

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

The State Board of the

Great Outdoors Colorado Trust Fund

June 30, 2005

LEGISLATIVE AUDIT COMMITTEE

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Grant Thornton LLP
Contract Auditors

August 12, 2005

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, 2005. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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, 2005

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 our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants 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 July through August 2005.

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, 2005. Our opinion letter, dated August 12, 2005, is presented in the Financial Statement section of this report.

SUMMARY OF CURRENT YEAR FINDINGS AND RECOMMENDATIONS

We have identified three findings 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.
- During the current year, personnel files were maintained out of state at an off-site, unsecured location. If a physical personnel file is required at the corporate office, which occurs infrequently, it is mailed. Maintaining personnel files off-site and mailing them increases the risk to both the organization and its employees of data loss and that sensitive and confidential information might be accessed by unauthorized parties.
- GOCO did not obtain a copy of the Paychex SAS 70 report (Service Auditors' Report) for the current Fiscal Year. Because the SAS 70 report contains internal control testing results and client control considerations, the report needs to be read and evaluated by appropriate management to ensure all necessary controls are in place.

SUMMARY OF PROGRESS IN IMPLEMENTING PRIOR AUDIT RECOMMENDATIONS

The prior year report for the Fiscal Year Ended June 30, 2004 included one recommendation. This recommendation has been partially implemented (see page 10).

RECOMMENDATION LOCATOR

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

Financial and Compliance Audit
Fiscal Year Ended June 30, 2005

Rec No.	Page No.	Recommendation Summary	Agency Response	Implemen- tation Date
1.	7	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 2006
2.	9	Maintain personnel files at the corporate location in a secure area to alleviate the risk of loss or theft of confidential information.	Agree	October 2005
3.	9	Obtain and evaluate the Paychex Service Auditors’ Report (SAS 70 report) for any findings or client control considerations and take appropriate actions as necessary.	Agree	August 2005

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 2005 is the twelfth 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 2005, GOCO had a permanent staff of 13 and received \$50.2 million in net Lottery proceeds, the maximum allowable for Fiscal Year 2005.

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.

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 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 2005 (in thousands)

Program Category	Grants Authorized		Grants Expended		Variance from 25%
	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	<u>100.0</u>	370,960	<u>100.0</u>	
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

FINDINGS AND RECOMMENDATIONS (CONTINUED)

This next chart compares the percentages in each category for Fiscal Year 2004 and Fiscal Year 2005 and calculates the variance of the percentages. During Fiscal Year 2005, one Grants Expended variance has become further out of compliance with the statutory requirement. Specifically, Category 3 expenditures for competitive grants for open space have risen from 25.5% to 26.2%. However, Category 2 expenditures for state parks and outdoor recreation fell from 26.2% to 24.7% and Category 4 expenditures for competitive grants to local governments have risen from 23.1% to 23.9%, both moving closer to the goal of 25%.

**GOCO Grant Comparison
Fiscal Year 2004 and Fiscal Year 2005**

Program Category	Grants Expended		
	FY2005	FY2004	Increase (Decrease) from FY 2004
Category 1 – Wildlife	25.2%	25.2%	0.0%
Category 2 – State parks and outdoor recreation	24.7	26.2	-1.5
Category 3 – Competitive grants for open space	26.2	25.5	0.7
Category 4 – Competitive grants to local governments	<u>23.9</u>	<u>23.1</u>	0.8
	100.0	100.0	
Noncategorized– Discretionary	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 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 2006. At the end of Fiscal Year 2005, the only funding purpose expenditures significantly below 25% was the Local Government purpose. GOCO has addressed this area in several ways:

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

FINDINGS AND RECOMMENDATIONS (CONTINUED)

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

Thirdly, GOCO is also permitting Local Government grant recipients to receive 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.

Over the last several years these improvements have expedited reimbursements for the Local Government grants.

It should also be noted that GOCO awarded \$60 million in “large-scale” grant awards during Fiscal Year 2005. These grants will draw heavily from the Open Space and Local Government purposes.

The large-scale project awards had the following purpose allocations:

	<u>Local Government</u>	<u>Open Space</u>	<u>Parks</u>	<u>Wildlife</u>	<u>Total</u>
Amount	\$23,885,627	\$23,422,000	\$6,910,048	\$6,000,000	\$60,217,675
Percentage	39.66%	38.90%	11.48%	9.96%	100.00%

These grant awards have assisted in increasing the Local Governmental expenditures. Also, Open Space purpose expenditures now exceed 25% due to one of these large-scale projects closing in FY 2005 for \$10 million.

