FINANCIAL

SECTION

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Independent Auditor's Report

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements for the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State of Colorado as of and for the fiscal year ended June 30, 2004, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units identified in Note 2 and University Physicians, Incorporated. These aggregate discretely presented component units represent 100 percent of the total assets and 100 percent of the total revenue of the aggregate discretely presented component units; University Physicians, Incorporated represents 3 percent of the total assets and 7 percent of the total revenue of Higher Education Institutions, a major enterprise fund, and 2 percent of the total assets and 5 percent of the total revenue of the business-type activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts and disclosures included for those component units and University Physicians, Incorporated, are based solely on the reports of the other auditors, except as explained in Note 4.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the aggregate discretely presented component units and University Physicians, Incorporated were not audited in accordance with *Government Auditing Standards*. 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 and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Colorado, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in the introduction to the Summary of Significant Accounting Policies on page 67 of the basic financial statements, the State of Colorado has implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment to GASB Statement No. 14, *The Financial Reporting Entity* and Governmental Accounting Standards Board Technical Bulletin 2004-1 as of July 1, 2003.

In accordance with *Government Auditing Standards* a report on our consideration of the State of Colorado's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants will be issued under a separate cover. That report, upon its issuance, 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 sections entitled "Management's Discussion and Analysis" on pages 22 through 38 and "Budgetary Information" and "Infrastructure Assets Reported Under The Modified Approach" on pages 117 through 129 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.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Joanne Hill

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MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is supplementary information required by the Governmental Accounting Standards Board (GASB), and it is intended to provide an easily readable explanation of the information provided in the attached basic financial statements. It is by necessity highly summarized, and in order to gain a thorough understanding of the state's financial condition, the attached financial statements and footnotes should be reviewed in their entirety.

FINANCIAL HIGHLIGHTS

Government-wide:
Assets of the state's governmental activities exceeded liabilities by $13,807.2 million, an increase of $671.3 million as compared to the prior year amount of $13,135.9 million. Assets of the state's business-type activities exceeded liabilities by $3,616.7 million, an increase of $112.0 million as compared to the prior year amount of $3,504.7 million. In total, net assets increased by $783.3 million to $17,423.9 million.

Fund Level:
Governmental fund assets exceeded liabilities resulting in total fund balances of $3,195.6 million (prior year $2,827.2 million), of which, $2,507.1 million (prior year $2,235.8 million) was reserved, and the balance of $688.5 million (prior year $591.4 million) was unreserved. In total, governmental fund balances increased $368.4 million from the prior year. The unreserved undesignated fund balance of the General Fund was $0 million, at both June 30, 2004 and June 30, 2003; however in Fiscal Year 2002-03, transfers that were unusual in nature significantly increased the amount of unreserved undesignated fund balance that would otherwise have been reported.

Enterprise Fund assets exceeded liabilities resulting in total net assets of $3,616.7 million (prior year $3,504.7 million), of which, $2,903.9 million (prior year $2,754.4 million) was restricted or invested in capital assets, and the balance of $712.8 million (prior year $750.3 million) was unrestricted.

Debt Issued and Outstanding:
The outstanding debt of governmental activities at June 30, 2004 was $1,959.8 million (prior year $1,330.3 million), which is 41.7 percent (prior year 33.6 percent) of financial assets (cash, receivables, and investments) and 11.0 percent (prior year 8.0 percent) of total assets of governmental activities. The debt is primarily related to infrastructure; future federal revenues and state highway revenues are pledged to the related debt service. The state's Enterprise Funds have revenue bonds outstanding that total $1,658.9 million (prior year $1,607.0 million). The revenue bonds are primarily invested in loans and capital assets that generate a future revenue stream to service the related debt.

Revenue and Spending Limits:
The State Constitution indirectly limits the rate of spending increases and directly limits the state's ability to retain revenue collected over an amount set by a constitutional amendment commonly known as TABOR. Revenues in excess of the limit must be refunded to the taxpayers. The state did not exceed the adjusted TABOR limit, but it would have exceeded the limit and refunded $374.7 million if not for the growth dividend. The growth dividend is a statutory provision that allows the state to increase the TABOR limit up to a total of six percent over nine years in order to recover excess refunds made in the 1990s because population estimates were understated.

OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION

There are three major parts to the basic financial statements – government-wide statements, fund level statements, and notes to the financial statements. Certain required supplementary information (in addition to this MDA), including budget-to-actual and infrastructure information, is presented following the basic financial statements.

Supplementary information, including combining fund statements and schedules, follows the required supplementary information in the Comprehensive Annual Financial Report.

Government-wide Statements

The government-wide statements focus on the government as a whole. These statements are similar to those reported by businesses in the private sector, but they are not consolidated financial statements because certain intra-entity transactions have not been eliminated. Using the economic resources perspective and the accrual basis of accounting, these statements include all assets and liabilities on the *Statement of Net Assets* and all expenses and revenues on the *Statement of Activities*. These statements can be viewed as an aggregation of the governmental and proprietary fund level statements along with certain perspective and accounting-basis adjustments discussed below. Fiduciary activities are excluded from the government-wide statements because those resources are not available to support the state's programs.

The *Statement of Net Assets* shows the financial position of the state at the end of the fiscal year. Net assets measure the difference between assets and liabilities. Restrictions reported in net assets indicate that certain assets, net of the related liabilities, can only be used for specified purposes. Increases in total net assets from year to year indicate the state is better off, while decreases in total net assets indicate the state is worse off.

The *Statement of Activities* shows how financial position has changed since the beginning of the fiscal year. The most significant financial measure of the government's activities is presented in the line item titled "Change in Net Assets" at the bottom of the *Statement of Activities.* The statement is presented in a net program cost format, which shows the cost of programs to the government by offsetting revenues earned by the programs against expenses of the programs. Due to the large number of programs operated by the state, individual programs are aggregated into functional areas of government.

On the *Statement of Net Assets,* columns are used to segregate the primary government, including governmental activities and business-type activities, from the discretely presented component units. On the *Statement of Activities*, both columns and rows are used for this segregation.

- Governmental activities are the normal operations of the primary government that are not presented as business-type activities. These activities are primarily funded through taxes, intergovernmental revenues, and other nonexchange revenues.
- Business-type activities are primarily funded by charges to external parties for goods and services. These activities are generally reported in Enterprise Funds in the fund level statements because the activity has revenue-backed debt or because legal requirements or management decisions mandate full cost recovery.
- Discretely presented component units are legally separate entities for which the state is financially accountable. More information on the discretely presented component units can be found in Note 2 on page 67.

Fund Level Statements

The fund level statements present additional detail about the state's financial position and activities. However, some fund level statements present information that is different from the government-wide statements due to the perspective and the basis of accounting used. Funds are balanced sets of accounts tracking activities that are legally defined or are prescribed by generally accepted accounting principles. Funds are presented on the fund level statements as major or nonmajor based on criteria set by the Governmental Accounting Standards Board (GASB). There are three types of funds operated by the state – governmental, proprietary, and fiduciary. In the fund level statements, each fund type has a pair of statements that show financial position and activities of the fund; a statement showing cash flows is also presented for the proprietary fund type.

