

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

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

June 30, 2003

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August 15, 2003

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, 2003. 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 Article XXVII, Section 6(3), of the Colorado Constitution, which authorizes 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.



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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, 2003

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 August 2003.

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, 2003. Our opinion letter, dated August 15, 2003, is presented in the Financial Statement section of this report.

SUMMARY OF CURRENT YEAR FINDINGS AND RECOMMENDATIONS

We have identified two findings as follows:

Findings:

- GOCO does not review supporting documentation of qualifying grant expenditures from the Division of Wildlife (DOW) and Division of Parks and Outdoor Recreation (DPOR). In addition, comprehensive Memorandum of Agreements with DOW and DPOR have not been finalized that provide provisions specific to the level of detail to be maintained by DOW and DPOR necessary to support grant disbursements to those Divisions.
- 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.

The State Board of the Great Outdoors Colorado Trust Fund

REPORT SUMMARY (CONTINUED)

Financial and Compliance Audit
For the Year Ended June 30, 2003

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

The prior year report for the year ended June 30, 2002 included five recommendations. Three of the five recommendations have been fully implemented and two recommendations have 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, 2003

Rec No.	Page No.	Recommendation Summary	Agency Response	Implemen- tation Date
1.	11	Conduct periodic reviews of the supporting documentation during the fiscal year to gain assurance that billed amounts are appropriate. Finalize the comprehensive Memorandum of Agreements with DOW and DPOR and assure that the MOAs provide provisions specific to the level of detail to be maintained by DOW and DPOR necessary to support grant disbursements to those Divisions.	Agree	March 2004
2.	12	Ensure that the percentage for grants authorized is at least twenty-five percent in the categories that are below the “substantially equal” expenditure level. Identify expenditure categories that are below the twenty-five 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 2004

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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 2003 is the tenth 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 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 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 2003, GOCO had a permanent staff of 14 and received \$48.7 million in net lottery proceeds.

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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, 2003

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, 2003. The narrative should be read in conjunction with the GOCO's financial statements, which begin on page 26.

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 designated 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.

As noted in the Report of Independent Certified Public Accountants and also in note B8 to the financial statements, GOCO adopted Statement No. 34 of the Governmental Accounting Standards Board, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* effective July 1, 2002. GASB 34 establishes accounting and financial reporting standards for general purpose external financial reporting by state and local governments.

As allowed under the provisions of GASB 34, GOCO has issued a single year presentation of its basic financial statements for the Fiscal Year Ended June 30, 2003, but has provided condensed comparative information for the Fiscal Year Ended June 30, 2002, in its financial highlights below and in its Management's Discussion and Analysis as required to be presented under GASB 34.

Financial activity highlights include:

Assets and Fund Balance

GOCO's expenditures were lower than the current revenue received, thus fund balance increased by approximately \$3.1 million during the fiscal year from \$50.8 million to \$53.9 million. Total assets remained relatively consistent during the fiscal year. Cash and investments decreased by \$6.6 million during the fiscal year from \$57.2 million to \$50.6 million. This decrease is offset by an equivalent increase of \$6.5 million in lottery proceeds receivable.

The State Board of the Great Outdoors Colorado Trust Fund

FINANCIAL HIGHLIGHTS (CONTINUED)

Financial and Compliance Audit
For the Year Ended June 30, 2003

Revenues

The State Lottery, on the strength of Powerball sales, experienced improved results during the year compared to Fiscal Year 2002. GOCO received its maximum allowable Lottery proceeds for the year of \$48.7 million, as limited by the constitutional cap. This represented a 4.7% increase from Fiscal Year 2002 with proceeds of \$46.5 million.

Net investment income in the General Fund has decreased from \$3.0 million to \$2.5 million due to the significant decrease in cash and investment balances (from \$57.2 million to \$50.6 million).

Expenditures

GOCO distributed approximately \$46.6 million in grants, up 37.6% from the previous year and \$7.4 million less than budget.

Personnel services and operational costs were \$1.5 million in 2003 or under budget by \$196,000. Capital outlays were increased from \$18,500 to \$24,200.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

While Powerball contributed to the Lottery's performance during Fiscal Year 2003, Colorado Lottery experienced a decline in sales for Fiscal Year Ended June 30, 2003, and 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 5%) than Lottery's projections. GOCO projects \$45.5 million in Lottery proceeds in Fiscal Year 2004, while the Lottery projects \$47.9 million. Both projections are less than the Fiscal Year 2004 constitutional cap of \$49.6 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 during Fiscal Year 2003 or since GOCO was granted such authority.