In formulating the spending plan that allowed GOCO to award this \$60 million for large-scale projects, GOCO intends to have the grant awards substantially equal in no more than 10 years.

MAINTENANCE OF PERSONNEL FILES

During the Fiscal Year Ended June 30, 2005, personnel files of GOCO personnel were maintained out of state at an off-site, unsecured location. When personnel files are physically required to be at the corporate office, which occurs infrequently, such files are mailed from the off-site location to the corporate office. Mailing personnel files exposes GOCO to possible loss of original source data contained in the files and to the possibility that sensitive and confidential personnel information might be accessed by unauthorized parties. Also, because information within the personnel files is maintained on a shared drive that only certain people have access to, there is no need for the files to be taken off-site.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Recommendation No. 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.

GOCO Response:

Agree. To be implemented in October 2005. Though GOCO feels that personnel files were in a secure location and procedures were in place to reduce the risk of sensitive data loss, GOCO will relocate the files to its corporate offices.

OBTAIN SERVICE AUDITOR'S REPORT

GOCO uses Paychex, a service organization, to process its payroll transactions. In Fiscal Year 2005, GOCO had approximately \$1 million in salary and related benefits expenses. GOCO did not obtain from Paychex a Type II service auditors' report as described in Statement of Auditing Standards No. 70 (SAS 70), *Service Organizations*, as subsequently amended, issued by the American Institute of Certified Public Accountants. When an entity uses a service organization to process transactions significant to the entity's financial statements, those transactions are subjected to controls that are, at least in part, physically and operationally separate from the user organization (ie. GOCO). User organizations typically request a SAS 70 Type II report that addresses controls placed in operation and tests of operating effectiveness of controls over transactions processed by the service organizations on the user's behalf. Such a report would provide an indication as to whether or not internal controls over the processing of the user organization's transactions were sufficient to achieve specified control objectives and that such control objectives were achieved. Payroll is a significant accounting cycle for GOCO and receipt of a service auditor's report from Paychex would assist GOCO in evaluating the effectiveness of the controls in place at Paychex over the processing of GOCO's transactions and enable GOCO to take remedial action, if needed.

Recommendation No. 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.

GOCO Response:

Agree. Implemented in August 2005. GOCO has included in its payroll procedures to request and review from Paychex the SAS 70 report annually. GOCO received and reviewed the latest report in August 2005, and found there were no changes necessary to our current payroll procedures.

DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS

The following audit recommendation is from The State Board of the Great Outdoors Colorado Trust Fund financial and compliance audit for the Fiscal Year Ended June 30, 2004.

Recommendation	Disposition
1. 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.	Partially implemented. While GOCO has made efforts to ensure that awards are equal across quadrants, expenditures remain unequal.

Financial Statements Section

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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, 2005, 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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 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, 2005, 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.

As discussed in Note M to the financial statements, the Fund adopted Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, effective July 1, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2005, 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 17 and the major fund budgetary comparison information on page 37 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 12, 2005

The State Board of the Great Outdoors Colorado Trust Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 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 Year ended June 30, 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 capital construction 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 2005 and Fiscal Year 2004.

	2005	2004	Variance
Lottery Revenues	\$ 50,176,516	\$ 49,639,294	\$ 537,222
Grant Expenditures	58,682,461	43,601,606	15,080,855

- GOCO received its maximum allowable Lottery proceeds for the year of approximately \$50.2 million, per the constitutional cap. This represents a \$537 thousand increase 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.

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 2005); any remaining net Lottery proceeds in excess of the cap are distributed to the State Public School Fund.

The State Board of the Great Outdoors Colorado Trust Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2005

Government-wide Statement

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets compared to prior Fiscal Year.

**Statement of Net Assets
As of June 30,**

	2005	2004
Current and other assets	\$ 54,196,244	\$ 64,851,654
Capital assets	<u>90,754</u>	<u>104,528</u>
Total assets	54,286,998	64,956,182
Current liabilities	4,900,820	6,516,341
Net assets:		
Invested in capital assets	90,754	104,528
Unrestricted	<u>49,295,424</u>	<u>58,335,313</u>
Total net assets	<u>\$ 49,386,178</u>	<u>\$ 58,439,841</u>

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.

The following table reflects the condensed Statement of Activities compared to prior Fiscal Year.