- Governmental Funds – A large number of the state's individual funds and activities fall in this fund type; however, only some are reported as major – the remaining funds are aggregated into the nonmajor column.

Governmental funds are presented using the current financial resources perspective, which is essentially a short-term view that excludes capital assets, debt, and other long-term liabilities. The modified accrual basis of accounting is used. Under modified accrual, certain revenues are deferred because they will not be collected within the next year, and certain expenditures are not recognized, even though they apply to the current period, because they will not be paid until later fiscal periods. This presentation focuses on when cash will be received or disbursed, and it is well suited to showing amounts available for appropriation. The governmental fund type includes the General Fund, Special Revenue Funds, the Debt Service Fund, Capital Projects Funds, and Permanent Funds.

- Proprietary Funds – Proprietary fund type accounting is similar to that used by businesses in the private sector. It is used for the state's Enterprise Funds and Internal Service Funds. Enterprise Funds generally sell to external customers while Internal Service Funds charge other state agencies for goods or services. These funds are presented under the economic resources measurement focus, which reports all assets and liabilities. Accrual accounting is used, which results in revenues recognized when they are earned and expenses reported when the related liability is incurred. Because this is the same perspective and basis of accounting used on the government-wide statements, Enterprise Fund information flows directly to the business-type activities column on the government-wide statements without adjustment. Internal service fund assets and liabilities are reported in the governmental activities on the government-wide *Statement of Net Assets*. The net revenue or net expense of Internal Service Funds is reported as an adjustment to program expenses on the government-wide *Statement of Activities.* On the fund level statements, NonMajor Enterprise Funds are aggregated in a single column, as are all Internal Service Funds.
- Fiduciary Funds – These funds report resources held under trust agreements for other individuals, organizations, or governments. The assets reported in these funds are not available to finance the state's programs, and therefore, these funds are not included in the government-wide statements. The state's fiduciary funds include an Investment Trust Fund, several Pension and Other Employee Benefits Trust Funds, several Private-Purpose Trust Funds, and several Agency Funds. Agency Funds track only assets and liabilities and do not report revenues and expenses on a statement of operations. All Fiduciary Funds are reported using accrual accounting.

The state has elected to present combining financial statements for its component units. The component unit financial statements follow the fund level financial statements discussed above.

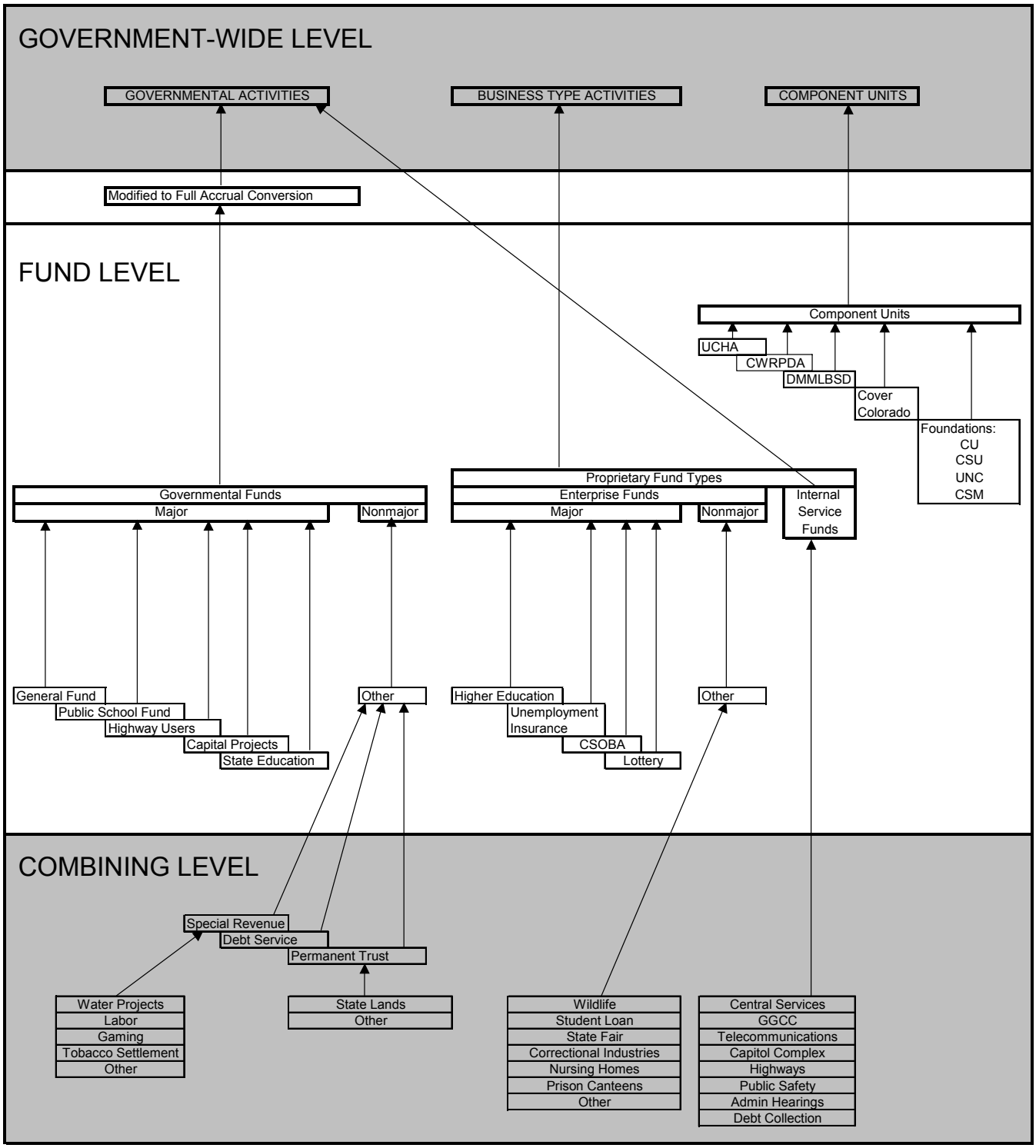
Notes to Basic Financial Statements

The notes to the financial statements are an integral part of the basic financial statements. They explain amounts shown in the financial statements and provide additional information that is essential to fair presentation.

Required Supplementary Information (RSI)

Generally accepted accounting principles require certain supplementary information to be presented following the notes to the financial statements. Required supplementary information differs from the basic financial statements in that the auditor applies certain limited procedures in reviewing the information. In this report, RSI includes budgetary comparison schedules and information about transportation infrastructure reported under the modified approach.

The chart on the following page is a graphic representation of how the state's funds are organized in this report. Fiduciary funds are not shown in the chart; they occur only in fund level statements.