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, 2003

	Fiscal Year 2003 Amounts	Fiscal Year 2002 Amounts	Increase/ Decrease	Percent Increase/ Decrease
Total assets	\$ 59,586,798	\$ 60,247,592	\$ (660,794)	(1.1%)
Total liabilities	(5,706,350)	(9,401,543)	(3,695,193)	(39.3%)
Fund balance				
Designated	10,849,206	12,395,641	(1,546,435)	(12.5%)
Unreserved and undesignated	43,031,242	38,450,408	4,580,834	11.9%
Total fund balance	<u>53,880,448</u>	<u>50,846,049</u>	<u>3,034,399</u>	6.0%
Revenues				
State Lottery proceeds	48,699,156	46,523,408	2,175,748	4.7%
Net investment and miscellaneous income	2,525,083	3,011,715	(486,632)	(16.2%)
Total revenues	<u>51,224,239</u>	<u>49,535,123</u>	<u>1,689,116</u>	3.4%
Expenditures				
Grants	46,631,024	33,896,189	12,734,835	37.6%
Administrative expenditures				
Personnel services and benefits	976,878	1,027,258	(50,380)	(4.9%)
Operating	557,714	624,091	(66,377)	(10.6%)
Total administrative expenditures	<u>1,534,592</u>	<u>1,651,349</u>	<u>(116,757)</u>	(7.1%)
Capital outlay	24,224	18,546	5,678	30.6%
Total expenditures	<u>48,189,840</u>	<u>35,566,084</u>	<u>12,623,756</u>	35.5%
Excess of revenues over expenditures	<u>\$ 3,034,399</u>	<u>\$ 13,969,039</u>	<u>(10,934,640)</u>	(78.3%)

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FINDINGS AND RECOMMENDATIONS

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.

SUPPORTING DOCUMENTATION RELATED TO MONTHLY EXPENDITURES

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 the GOCO 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. During Fiscal Year 2003, grant expenditures for DOW and DPOR were \$11.2 million, or 24%, and \$13.7 million, or 29.4%, respectively, of the total GOCO expenditures of \$46.6 million.

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.

In August 2002, a Memorandum of Agreement (MOA) was signed with DOW to establish administrative procedures for funding from GOCO. This MOA requires DOW to maintain billing information and detailed expenditures for three years, making it available for GOCO to audit. No audits were conducted by GOCO during Fiscal Year 2003. There was not an MOA created with DPOR for Fiscal Year 2003.

Subsequent to the June 30, 2003 year end, GOCO created MOAs with the DOW and DPOR that require GOCO staff to perform a detailed review of documentation supporting billed expenditures no less frequently than annually. GOCO performed this detailed review in August 2003 for the fiscal year ended June 30, 2003. Comprehensive MOAs detailing all grant administrative matters between GOCO and DOW and DPOR have not yet been finalized, including the level of detail that must be maintained by the Divisions to support billings submitted to GOCO. The comprehensive MOA will supersede the August 2002 MOA with DOW.

Recommendation No. 1:

GOCO staff should conduct periodic reviews of the supporting documentation during the fiscal year to gain assurance that billed amounts are appropriate. In addition, GOCO should finalize the comprehensive Memorandum of Agreements with DOW and DPOR and assure that the MOAs provide provisions specific to the level of detail to be maintained by DOW and DPOR necessary to support grant disbursements to those Divisions.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

GOCO Response:

Agree. Partially implemented in August 2003 and will be fully implemented by March 2004. Quarterly and annual procedures have been developed by GOCO staff to review DOW and DPOR grant reimbursement requests. The annual procedures were implemented in August 2003 in review of all Fiscal Year 2003 expenditures for both agencies. Quarterly procedures will be implemented once the September 2003 grant reimbursement requests are received from the agencies.

The comprehensive MOAs for both DOW and DPOR have been forwarded to GOCO Board committees for final approval.

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. To align the four categories’ grant authorizations more equally, GOCO awarded an additional \$1 million for the local governmental category in Fiscal Year 2003.