**Statement of Activities
For the year ended June 30,**

	2005	2004
Revenue:		
Lottery revenue	\$ 50,176,516	\$ 49,639,294
Investment revenue	<u>956,365</u>	<u>22,226</u>
Total revenue	51,132,881	49,661,520
Program expenses:		
Grants expended	58,682,461	43,601,606
Personnel services and benefits	1,080,384	1,001,513
Operating	<u>423,699</u>	<u>619,907</u>
Total expenses	<u>60,186,544</u>	<u>45,223,026</u>
Change in net assets	(9,053,663)	4,438,494
Beginning net assets	<u>58,439,841</u>	<u>54,001,347</u>
Ending net assets	<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 (CONTINUED)

June 30, 2005

Government-wide Statement (Continued)

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

- As previously mentioned, grant expenditures increased by 34.6% in Fiscal Year 2005. The higher expenditures in Fiscal Year 2005 can be attributed to two legacy projects for which GOCO expended over \$14 million during 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 income increased by \$934 thousand 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 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

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 5% lower than the Colorado Lottery's projections. Next year, GOCO is projecting \$46.5 million in revenue from the Lottery, while the constitutional cap for Fiscal Year 2006 is projected to be \$50.2 million. Also, GOCO is budgeting \$1,823,763 for operating expenditures. This amount is classified as follows:

Salaries and Benefits	\$ 951,102
Operating expenses	857,161
Capital expenditures	<u>15,500</u>
	<u>\$ 1,823,763</u>

Basic Financial Statements

The State Board of the Great Outdoors Colorado Trust Fund

STATEMENT OF NET ASSETS
AND GOVERNMENTAL FUND BALANCE SHEET

June 30, 2005

	General Fund	Adjustments (Note C)	Statement of Net Assets
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	<u>\$ 54,196,244</u>	<u>\$ 90,754</u>	<u>\$ 54,286,998</u>
LIABILITIES			
Grants payable	\$ 4,727,196	\$ -	\$ 4,727,196
Accounts payable	135,837	-	135,837
Compensated absences payable	37,787	-	37,787
Total liabilities	<u>4,900,820</u>	<u>-</u>	<u>4,900,820</u>
FUND BALANCES/NET ASSETS			
Fund balances:			
Designated for subsequent year's expenditures	9,638,763	(9,638,763)	-
Unreserved and undesignated	39,656,661	(39,656,661)	-
Total fund balances	<u>49,295,424</u>	<u>(49,295,424)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 54,196,244</u>		
Net assets:			
Invested in capital assets		90,754	90,754
Unrestricted		49,295,424	49,295,424
Total net assets		<u>\$ 49,386,178</u>	<u>\$ 49,386,178</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, 2005

	General Fund	Adjustments (Note C)	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	11,905	(11,905)	-
Total expenditures/expenses	<u>60,172,770</u>	<u>13,774</u>	<u>60,186,544</u>
Program revenues:			
State lottery proceeds	50,176,516	-	50,176,516
Net program revenues			<u>(10,010,028)</u>
General revenues:			
Investment earnings	956,365	-	956,365
Excess (deficiency) of revenues over expenditures	(9,039,889)	9,039,889	-
Change in net assets	-	(9,053,663)	(9,053,663)
Fund balance/net assets:			
Beginning of the year	58,335,313	104,528	58,439,841
End of the year	<u>\$ 49,295,424</u>	<u>\$ 90,754</u>	<u>\$ 49,386,178</u>

The accompanying notes are an integral part of these statements.

The State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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 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.

The State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 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.

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 approximately sixty days of the end of the current Fiscal Year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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).

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. 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	3 – 10
Equipment	5 – 7

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

The State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

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 based on 1992. GOCO's share for Fiscal Year 2005 was approximately \$50.2 million, which was the maximum amount allowable under statute. GOCO has estimated Lottery proceeds to be \$46.5 million for Fiscal Year 2006 which is less than the amount allowable of approximately \$50.2 million for that year.

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 \$9,638,763 represents the amount of budgeted subsequent year expenditures in excess of revenues.

The State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

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 \$90,754 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, net of proceeds on sale of fixed assets of \$-0-	\$ (11,905)
Depreciation expense	<u>25,679</u>
Net adjustment to decrease net changes in fund balances – total governmental fund to arrive at change in net assets of governmental activities	\$ <u>13,774</u>

The State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

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.