GOVERNMENT-WIDE LEVEL
GOVERNMENTAL ACTIVITIES
BUSINESS TYPE ACTIVITIES
COMPONENT UNITS
Modified to Full Accrual Conversion
FUND LEVEL
Component Units
UCHA
CWRPDA
DMMLBSD
Cover Colorado
Foundations: CU CSU UNC CSM
Governmental Funds
Major
Nonmajor
Proprietary Fund Types
Enterprise Funds
Major
Nonmajor
Internal Service Funds
General Fund
Public School Fund
Highway Users
Capital Projects
State Education
Other
Higher Education
Unemployment Insurance
CSOBA
Lottery
Other
COMBINING LEVEL
Special Revenue
Debt Service
Permanent Trust
Water Projects
Labor
Gaming
Tobacco Settlement
Other
State Lands
Other
Wildlife
Student Loan
State Fair
Correctional Industries
Nursing Homes
Prison Canteens
Other
Central Services
GGCC
Telecommunications
Capitol Complex
Highways
Public Safety
Admin Hearings
Debt Collection

OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

The following table was derived from the current and prior year government-wide *Statement of Net Assets*.

(Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Noncapital Assets	$ 5,076,359	$ 4,332,562	$ 3,186,388	$ 3,219,531	$ 8,262,747	$ 7,552,093
Capital Assets	12,791,392	12,224,635	2,995,366	2,779,931	15,786,758	15,004,566
Total Assets	17,867,751	16,557,197	6,181,754	5,999,462	24,049,505	22,556,659
Current Liabilities	1,849,243	1,462,967	706,449	666,115	2,555,692	2,129,082
Noncurrent Liabilities	2,211,342	1,958,353	1,858,565	1,828,643	4,069,907	3,786,996
Total Liabilities	4,060,585	3,421,320	2,565,014	2,494,758	6,625,599	5,916,078
Invested in Capital Assets, Net of Related Debt	11,747,276	11,444,442	2,195,837	2,142,940	13,943,113	13,587,382
Restricted	1,415,400	1,358,392	708,063	611,415	2,123,463	1,969,807
Unrestricted	644,490	333,043	712,840	750,349	1,357,330	1,083,392
Total Net Assets	$13,807,166	$13,135,877	$ 3,616,740	$ 3,504,704	$17,423,906	$16,640,581

The amount of total net assets is one measure of the health of the state's finances, and the state reports significant positive balances in all categories of net assets. However, this measure must be used with care because large portions of the balances relate to capital assets or restricted assets that may be unavailable to meet the day-to-day payments of the state.

Capital assets, net of related debt, accounts for $13,943.1 million or 80.0 percent of the state's total net assets. This line item represents the original costs of capital assets reduced by depreciation to date and any remaining debt or lease liabilities the state incurred to obtain the assets. The value of the capital assets is not available to meet related debt service requirements, which must be paid from current receipts or available liquid assets.

Assets restricted by the State Constitution or external parties account for another $2,123.5 million or 12.2 percent of net assets. In general, these restrictions dictate how the related assets must be used by the state, and therefore, the amount may not be available for the general use of the state's programs. The constitutionally mandated State Education Fund net assets, the Highway Users Tax Fund net assets, and resources pledged to debt service are examples of restrictions on the state's net assets.

The Unrestricted Net Assets of $1,357.3 million or 7.8 percent of total net assets represents the amount by which total assets exceed total liabilities after all restrictions are considered. This represents an increase of $273.6 million from the prior fiscal year; however, the increase in governmental activities unrestricted net assets was slightly more pronounced at $311.5 million. The largest portion of unrestricted net assets is reported in Special Revenue Funds, and generally, legislative action is required to make it available for state programs other than the program for which the revenue was collected.

Another measure of the state's financial health is the change in net assets from the prior year. The following condensed statement of activities shows that net assets of both the governmental and business-type activities increased during the fiscal year. For the governmental activities, revenues and transfers-in exceeded expenses and transfers-out resulting in net assets increasing by $496.3 million. Program revenue of the governmental activities increased by $200.5 million, and general purpose tax revenues increased by $588.6 million while expenses decreased by $2.9 million from the prior year. On the governmental fund-level statements, where capital outlay is

reported as an expenditure and depreciation is not reported, governmental fund balances increased by $368.4 million.

Business-type activities' revenues and transfers-in exceeded expenses by $108.8 million resulting in an increase in net assets. Program revenue of the business-type activities increased by $307.1 million while expenses decreased by $133.6 million. Without cash and capital asset transfers from the governmental activities, the business-type activities net assets would have declined by $453.1 million. The following table was derived from the current and prior year government-wide *Statement of Activities*.

(Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
Programs/Functions	2004	2003	2004	2003	2004	2003
Program Revenues:						
Charges for Services	$ 719,445	$ 674,783	$ 2,487,183	$ 2,467,707	$ 3,206,628	$ 3,142,490
Operating Grants and Contributions	3,601,808	3,523,377	1,344,192	1,101,827	4,946,000	4,625,204
Capital Grants and Contributions	487,442	410,070	73,952	28,662	561,394	438,732
Total Program Revenues	4,808,695	4,608,230	3,905,327	3,598,196	8,714,022	8,206,426
Expenses:						
General Government	161,588	244,062	-	-	161,588	244,062
Business, Community, and Consumer Affairs	343,589	327,935	-	-	343,589	327,935
Education	173,823	194,436	-	-	173,823	194,436
Health and Rehabilitation	477,572	475,405	-	-	477,572	475,405
Justice	936,374	971,227	-	-	936,374	971,227
Natural Resources	81,114	103,888	-	-	81,114	103,888
Social Assistance	2,954,217	2,830,164	-	-	2,954,217	2,830,164
Transportation	746,153	890,081	-	-	746,153	890,081
Payments to School Districts	3,131,486	2,946,679	-	-	3,131,486	2,946,679
Payments to Other Governments	1,674,416	1,687,006	-	-	1,674,416	1,687,006
Interest on Debt	9,625	16,219	-	-	9,625	16,219
Higher Education Institutions	-	-	3,128,126	3,108,493	3,128,126	3,108,493
Unemployment Insurance	-	-	591,789	742,745	591,789	742,745
Student Obligation Bond Authority	-	-	37,355	45,213	37,355	45,213
Lottery	-	-	354,159	341,907	354,159	341,907
Other Business-Type Activities	-	-	246,988	253,633	246,988	253,633
Total Expenses	10,689,957	10,687,102	4,358,417	4,491,991	15,048,374	15,179,093
Net Program (Expense) Revenue	(5,881,262)	(6,078,872)	(453,090)	(893,795)	(6,334,352)	(6,972,667)
General Revenues and Other Changes in Net Assets						
Taxes	5,972,764	5,488,683	-	-	5,972,764	5,488,683
Restricted Taxes	835,680	731,138	-	-	835,680	731,138
Unrestricted Investment Earnings	16,534	16,577	-	-	16,534	16,577
Other General Revenues	99,200	146,516	-	-	99,200	146,516
Transfers (Out) In	(546,580)	(634,674)	546,580	634,674	-	-
Internal Capital Contributions	(20)	(22,855)	15,330	76,210	15,310	53,355
Total General Revenues and Other Changes in Net Assets	6,377,578	5,725,385	561,910	710,884	6,939,488	6,436,269
Total Changes in Net Assets	496,316	(353,487)	108,820	(182,911)	605,136	(536,398)
Net Assets - Beginning	13,135,877	13,617,705	3,504,704	3,614,667	16,640,581	17,232,372
Prior Period Adjustment	174,973	(128,341)	3,216	72,948	178,189	(55,393)
Net Assets - Ending	$13,807,166	$13,135,877	$ 3,616,740	$ 3,504,704	$17,423,906	$16,640,581