The following chart shows 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 2003 (in thousands)

Program Category	Grants Authorized		Grants Expended		Variance from 25%
	Amount	%	Amount	%	
Category 1 – Wildlife	\$ 88,112	25.5	\$ 66,494	24.8	\$ (644)
Category 2 – State parks and outdoor recreation	87,048	25.1	73,434	27.3	6,296
Category 3 – Competitive grants for open space	86,206	24.9	67,487	25.1	349
Category 4 – Competitive grants to local governments	<u>84,789</u>	<u>24.5</u>	<u>61,136</u>	<u>22.8</u>	(6,002)
	346,155	100.0	268,551	100.0	
Noncategorized – Discretionary	<u>1,195</u>	N/A	<u>1,195</u>	N/A	
Total	\$ <u>347,350</u>		\$ <u>269,746</u>		

Source: Data provided by GOCO

FINDINGS AND RECOMMENDATIONS (CONTINUED)

This next chart compares the percentages in each category for Fiscal Year 2002 and Fiscal Year 2003 and calculates the variance of the percentages. The Grants Expended variances have become further out of compliance with the statutory requirement. In each of the categories between Fiscal Year 2002 and Fiscal Year 2003, the variance indicates that the category is farther from the twenty-five percent mark. For example, Category 2 expenditures for State parks and outdoor recreation have risen from 26.9% to 27.3%.

**GOCO Grant Comparison
Fiscal Year 2002 and Fiscal Year 2003**

Program Category	Grants Expended		
	FY2002	FY2003	Variance
Category 1 – Wildlife	24.9%	24.8%	-0.1%
Category 2 – State parks and outdoor recreation	26.9	27.3	0.4
Category 3 – Competitive grants for open space	25.0	25.1	0.1
Category 4 – Competitive grants to local governments	<u>23.2</u>	<u>22.8</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. 2:

GOCO should ensure that the percentage for grants authorized is at least twenty-five 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 twenty-five 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 2004. At the end of Fiscal Year 2003, the only funding category expenditures significantly below 25% is the Local Government category. GOCO has addressed this area in several ways during Fiscal Year 2003.

First, in an effort to boost expenditures in this purpose, GOCO’s Spending Plan for Fiscal Year 2003 included an additional \$1.0 million. Also, in Fiscal Year 2004 the Spending Plan includes an additional \$1.0 million for Local Government grants compared to the other grant purposes.

Second, Local Government grant reimbursement standards and procedures have been reviewed to reduce duplication and to simplify the process in order to encourage quick turn around for grant reimbursement.

Thirdly, GOCO is also permitting the funding of Local Government grant 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 payment to be made to the grantees.

These improvements will expedite reimbursements for the Local Government Grants.

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, 2002.

<u>Recommendation</u>	<u>Disposition</u>
1. Establish adequate controls over the payroll function by having more than one employee responsible for the processes.	Implemented.
2. 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.	Implemented.
3. Amend the Memorandum of Agreement with the Division of Wildlife to include the requirement for submission of documentation supporting expenditures with the monthly bills.	Partially implemented. Subsequent to June 30, 2003, GOCO finalized MOAs with the Division of Wildlife and Division of Parks and Outdoors Recreation that provide for verifying the accuracy and appropriateness of the expenses being billed by the State agencies. However, comprehensive Memorandum of Agreements have not been finalized.
4. Identify expenditure categories that are below the twenty-five percent level and focus on increasing those areas of spending.	Partially implemented. While GOCO has made efforts to ensure that awards are equal across quadrants, expenditures remain unequal.
5. 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.	Implemented.

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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 basic financial statements of The State Board of the Great Outdoors Colorado Trust Fund as of and for the year ended June 30, 2003, as listed in the foregoing Table of Contents. These basic 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 basic 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 basic 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 opinion.

In our opinion, the 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 as of June 30, 2003 and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in note B8 to the financial statements, GOCO implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* effective July 1, 2002. The adoption of GASB Statements No. 34 and No. 37 results in a change in the format and content of GOCO's financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2003, 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.

The management's discussion and analysis on pages 21 through 23 and the major fund budgetary comparison information on page 43 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, 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.

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

Denver, Colorado
August 15, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 year ended June 30, 2003. The management's discussion and analysis is intended to be read in conjunction with the GOCO financial statements beginning on page 26.

