,000	57,540,024	(2,540,024)
Personnel services and benefits	1,104,652	1,036,103	68,549
Operating expenditures	703,610	622,306	81,304
Capital outlay	<u>15,500</u>	<u>39,727</u>	<u>(24,227)</u>
Total expenditures	<u>56,823,762</u>	<u>59,238,160</u>	<u>(2,414,398)</u>
Excess (deficiency) of revenues over expenditures	(9,638,762)	(7,981,858)	1,656,904
Fund balance - beginning of year	<u>29,319,261</u>	<u>49,295,424</u>	<u>19,976,163</u>
Fund balance - end of year	<u>\$ 19,680,499</u>	<u>\$ 41,313,566</u>	<u>\$ 21,633,067</u>

The State Board of the Great Outdoors Colorado Trust Fund
Schedule of Revenues and Expenditures – Budget and Actual
General Fund
Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Revenues			
State Lottery proceeds	\$ 45,510,100	\$ 50,176,516	\$ 4,666,416
Net investment and miscellaneous income	<u>675,000</u>	<u>956,365</u>	<u>281,365</u>
Total revenues	<u>46,185,100</u>	<u>51,132,881</u>	<u>4,947,781</u>
Expenditures			
Grants expended	58,230,000	58,682,461	(452,461)
Personnel services and benefits	873,969	1,080,384	(206,415)
Operating expenditures	775,612	398,020	377,592
Capital outlay	<u>17,500</u>	<u>11,905</u>	<u>5,595</u>
Total expenditures	<u>59,897,081</u>	<u>60,172,770</u>	<u>(275,689)</u>
Excess (deficiency) of revenues over expenditures	(13,711,981)	(9,039,889)	4,672,092
Fund balance - beginning of year	<u>43,031,242</u>	<u>58,335,313</u>	<u>15,304,071</u>
Fund balance - end of year	<u>\$ 29,319,261</u>	<u>\$ 49,295,424</u>	<u>\$ 19,976,163</u>



Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Members of the Legislative Audit Committee:

We have audited the financial statements of the governmental activities and major fund of The State Board of the Great Outdoors Colorado Trust Fund (GOCO) as of and for the year ended June 30, 2006, which collectively comprise The State Board of Great Outdoors Colorado Trust Fund's basic financial statements and have issued our report thereon dated August 10, 2006. 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 GOCO's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether GOCO'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*.

We noted certain matters that we reported to the Members of the Legislative Audit Committee in the Finding and Recommendation section as listed in the foregoing Table of Contents.

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

\s\ **BKD, LLP**

August 10, 2006



Required Communications to the Legislative Audit Committee

Members of the Legislative Audit Committee:

As part of our audit of the financial statements of The State Board of the Great Outdoors Colorado Trust Fund (GOCO) as of and for the year ended June 30, 2006, we wish to communicate the following to you.

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America (GAAS) is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing GAAS procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction.

Significant Accounting Policies

GOCO's significant accounting policies are described in Footnote 2 of the audited financial statements. We noted no unusual accounting policies or accounting methods used by GOCO.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following area involves a significant area of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

The allowance for doubtful receivables which is \$0 as of June 30, 2006 and 2005.

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. There were no audit adjustments proposed to the financial statements.

Disagreements with Management

We are pleased to report that no disagreements arose during the course of our audit.

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This letter is intended solely for the information and use of the Legislative Audit Committee, the State Auditor, and GOCO and is not intended to be and should not be used by anyone other than this specified party. However, it is a matter of public record and its distribution is not limited.

\s\ **BKD, LLP**

August 10, 2006

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