TABOR Revenue, Debt, and Tax-Increase Limits

Fiscal Year 2003-04 is the eleventh year of state operations under the TABOR revenue limitations (Article X, Section 20 of the State Constitution). With certain exceptions, the rate of growth of state revenues is limited to the combination of the percentage change in the state's population and inflation based on the Denver-Boulder CPI-Urban index. The exceptions include federal funds, gifts, property sales, refunds, damage recoveries, transfers, and qualified-enterprise-fund revenues.

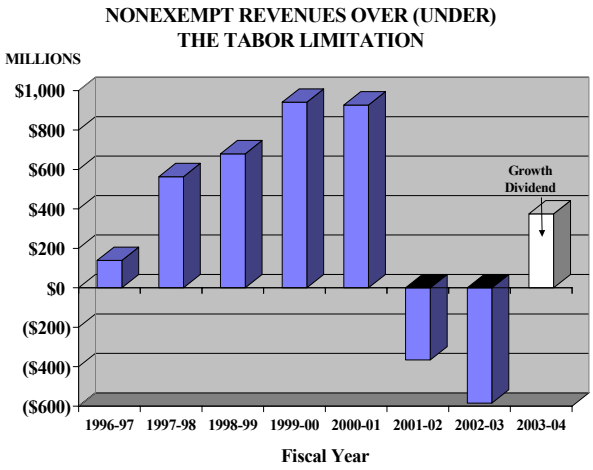
Revenues collected in excess of the limitation must be returned to the citizens unless a vote at the annual election in November allows the state to retain the surplus. TABOR also limits the General Assembly's ability to raise taxes, to borrow money, and to increase spending limits (including the previously existing statutory six percent limit on General Fund expenditure growth). With the exception of a declared emergency, taxes can only be raised by a vote of the people at the annual election. Multiple year borrowings can only be undertaken after approval by a vote of the people at the annual election.

The TABOR limits are calculated and applied at the statewide level without regard to fund type; however, the TABOR refunds have historically been paid from the General Fund. Therefore, the TABOR revenue, expenditure, debt, and tax-increase limitations are significant factors in the changing fiscal health of the state's General Fund.

TABOR refunds are affected by two other factors. The first is called the growth dividend, and it is a statutory provision that allows the state to increase the TABOR limit up to a total of six percentage points over nine years in order to recover excess refunds made in the 1990s because population estimates were understated. The understated population estimates caused the TABOR limit to be understated and resulted in refunds greater than would otherwise have been required if the population estimates accurately reflected the population growth. The second factor is known as the ratchet down effect of the TABOR amendment. It occurs because the subsequent year limit is calculated based on the lesser of the current year revenues or current year limit. When revenues are below the limit, it results in a permanent loss of the state's ability to retain revenue that it collects.

In Fiscal Year 2003-04 state revenues subject to TABOR were $8,332.0 million, which was $374.7 million above the limit. However a refund was not required because the state used 4.9 percentage points of the 6.0 percentage point growth dividend. The revenues were $545.1 million below the $8,877.1 million of revenues collected in Fiscal Year 2000-01. Even though population growth and inflation have occurred since Fiscal Year 2000-01 and the revenues are below the level of Fiscal Year 2000-01, the state would have been required to refund the $374.7 million if not for the growth dividend. The refund would have been required because the declining revenues in Fiscal Years 2001-02 and 2002-03 resulted in the ratchet down of the limit.

In the first three years of operations under TABOR, the state did not exceed the revenue limitation. In Fiscal Years 1996-97 through 2000-01, state revenues exceeded the TABOR limitation by $139.0 million, $563.2 million, $679.6 million, $941.1 million, and $927.2 million, respectively. In total this amounts to refunds of $3,250.1 since TABOR's inception. On the nonbudgetary financial statements, the state recorded a liability in the General Fund at June 30 for these amounts in each fiscal year, and the amounts were refunded in subsequent years. Because the statutes at one time set refunds at 105 percent of the required amount, the state refunded an additional $128.1 million that was not required by the TABOR amendment.



The Governor's Office of State Planning and Budgeting (OSPB) currently estimates that the remaining 1.1 percentage points of growth dividend will be used in Fiscal Year 2004-05, and a refund of $53.1 million will be required. OSPB expects the refunds to grow to $947.1 million by Fiscal Year 2009-10.

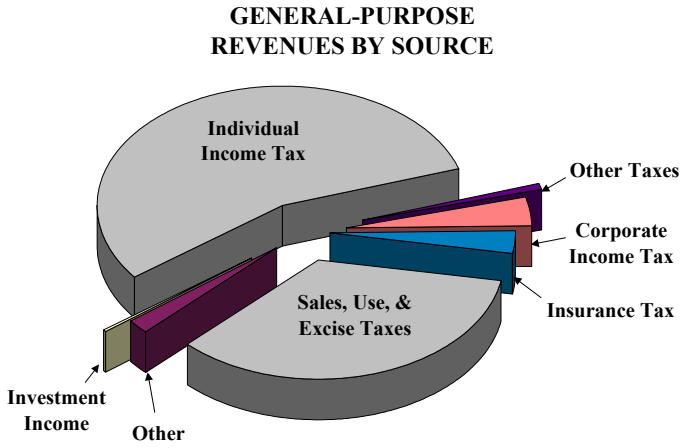
INDIVIDUAL FUND ANALYSIS

General Fund

The General Fund is the focal point in determining the state's ability to maintain its financial position. This fund accounts for all revenues and expenditures that are not required by law to be accounted for in other funds. Revenues of the General Fund consist of two broad categories, general-purpose revenues and augmenting revenues. General-purpose revenues are taxes, fines, and other similar sources that are collected without regard to how they will be spent. Augmenting revenues consist of federal funds, transfers-in, cash fees and charges, or specific user taxes. Augmenting revenues are usually limited as to how they can be spent. Federal revenues are closely matched with federal expenditures. Even though significant federal grant revenues are accounted for in the General Fund, they have little impact on the General Fund fund balance.