Financial Highlights

GOCO is primarily a pass-through entity; it receives funding from net Lottery proceeds and grants them for capital construction projects to 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; and local governments' open space, parks and environmental education. The following table highlights significant variances between FY 2003 and FY 2002.

	2003	2002	Variance
Lottery Revenues	\$48,699,156	\$46,523,408	\$2,175,748
Grant Expenditures	46,631,024	33,896,189	12,734,835
Operating and other expenditures	1,558,816	1,669,895	(111,079)

- The State Lottery, on the strength of Powerball sales, experienced improved results during the year compared to Fiscal Year 2002. GOCO received its maximum allowable Lottery proceeds for the year of \$48.7 million, per the constitutional cap. This represents a \$2.2 million increase in Lottery proceeds to GOCO.
- Grant expenditures increased by 37.6% or \$12.7 million from Fiscal Year 2002. This increase is due to an effort to bring the expenditures in each grant area closer to equality and staff's diligence in working with grantees to complete their documentation for reimbursement. Staff is currently working to adjust various documentation requirements for grantees in order to encourage quicker turnaround on grant reimbursement.
- Total expenditures, excluding grant expenditures, decreased by \$111,000. The decrease is mainly due to increased efficiencies and reduced number of staff.

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 and Outdoor Recreation, and
- The remaining 50% to GOCO up to the statutory limit.

GOCO's funding is capped at \$35 million a year adjusted for inflation (\$48.7 million in Fiscal Year 2003); any remaining net Lottery proceeds in excess of the cap are distributed to the State Public School Fund.

GOCO in Fiscal Year 2003 adopted GASB 34 and GASB 37, which resulted in several changes to the financial statements. The General Fund column represents the modified accrual accounting required for GASB 34. The adjustments column indicates the changes needed to convert the modified accrual accounting to the government-wide statements required with GASB 34. The government-wide statements are shown in the third column of the financial statements.

One modification was made to the way GOCO accounted for its activities under GASB 34. Fixed assets are not reported or depreciated in the governmental fund. GASB 34 requires that these assets be valued, depreciated and reported within the government-wide financial statements. An adjustment was made to the government-wide statements to account for this change.

Government-wide Statement

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets compared to prior fiscal year.

	2003	2002
Current and other assets	\$ 59,586,798	\$ 60,247,592
Capital assets	<u>120,899</u>	<u>138,360</u>
Total assets	59,707,697	60,385,952
Current liabilities	5,706,350	9,401,543
Net assets:		
Invested in capital assets	120,899	138,360
Unrestricted	<u>53,880,448</u>	<u>50,846,049</u>
Total net assets	\$ <u>54,001,347</u>	\$ <u>50,984,409</u>

The significant portions of current and other assets are cash and investments and Lottery proceeds receivable. Cash and investments decreased from \$57.2 million in FY 2002 to \$50.6 million in FY 2003. This 12% net decrease is attributed to two factors:

1. The increase in grant expenditures from \$33.9 million in FY 2002 to \$46.6 million in FY 2003.
2. The increase in Lottery proceeds received in FY 2003 from \$46.5 million in FY 2002 to \$48.7 million in FY 2003.

The following table reflects the condensed Statement of Activities compared to prior fiscal year.

**Statement of Activities
For the Year Ended June 30**

	2003	2002
Revenue:		
Lottery revenue	\$ 48,699,156	\$ 46,523,408
Investment and other revenue	<u>2,525,083</u>	<u>3,011,715</u>
Total revenue	51,224,239	49,535,123
Program expenses:		
Grants expended	46,631,024	33,896,189
Personnel services and benefits	976,878	1,027,258
Operating	<u>599,399</u>	<u>676,559</u>
Total expenses	48,207,301	35,600,006
Change in net assets	<u>3,016,938</u>	<u>13,935,117</u>
Ending net assets	\$ <u>54,001,347</u>	\$ <u>50,984,409</u>

Two items should be mentioned in comparing the change in net assets from Fiscal Year 2003 to 2002.

First, grant expenditures increased by 37.6% in Fiscal Year 2003. This increase over prior year is attributable to the additional effort by staff to work with grantees in completing the required documentation for grant reimbursement. In addition, there was one particular legacy project approved in Fiscal Year 2003 for which GOCO expended over \$9 million that same year.