At 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	<u>555,546</u>	<u>291,308</u>
	<u>\$ 655,546</u>	<u>\$ 391,643</u>

As presented above, deposits with a bank balance of \$555,546 and a carrying balance of \$291,308 as of June 30, 2005, are uninsured, are exposed to custodial credit risk, and are collateralized with securities held by the pledging financial institution.

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

The State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE D – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

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

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 M regarding GOCO's adoption of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*.

Summary

Total cash deposits and investments at June 30, 2005 are as follows:

Cash deposits	\$ 391,643
Investments	<u>41,588,443</u>
	\$ <u>41,980,086</u>

Investment Earnings

Investment earnings is comprised of the following:

Investment income	\$ 1,333,317
Net unrealized loss on investments held by the State	<u>(376,952)</u>
Investment earnings	\$ <u>956,365</u>

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

The State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE E – LOTTERY PROCEEDS RECEIVABLE

At June 30, 2005, GOCO had distributions owed from the Colorado State Lottery amounting to \$12,198,467. 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 F – CAPITAL ASSETS

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	(158,869)	(25,679)	<u>3,275</u>	(181,273)
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 (CONTINUED)

June 30, 2005

NOTE G – AWARDED GRANTS AND EXPENDED GRANTS

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

Grants Awarded:

	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>

Grants Expended:

	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>

The State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE H – COMMITMENTS AND CONTINGENCIES

Operating Lease

GOCO leases facilities, copy machines and a vehicle under operating leases, which expire in April 2011, March 2009, and January 2007, respectively. Total facilities and equipment rental lease expense for the year ended June 30, 2005 was \$27,539. 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 facilities lease are as follows:

Fiscal year ending June 30:	
2006	\$ 108,002
2007	111,365
2008	108,964
2009	112,685
2010	109,653
2011	<u>95,603</u>
Total	\$ <u>646,272</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 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 \$89,362 to the plan for the Fiscal Year Ended June 30, 2005.

The State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

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.

The State Board Of The Great Outdoors Colorado Trust Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

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, 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 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 M – 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.

Required Supplementary Information

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

	Budget	Actual	Variance- Favorable (Unfavorable)
Revenues			
State Lottery proceeds	\$ 45,510,100	\$ 50,176,516	\$ 4,666,416
Net investment and miscellaneous income	675,000	956,365	281,365
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	17,500	11,905	5,595
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>

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS 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, 2005, which collectively comprise The State Board of Great Outdoors Colorado Trust Fund's basic financial statements and have issued our report thereon dated August 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institution of Certified Public Accountants 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. Accordingly, we express no such opinion. 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 Findings and Recommendations 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 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, flowing style.

Denver, Colorado
August 12, 2005

Members of the Legislative Audit Committee:

We have completed our audit of the basic financial statements of the State Board of the Great Outdoors Colorado Trust Fund (GOCO) for the year ended June 30, 2005. Professional standards require that we advise you of the following matters related to our recently concluded audit. The matters discussed herein are those that we have noted as of August 12, 2005, and we have not updated our procedures regarding these matters since that date to the current date.

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

We are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*. Our responsibility, as prescribed by US GAAS, 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. Accordingly, there is some risk that a material misstatement of the financial statements would remain undetected. Although not absolute assurance, reasonable assurance is, nevertheless, a high level of assurance. However, an audit is not designed to detect error or fraud that is immaterial to the financial statements.

US GAAS also requires that we obtain a sufficient understanding of GOCO's internal control over financial reporting. However, such understanding is required for the purpose of planning the audit and determining our audit procedures and not to provide any assurance concerning such internal control or to identify internal control deficiencies.

Other Information in Documents Containing Audited Financial Statements

Our 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 our report, and we have no obligation 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 12, 2005. 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 Accounting Policies

The significant accounting policies used by GOCO are described in Note B to the financial statements. During the year, GOCO adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, as discussed in Note M to the financial statements. Also we noted no significant unusual transactions, or other significant transactions in controversial or emerging areas for which there is a lack of authoritative accounting guidance or consensus.

Significant Audit Adjustments

For purposes of this letter, US GAAS defines 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. There were no significant adjustments that were made to the GOCO financial statements. One entry to record office lease expense on a straight-line basis was waived due to immateriality. The entry would have increased deferred rent liability by approximately \$87,000.

Disagreements with Management

For purposes of this letter, US GAAS defines 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 a company's financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Audit Process

The staff of GOCO was 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.

Denver, Colorado
August 12, 2005

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

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Report Control Number 1717