The condition of the General Fund improved significantly during Fiscal Year 2003-04. The fund had a deficit cash balance in the prior year, but it ended Fiscal Year 2003-04 with a $524.0 million cash balance. However it should be noted that $403.0 million of the cash balance was collected from local school districts to pay outstanding tax revenue anticipation notes issued by the state on behalf of local school districts under a program instituted in Fiscal Year 2003-04. Because of the notes payable, the increased cash balance did not affect ending fund balance. The transfers required in the two prior fiscal years to avoid a deficit General Fund Surplus were not necessary in the current year. The improving condition of the General Fund is due to the increase in general-purpose revenue collected and restrained growth in expenditures partially related to refinancing of traditional General Fund expenditures now recorded in cash funds. In addition, certain expenditures previously scheduled to be made from the General Fund were not made in Fiscal Year 2003-04 including; salary survey wage increases and performance pay ($29.2 million), compensating counties for property tax reductions given to persons over 65 years of age ($55.0 million), state funding for Old Hire Pension Plans ($25.0 million), delaying and then eliminating the repayment of the Controlled Maintenance Trust Fund ($138.2 million), and eliminating the state presidential primary ($2.2 million) (parenthetical amounts are estimates from the June 2003 Office of State Planning and Budgeting Revenues Estimate). In addition, the legislature enhanced General Fund revenues by diverting one half of the surcharge on unemployment insurance premiums ($15.5 million) and by reducing the amount that sales tax vendors were allowed to retain, which was estimated as $20.0 million.

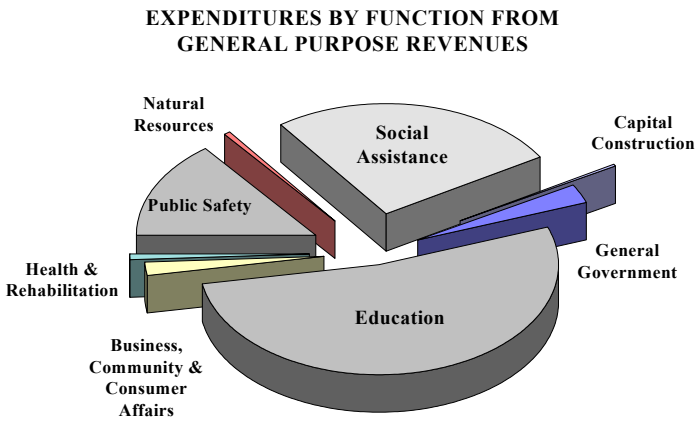
The General Fund did not have adequate reserves to meet the statutorily required reserve on the Generally Accepted Accounting Principles (GAAP) basis. The reserve was met on the budgetary basis because the state deferred June payroll expenditures and certain Medicaid expenditures into the following fiscal year.



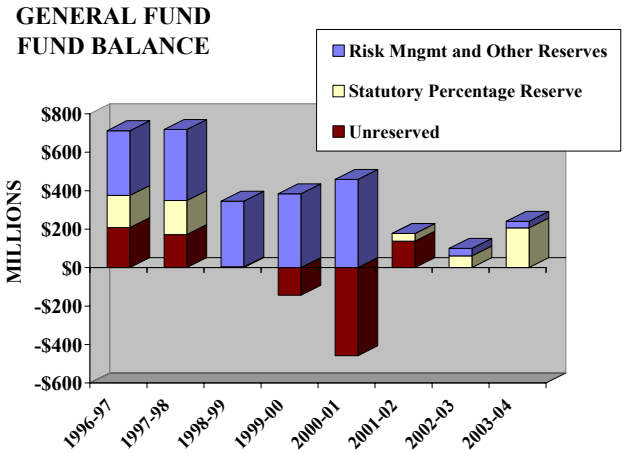
General-purpose revenues for Fiscal Years 2003-04 and 2002-03 were $5,766.5 million (see page 125) and $5,477.0 million, respectively – an increase of $289.5 million or 5.3 percent. Individual income and other taxes increased by $237.9 million. The major categories of individual income tax, all of which contributed to the increase, were withholding payments (up 96.1 million or 3.0 percent), estimated payments (up 63 million or 12.0 percent), payments with returns (up 94.6 million or 30.0 percent) and refunds (down 74.4 million or 11.0 percent). The largest of these variances are related to items that are traditionally nonwage sources. Corporate income increased by only $3.4 million or 1.6 percent. Investment income of the General Fund decreased by $31.4 million or 61.7 percent. However, the prior year balance was uncharacteristically high primarily due to the premature liquidation of securities for cash management purposes. Sales, use, and excise taxes increased by $90.7 million or 4.7 percent, reflecting a 2.2 percent increase in per capita income. Insurance premium taxes increased by $4.6 million or 2.7 percent because of increases in the dollar amount of insurance policies in force. Other revenues decreased by $15.8 million or 12.3 percent primarily related to reduced accounts payable reversions. These

reversions resulted from agencies over estimating accrued expenditures in prior fiscal years. Revenue is recorded when clearing the related accounts payable that were overestimated.

On the budgetary basis, total expenditures and transfers-out (excluding both years' transfers to repay cash funds) that were funded from general-purpose revenues during Fiscal Years 2003-04 and 2002-03 were $5,640.0 million (see page 125) and $5,603.8 million, respectively. The total annual increase in general-funded expenditures is limited to six percent over the previous year with certain adjustments. The primary adjustments are for changes in federal mandates and lawsuits against the state. This limitation is controlled through the legislative budget process and carries the weight of a constitutional requirement because of the TABOR amendment. The limitation did not affect the level of expenditures in Fiscal Year 2003-04 because the budget increased expenditures by 3.4 percent in anticipation of limited general-purpose revenues.



GAAP basis expenditures for the Departments of Education, Health Care Policy and Financing, Higher Education, and Human Services accounted for approximately 83.0 percent of all Fiscal Year 2003-04 general funded expenditures, which is an increase of 1.8 percent from the prior year. Expenditures of the Departments of Higher Education, Human Services, Revenue and the Governor's Office were reduced $126.3 million to accommodate a total increase of $243.0 million in the Departments of Corrections, Education, Health Care Policy and Financing, and the Judicial Branch. Amendment 23 mandates the increases in primary education, and participation in the federal program mandates the increases in Medicaid expenditures. Increased general-purpose revenues provided funding for the expenditures not covered by reductions in other departments. Of the departments with substantial General Fund expenditures, the increases were in the Department of Education ($104.9 million or 4.5 percent), the Department of Health Care Policy and Financing ($115.9 million or 10.2 percent), the Department of Corrections ($15.1 million or 3.2 percent), and the Judicial Branch ($7.1 million or 3.3 percent). The Department of Treasury expenditures decreased by $61.4 million or 98.8 percent primarily because the payment to counties for the Homestead Property Tax Exemption was cancelled in Fiscal Year 2003-04. Other significant decreases in General Fund expenditures occurred in the Department of Higher Education ($94.3 million or 13.8 percent), the Department of Revenue ($6.3 million or 9.5 percent), and the Governor's Office ($17.7 million or 56.4 percent). The reductions in the Governor's Office expenditures were primarily related to economic development and travel and tourism promotion.