Second, GOCO's investment income decreased by \$486,793 in 2003. This represents a 16% decline from 2002 to 2003. This is attributed to two factors:

1. Higher grant expenditures kept the cash balance lower in FY 2003 than in FY 2002.
2. Due to the downturn in the economy during FY 2003, lower investment rates were earned than in FY 2002.

Economic Factors and Next Year's Budget

The Colorado Lottery projects a decline in proceeds it will generate going forward. GOCO's projections for Lottery proceeds that will be available to GOCO are somewhat more conservative: 5% lower than Colorado Lottery's projections. Next year, GOCO is projecting \$45.5 million in revenue from the Lottery, while the constitutional cap for FY 2004 is \$49.6 million. Also, GOCO is budgeting \$1,629,206 for operating expenditures. This amount is classified as follows:

Salaries and Benefits	\$ 828,153
Operating expenses	771,053
Capital expenditures	<u>30,000</u>
	\$ <u>1,629,206</u>

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Basic Financial Statements

The State Board of the Great Outdoors Colorado Trust Fund

STATEMENT OF NET ASSETS
AND GOVERNMENTAL FUND BALANCE SHEET

June 30, 2003

	General Fund	Adjustments (Note C)	Statement of Net Assets
ASSETS			
Cash and investments	\$ 50,553,805	\$ -	\$ 50,553,805
Lottery proceeds receivable	9,016,090	-	9,016,090
Other receivables	2,315	-	2,315
Other assets	14,588	-	14,588
Property and equipment, net of accumulated depreciation	-	120,899	120,899
Total assets	<u>\$ 59,586,798</u>	<u>\$ 120,899</u>	<u>\$ 59,707,697</u>
LIABILITIES			
Grants payable	\$ 5,588,601	\$ -	\$ 5,588,601
Accounts payable	79,320	-	79,320
Compensated absences payable	38,429	-	38,429
Total liabilities	<u>5,706,350</u>	<u>-</u>	<u>5,706,350</u>
FUND BALANCES/NET ASSETS			
Fund balances:			
Designated for subsequent year's expenditures	10,849,206	(10,849,206)	-
Unreserved and undesignated	43,031,242	(43,031,242)	-
Total fund balances	<u>53,880,448</u>	<u>(53,880,448)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 59,586,798</u>		
Net assets:			
Invested in capital assets		120,899	120,899
Unrestricted		53,880,448	53,880,448
Total net assets		<u>\$ 54,001,347</u>	<u>\$ 54,001,347</u>

The accompanying notes are an integral part of these statements.

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, 2003

	General Fund	Adjustments (Note C)	Statements of Activities
Expenditures/expenses:			
Grants expended	\$ 46,631,024	\$ -	\$ 46,631,024
Personnel services and benefits	976,878	-	976,878
Operating	557,714	41,685	599,399
Capital outlay	24,224	(24,224)	-
	<u>48,189,840</u>	<u>17,461</u>	<u>48,207,301</u>
Total expenditures/expenses			
Program revenues:			
State lottery proceeds	48,699,156	-	48,699,156
Net program revenues			<u>491,855</u>
General revenues:			
Investment earnings	2,524,263	-	2,524,263
Miscellaneous	820	-	820
	<u>2,525,083</u>	<u>-</u>	<u>2,525,083</u>
Total general revenues			
Excess of revenues over expenditures	3,034,399	(3,034,399)	-
Change in net assets	-	3,016,938	3,016,938
Fund balance/net assets:			
Beginning of the year	50,846,049	138,360	50,984,409
End of the year	<u>\$ 53,880,448</u>	<u>\$ 120,899</u>	<u>\$ 54,001,347</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, 2003

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. 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 B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. *Government-wide and fund financial statements*

Because GOCO has only one fund, a general fund, 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. Interfund activity, if any, has been removed from these statements.

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.

State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2003

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. *Government-wide and fund financial statements (continued)*

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, if any, 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.

2. *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 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.

State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2003

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. *Measurement focus, basis of accounting and financial statement presentation (continued)*

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 don't conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to the same limitations. GOCO has no business-type activities and does not operate any enterprise funds.

3. *Budgets*

GOCO's budget is not legislatively adopted.

4. *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. The capital outlay threshold of GOCO is \$1,000. 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:

Asset Type	Years
Furniture and fixtures	10
Computer hardware and software	5 – 10
Equipment	5 – 7
Leasehold improvements	5

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.