The chart at the right shows the changes in the major reserves in the General Fund on a GAAP basis. Statutes required a four percent reserve in fund balance, which was $223.6 million in Fiscal Year 2003-04. The General Fund is reported in the attached financial statements using generally accepted accounting principles; on the GAAP basis $207.0 million was available to meet this reserve requirement. As a result the unreserved General Fund fund balance was zero. Compliance with the statutory reserve requirement was achieved on the budgetary basis by deferring payroll and Medicaid expenditures into the following fiscal year. (Note to the General Fund Fund Balance Chart: Before Fiscal Year 2001-02, the reserves of a large number of funds were reported as part of the General Fund; from Fiscal Year 2001-02 forward they are reported as Special Revenue Funds.)

As required by Senate Bills 03-196 and 03-197, the state converted to cash basis accounting for certain expenditures in Fiscal Year 2002-03. This change resulted in an ongoing difference between the GAAP fund balance and budgetary basis fund balance of the General Fund. On the GAAP financial statements the net General Fund revenues that are available for expenditure are titled Unreserved Reported in: General Fund; the analogous legally defined title on the budgetary basis statement is General Fund Surplus. Deferring payroll expenditures moved $60.5 million of expenditures into the following year, while deferring Medicaid related expenditures moved $167.7 million of expenditures into the following year. Revenues related to the deferral of the Medicaid expenditures were also deferred in the amount of $89.7 million. In total the effect was to increase General Fund fund balance by $138.5 million, which was $25.7 million less than the effect of deferring Fiscal Year 2002-03 expenditures into Fiscal Year 2003-04.

In Fiscal Year 2003-04 the General Fund transferred $8.3 million to the Highway Users Tax Fund and the Capital Projects Fund based on the Fiscal Year 2002-03 ending General Fund Surplus. The transfer is required by statute and is equal to the General Fund Surplus calculated on the budgetary basis (the amount in excess of the required four percent reserve). The transfer will be $121.8 million in Fiscal Year 2004-05 with $81.2 million going to the Highway Users Tax Fund and $40.6 million going to the Capital Projects Fund. Due to the constitutional restriction against a General Fund deficit, these transfers could not be made under GAAP but are made possible by the budgetary basis calculation of General Fund Surplus discussed above.

Public School Fund

The Public School Fund is a statutory fund whose primary revenue source is quarterly transfers from the General Fund. The fund distributes substantially all of the transfer to local school districts resulting in year end fund balances that are not significant. The fund made distributions of $2,317.5 million and $2,201.0 million in Fiscal Year 2003-04 and 2002-03, respectively.

Highway Users Tax Fund

The Highway Users Tax Fund (HUTF) fund balance increased by $36.8 million from the prior year primarily related to restricted cash received from anticipation notes issued. Other significant changes from the prior year include:

- A $108.7 million increase in revenue primarily comprising a $103.1 million increase in federal revenue, and offsetting increases and reductions in excise tax revenue and investment income, respectively. Expenditures were essentially unchanged from the prior year at $1,466.2 million.
- A $248.1 million increase in other financing sources primarily related to the issuance of Tax Revenue Anticipation Notes (TRANs).
- The Department of Transportation also issued $280.2 million of refunding notes and removed $278.8 million of outstanding TRANs from its liabilities (see Note 27 beginning on page 104). This activity was reported in the Debt Service Fund.

The Highway Users Tax Fund shows an Unreserved Fund Balance Reported in Special Revenue Funds of $23.3 million. Historically the Highway Users Tax Fund shows a deficit unreserved fund balance because its reserve for encumbrances is usually greater than net assets. The encumbrances are related to multiple year construction project contracts that are to be funded primarily from future gas tax and motor vehicle license fee revenues. However, in the current year the Highway Users Tax Fund has a large restricted cash balance, a portion of which is from TRANs issued in the current and prior years. Since the liability related to the TRANs is not reported on the fund level statements, the fund shows a positive Unreserved Fund Balance. Both the TRANs liability and the related capital assets are reported along with the fund's other assets and liabilities on the government-wide *Statement of Net Assets.*

Capital Projects Fund

The Capital Projects Fund fund balance declined by $14.9 million from the prior fiscal year end, compared with a decline of $122.3 million in Fiscal Year 2002-03. The primary cause for the current year reduction in fund balance was ongoing expenditures related to three-year appropriations for construction projects. The fund is not being significantly replenished currently because of other unfunded obligations of the General Fund. A net amount of $15.8 million was transferred into the Capital Projects Fund in Fiscal Year 2003-04. The lack of transfers into the Capital

Projects fund means that construction of new capital assets and maintenance of existing capital assets is likely being deferred.

State Education Fund

The State Education Fund balance declined by $71.3 million during Fiscal Year 2003-04, which follows a decrease of $85.3 million in Fiscal Year 2002-03. Except for investment income, revenues of the fund are fixed as a percentage of taxpayer income, and the fund's portion of those receipts increased in Fiscal Year 2003-04 by $90.3 million from the prior year, while investment income declined by $48.0 million. Expenditures of the fund are limited to certain education programs and to meeting growth requirements in other education programs. Expenditures of the fund were $339.8 million and $321.4 million in Fiscal Year 2003-04 and 2002-03, respectively. The constitutional requirement that income of the fund be spent before the principal of the fund signals the intent that the fund assets would grow over time to provide a future funding source. However, 32.6 percent of the fund's beginning fund balance was consumed in Fiscal Year 2003-04.

Higher Education Institutions

Current period activity along with a prior period adjustment increased the net assets of the Higher Education Institutions by $208.2 million. The fund has a wide variety of funding sources, and expenses are not specifically matched to those funding sources; therefore, it is not possible to specifically identify the source of the net asset increase. However, it can be noted that tuition and fees of the institutions increased by $77.1 million, federal revenues increased by $63.8 million, and investment income decreased by $13.4 million. The state made capital contributions of $9.8 million ($52.7 million in Fiscal Year 2002-03) funded by the Capital Projects Fund and transferred $605.2 million ($694.7 million in Fiscal Year 2002-03) to Higher Education Institutions primarily from the General Fund. This contribution level represents a $132.4 million or 17.7 percent reduction in state support for Higher Education Institutions.

Unemployment Insurance

The net assets of the Unemployment Insurance Fund declined by $122.1 million. The decline was primarily related to an increase in unemployment benefits driven by the economic downturn. However, the decline was exacerbated by a $19.6 million reduction in investment income related to the $160.2 million drop in the fund's cash balance. Statutes require the fund to increase unemployment insurance premiums when the fund's balances declines below established thresholds. Since the fund's revenues are counted against the TABOR limit, the automatic premiums increase will likely result in increased TABOR refunds paid out of the General Fund.

Student Obligation Bond Authority (dba, CollegeInvest)

The authority is a state agency (not a component unit) whose net assets increased by $17.3 million or 15.5 percent. Assets of the fund decreased from $1,092.8 million to $1,072.9 million while liabilities decreased from $981.0 million to $943.9 million, primarily due to scheduled payments on bond principal. College Invest uses bond proceeds to fund loans to students that are recorded on the *Statement of Net Assets* in the line items Student and Other Receivables and Restricted Receivables.

State Lottery

The Lottery produced operating income of $103.1 million ($103.4 million in Fiscal Year 2002-03) on sales of $407.2 million ($396.0 million in Fiscal Year 2002-03); this represents a 0.3 percent decrease in operating income. The Lottery distributed $49.6 million ($48.7 million in Fiscal Year 2002-03) to the Great Outdoors Colorado program, a related organization, and transferred $54.8 million ($56.5 million in Fiscal Year 2002-03) to other state funds, of which, $2.4 million was distributed to local school districts, $10.4 million was used to fund operations of the state Division of Parks and Recreation, and $41.6 million was expended to local governments through the Conservation Trust Fund. Because of the requirement to distribute most of its income, the Lottery net assets are minimal and change very little from year to year.

ANALYSIS OF BUDGET VARIANCES

The following analysis is based on the General Fund Surplus Schedule included in Required Supplementary Information on page 125. That schedule isolates general-purpose revenues and expenditures funded from those revenues; it is therefore the best source for identifying General Fund budget activities.

Differences Between Original and Final Budgets

The following list shows departments that had changes in budget greater than $0.9 million.

- Department of Corrections – The department's original budget exceeded the final budget by $0.9 million. The department had a $2.0 million supplemental increase to pay for utility costs that exceeded original projections. This increase was offset by a $0.6 million reduction in the budget for medical costs that were less than originally projected and a $2.2 million reduction in the budget for payments to house state inmates in private prisons, which reflected slower inmate population growth than anticipated.
- Department of Health Care Policy and Financing – The department's final budget exceeded the original budget by $126.8 million. A large portion of this variance ($74.5 million) is related to the original estimate of the federal government's increased match percentage for Medicaid. The original budget reflects the restriction of General Fund spending authority for the increased federal match; however, the final budget is shown unrestricted in order to properly state the reversion of General Fund spending authority, which was restricted rather than reduced. Supplementals increased the original appropriation by $19.3 million to make payment on two lawsuit settlements and by $34.4 million to pay medical services costs in excess of the original estimate.
- Judicial Branch – The final budget of the Judicial Branch exceeded the original budget by $1.3 million. The Judicial Branch received supplemental appropriations primarily related to higher mandated costs including court appointed counsel and guardian ad litem, and hardware and furnishings for county courts. These increases were partially offset by reduction in the Judicial Branch contract with the Division of Youth Corrections.
- Department of Revenue – The department's original budget exceeded the final budget by $1.1 million. The department received supplemental appropriations to purchase computer services and to make payments to the Department of Personnel & Administration for communications services provided by the Multi-Use Network.
- Department of Treasury – The department's original budget exceeded the final budget by $1.4 million. This increase was primarily the result of an increase in the amount of transfers-out to repay cash funds transferred into the General Fund in prior years.

Differences Between Final Budget and Actual Expenditures

Overexpenditures for all funds total $9.6 million including $9.1 million of general funded Medicaid overexpenditures for which there is no statutory limit due to the entitlement nature of the program. Other general funded overexpenditures were not significant, and they are discussed in detail in Note 8A on page 77. In total, state departments reverted $76.7 million of general funded appropriations. In addition, they reverted $4.2 million of revenue in excess of that which was required to support specific appropriations in the General Fund. The final budget is presented without regard to restrictions in order to show the total reversion of appropriated budget. The following list shows those departments that had reversions of at least $0.6 million.

- Department of Corrections – The department reverted $0.8 million – the largest portion of which was a $0.3 million reversion related to payments to house inmates in local jails and private prisons. This reversion occurred as result of lower than expected growth in the inmate population. The balance of the reversion was the result of legal service costs that were less than anticipated and wage and benefit costs that did not materialize due to positions remaining unfilled.
- Department of Health Care Policy and Financing – The department reverted $66.3 million from various line items in its budget; most of the reversion is the direct result of restrictions of $68.7 million required by the (M) headnote in the appropriations act, which requires general fund match to be reduced for increases in

federal funds available. The difference between these amounts primarily reflects an overexpenditure discussed in Note 8A.

- Department of Human Services – The department reverted $1.2 million of general funded appropriation. The largest portion of this reversion was from the Aid to Needy Disabled state appropriation; the program served fewer state-funded clients than originally projected. A portion of the appropriation for various adult community services was set aside to cover anticipated shortfalls in Medicaid funding of the community services program, and when the Medicaid funding shortfall did not occur, the set aside was reverted. Funds appropriated for alternative inpatient services at a mental health institute were reverted because a supplemental appropriation overestimated program costs.
- Judicial Branch – The Judicial Branch reverted $0.6 million from various line items in its budget. The reversions were the result of expenditures that were lower than anticipated for items such as personal services at the Public Defender's Office, expenditures for guardian ad litem at the Office of the Child's Representative, a reduction in contract attorneys for the Alternate Defense Counsel, and a reduction in district attorney mandated costs, such as those for expert witnesses.
- Department of Revenue – The department reverted $5.9 million, of which, $1.6 million was related to Old Age Pension cost that were lower than estimated, $1.2 million was related to fewer Old Age Heat and Fuel refunds requested than were estimated, and $0.9 million related to cigarette tax rebates to cities and counties that were lower than anticipated because cigarette taxes were lower than estimated. In addition, the department reverted $0.6 million because it issued fewer drivers' licenses than anticipated.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

The state's investment in capital assets at June 30, 2004, was $15.8 billion ($15.0 billion in Fiscal Year 2002-03). Included in this amount was $3.8 billion of depreciable capital assets net of $2.6 billion of depreciation. Also included was $12.0 billion that was primarily nondepreciable infrastructure reported under the modified approach, which is discussed below. The state added $979.9 million and $868.4 million of capital assets in Fiscal Year 2003-04 and 2002-03, respectively. In Fiscal Year 2003-04, $546.2 million was recorded by governmental funds and $433.6 million was recorded by proprietary funds. Of the additions, $52.4 million was funded by general-purpose revenues and the balance was funded by federal funds, cash funds, or borrowing. The table below provides information on the state's capital assets by asset type for both governmental and business-type activities.

The state continued construction of a major project to rebuild a portion of Interstate 25 in Denver. The project increases the capacity and efficiency of the highway and adds a light rail line. The project is funded by Transportation Revenue Anticipation Notes (TRANs) authorized by a vote of the people in the November 1999 election. The state will repay the notes from future federal and other state revenues. Several other projects throughout the state that are funded by the TRANs are also underway.