State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2003

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2003 was approximately \$48.7 million, which was the maximum amount allowable under statute. GOCO has estimated lottery proceeds to be \$45.5 million for Fiscal Year 2004 which is less than the amount allowed of approximately \$49.6 million.

7. *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 \$10,849,206 represents the amount of budgeted subsequent year expenditures in excess of revenues.

8. *Change in accounting principles*

During the year ended June 30, 2003, GOCO adopted Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* of the Governmental Accounting Standards Board (GASB). GASB 34 and 37 establish the basic financial statements and required supplementary information for governments which 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 statement 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 other required supplementary information.

State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2003

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. *Change in accounting principles (continued)*

Adoption of GASB 34 and 37 had no effect on the general fund's fund balance at July 1, 2002. However, as a result of adoption of GASB 34 and the requirement thereunder to present government-wide financial statements, \$138,360 of total capital assets, net of accumulated depreciation, was included in net assets as of July 1, 2002 in GOCO's government-wide financial statements.

NOTE C – 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 \$120,899 adjustment to property and equipment, net of accumulated depreciation, represents 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 in the current period. The details of this adjustment are:

Capital outlay	\$ (24,224)
Depreciation expense	<u>41,685</u>
Net adjustment to decrease net changes in fund balances – total governmental fund to arrive at change in net assets of governmental activities	\$ <u>17,461</u>

State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2003

NOTE D – 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.

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, 2003, GOCO's cash deposits had a bank balance and a carrying balance as follows:

	Bank Balance	Carrying Balance
Cash on hand	\$ -	\$ 200
Insured deposits – Category 1	100,000	100,000
Deposits collateralized in single institution pools – Category 2	<u>577,247</u>	<u>543,696</u>
	<u>\$ 677,247</u>	<u>\$ 643,896</u>

State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2003

NOTE D – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

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.

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.

Not Subject to Categorization	
State Treasurer's cash pool	\$ <u>42,909,909</u>

State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2003

NOTE D – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

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.

Summary

Total cash deposits and investments at June 30, 2003 are as follows:

Cash deposits	\$ 643,896
Investments	<u>49,909,909</u>
	\$ <u>50,553,805</u>

NOTE E – LOTTERY PROCEEDS RECEIVABLE

At June 30, 2003, GOCO had distributions owed from the Colorado State Lottery amounting to \$9,016,090. This represents GOCO's allocation of net proceeds from the Colorado State Lottery for the months of April through June 2003. GOCO received these proceeds in August 2003.

NOTE F – CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended June 30, 2003 follows:

	Balance at July 1, 2002	Additions	Retirements	Balance at June 30, 2003
Equipment	\$ 67,145	\$ 24,224	\$ (22,305)	\$ 69,064
Software	98,718	-	(21,093)	77,625
Furniture	59,511	-	(31,516)	27,995
Leasehold improvements	<u>81,018</u>	<u>-</u>	<u>-</u>	<u>81,018</u>
	306,392	24,224	(74,914)	255,702
Less accumulated depreciation	(168,032)	(41,685)	<u>74,914</u>	(134,803)
Total capital assets, net	\$ <u>138,360</u>	\$ (17,461)	\$ <u>-</u>	\$ <u>120,899</u>

State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2003

NOTE G – AWARDED GRANTS AND EXPENDED GRANTS

The following is a summary of grants authorized and grants expended from inception in 1995 through June 30, 2003:

Grants Awarded:

	Cumulative Authorized Grants at June 30, 2002	Transfers/ Additions	Transfers/ Deletions	Cumulative Authorized Grants at June 30, 2003
Colorado Division of Wildlife	\$ 74,611,711	\$ 13,500,000	\$ -	\$ 88,111,711
Colorado State Parks and Outdoor Recreation	73,547,721	13,500,000	-	87,047,721
Open space	72,313,227	13,995,876	(102,500)	86,206,603
Local governments	69,748,239	15,062,054	(21,333)	84,788,960
Noncategorized – Discretionary*	<u>1,195,174</u>	<u>-</u>	<u>-</u>	<u>1,195,174</u>
	<u>\$ 291,416,072</u>	<u>\$ 56,057,930</u>	<u>\$ (123,833)</u>	<u>\$ 347,350,169</u>

Grants Expended:

	Cumulative Expended for Grants at June 30, 2002	Net Additions and Transfers	Cumulative Expended for Grants at June 30, 2003
Colorado Division of Wildlife	\$ 55,324,775	\$ 11,168,885	\$ 66,493,660
Colorado State Parks and Outdoor Recreation	59,706,856	13,726,760	73,433,616
Open space	55,500,756	11,986,706	67,487,462
Local governments	<u>51,387,102</u>	<u>9,748,673</u>	<u>61,135,775</u>
	221,919,489	46,631,024	268,550,513
Noncategorized – Discretionary*	<u>1,195,174</u>	<u>-</u>	<u>1,195,174</u>
	<u>\$ 223,114,663</u>	<u>\$ 46,631,024</u>	<u>\$ 269,745,687</u>

*Amounts authorized and expended in 1996 and 1999 attributed to Youth Corp projects, which were considered part of the GOCO mission but not specifically identified within one of the four categories above.

State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2003

NOTE H – 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, 2003 was \$126,801. The future minimum lease payments under the facilities lease are as follows:

Fiscal year ended June 30:	
2004	\$ <u>130,971</u>

NOTE I – 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 to participate. 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.

State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2003

NOTE I – PENSION PLANS (CONTINUED)

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.

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 J – 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.

State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2003

NOTE K – 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 L – 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.

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, 2003

	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Revenues			
State Lottery proceeds	\$ 43,000,000	\$ 48,699,156	\$ 5,699,156
Net investment and miscellaneous income	360,000	2,525,083	2,165,083
Total revenues	<u>43,360,000</u>	<u>51,224,239</u>	<u>7,864,239</u>
Expenditures			
Grants expended	54,000,000	46,631,024	7,368,976
Personnel services and benefits	915,128	976,878	(61,750)
Operating expenditures	815,513	557,714	257,799
Capital outlay	25,000	24,224	776
Total expenditures	<u>55,755,641</u>	<u>48,189,840</u>	<u>7,565,801</u>
Excess (deficiency) of revenues over expenditures	(12,395,641)	3,034,399	15,430,040
Fund balance - beginning of year	<u>50,846,049</u>	<u>50,846,049</u>	<u>-</u>
Fund balance - end of year	<u>\$ 38,450,408</u>	<u>\$ 53,880,448</u>	<u>\$ 15,430,040</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 basic financial statements of The State Board of the Great Outdoors Colorado Trust Fund (GOCO) as of and for the year ended June 30, 2003 and have issued our report thereon dated August 15, 2003. 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 basic 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 basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the 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, upon release by the Legislative Audit Committee this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, professional style.

Denver, Colorado
August 15, 2003

Members of the Legislative Audit Committee:

We have audited the basic financial statements of the State Board of the Great Outdoors Colorado Trust Fund (GOCO) for the year ended June 30, 2003. 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 August 15, 2003. 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, 2003:

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards*

Our responsibility, as prescribed by professional standards, 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 (US GAAS) and *Government Auditing Standards*, issued by the Comptroller General of the United States, does not provide absolute assurance or guarantee the accuracy of the financial statements and is subject to the inherent risk that errors or fraud, if they exist, have not been detected. Such standards also require that we obtain a sufficient understanding of the GOCO's internal controls to plan the audit. However, such understanding is required for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

Our responsibility under US GAAS and *Government Auditing Standards* includes reporting to you fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements.

Our Responsibility for Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, the auditors' responsibility for other information in documents containing GOCO's audited financial statements (for example, Management's Discussion and Analysis (MD&A) or annual reports) does not extend beyond the financial information identified in the auditors' report, and the auditors are not required to perform procedures to corroborate such other information other than to apply certain limited procedures to the MD&A as described in our report on the financial statements dated August 15, 2003. In accordance with such standards, we have read the information in the MD&A and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. No such inconsistencies or misstatements came to our attention.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The definition includes adjustments that were not recorded by the GOCO because they are not material to the current financial statements but might be potentially material to future financial statements.

Management has represented to us that they believe that the waived entry of \$406,636, which is less than one percent of net assets as of June 30, 2003, to correct prior year prepaid expenses is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

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 solely for the information and use of the Legislative Audit Committee and is not intended to be and should not be used by anyone other than these specified parties. However, it is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

Denver, Colorado
August 15, 2003