The state's commitments for capital expenditures are reported in the attached financial statements as fund balances reserved for encumbrances. At June 30, 2004, the state had commitments of $63.6 million ($35.0 million in Fiscal Year 2002-03) in the Capital Projects Fund and $731.8 million ($881.0 million in Fiscal Year 2002-03) in the Highway Users Tax Fund.

The state's capital assets at June 30, 2004 and 2003, were (see Note 17 for additional detail):

(Amounts in Millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Capital Assets Not Being Depreciated						
Land and Land Improvements	$ 81	$ 81	$ 200	$ 180	$ 281	$ 261
Collections	8	8	12	12	20	20
Construction in Progress	1,335	840	160	328	1,495	1,168
Infrastructure	10,159	10,104	-	-	10,159	10,104
Total Capital Assets Not Being Depreciated	11,583	11,033	372	520	11,955	11,553
Capital Assets Being Depreciated						
Buildings and Related Improvements	1,430	1,400	3,395	2,980	4,825	4,380
Vehicles and Equipment	510	491	665	596	1,175	1,087
Library Books, Collections, and Other Capital Assets	27	27	378	358	405	385
Infrastructure	21	20	19	18	40	38
Total Capital Assets Being Depreciated	1,988	1,938	4,457	3,952	6,445	5,890
Accumulated Depreciation	(779)	(746)	(1,834)	(1,692)	(2,613)	(2,438)
Total	$ 12,792	$ 12,225	$ 2,995	$ 2,780	$ 15,787	$ 15,005

The state is constitutionally prohibited from issuing general obligation debt. However, the state has issued Certificates of Participation (COPs) secured by buildings and vehicles and revenue bonds that are secured by pledges of future revenues. In some instances the debt-financed asset generates the pledged revenue stream; in other instances, such as the Transportation Revenue Anticipation Notes (TRANs), the pledged revenue stream is future federal revenues and state taxes. The state has other forms of borrowing that are small in relation to the revenue bonds and COPs. The following schedule shows the principal and interest that will be paid over the following thirty-five year period to retire the current borrowing for bonds and COPS (see Note 25 for additional detail).

Fiscal Year 2003-04
(Amounts in Millions)

	Revenue Bonds		Certificates of Particpation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Governmental Activities	$ 1,518.6	$ 595.7	$ 44.2	$ 2.6	$ 1,562.8	$ 598.3
Business Type Activities	1,578.9	709.4	73.7	45.4	1,652.6	754.8
Total	$ 3,097.5	$ 1,305.1	$ 117.9	$ 48.0	$ 3,215.4	$ 1,353.1

Fiscal Year 2002-03
(Amounts in Millions)

	Revenue Bonds		Certificates of Particpation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Governmental Activities	$ 1,273.1	$ 547.2	$ 57.1	$ 4.0	$ 1,330.2	$ 551.2
Business Type Activities	1,553.6	686.0	46.8	21.5	1,600.4	707.5
Total	$ 2,826.7	$ 1,233.2	$ 103.9	$ 25.5	$ 2,930.6	$ 1,258.7

In Fiscal Year 2002-03, the total principal amount of revenue bonds and COPs was 38.8 percent of net asset other than capital assets. In Fiscal Year 2003-04, that measure rose to 38.9 percent. Total debt per capita including bonds, certificate of participation, mortgages, notes, and leases was $642 per person in Fiscal Year 2002-03; it rose to $781 per person in Fiscal Year 2003-04.

Except for exempt enterprises, the TABOR amendment requires a vote of the people for the creation of any debt unless existing cash reserves are irrevocably pledged to service the debt. The amendment does allow debt

issuance to refinance a borrowing at a lower interest rate. These requirements limit management's ability to address revenue shortfalls by borrowing for capital expenditures.

INFRASTRUCTURE ASSETS REPORTED UNDER THE MODIFIED APPROACH

The state has elected to report infrastructure owned and maintained by the state Department of Transportation under the modified approach. The main feature of the modified approach is that annual maintenance costs are reported rather than depreciation. In order for the use of the modified approach to remain valid, the condition of the infrastructure must be maintained at a level set in advance by the state. The state's maintenance of the infrastructure is measured by condition assessments compared to the target condition level. The state must also disclose how the amount actually spent on maintenance compares to the estimate of the amount needed to maintain the established condition level.

The established condition level set by the Colorado Transportation Commission is unchanged from the prior year at 58 percent of roadways rated in the good or fair categories. The following table presents the roadway condition assessment for the preceding seven years and shows that the most recent condition assessment meets the established condition level.

	2003	2002	2001	2000	1999	1998	1997
Percent Rated Good/Fair	58	58	54	54	51	58	62
Percent Rated Poor	42	42	46	46	49	42	38

The established condition level for bridges is also unchanged from the prior year and requires that no more than 25 percent of bridges be rated as structurally deficient. The following table presents the condition assessment of bridges for the current and preceding seven years and shows that the most recent condition assessment significantly exceeds the established condition level.

	2004	2003	2002	2001	2000	1999	1998	1997
Percent Structurally Deficient	6.5	6.3	6.6	6.7	6.3	6.5	5.6	5.4

The Department of Transportation has not developed a process for reporting the estimated cost to maintain infrastructure assets at the established condition level. Until the department develops that system, it has chosen to use budgeted amounts as a surrogate for the cost to maintain. The following table shows that in some years the department expended more than the amount budgeted for maintaining the infrastructure. This does not represent an overexpenditure, but occurs because of the multi-year nature of construction contracts.

(Amounts in Millions)

Fiscal Year	Estimated Spending	Actual Spending
2003-04	$ 554.1	$ 529.9
2002-03	631.0	1,457.1
2001-02	968.5	1,051.8
2000-01	1,842.2	929.2
1999-00	688.6	774.3
1998-99	693.4	696.5
1997-98	533.0	552.4
1996-97	495.6	414.5
Total	$ 6,406.4	$ 6,405.7

CONDITIONS EXPECTED TO AFFECT FUTURE OPERATIONS

Current estimates by the Governor's Office of State Planning and Budgeting (OSPB) show significant growth in general-purpose revenues over the forecast horizon. These increases in revenue are a positive sign; however, growing TABOR refunds offset the anticipated revenue growth. The residual revenue growth may not be adequate to fund the long-term scheduled expenditure increases for education funding and debt service that are beyond management's immediate control. OSPB anticipates that under current law, General Fund appropriations growth in Fiscal Year 2005-06 will be limited to 1.4 percent in order to meet existing General Fund obligations.

Several conditions adversely affect the state's future operations:

- Transfers to Other Funds – While one legislature cannot bind another, current law requires the General Fund to repay transfers from various cash funds when resources exceed General Fund obligations. Existing legislation also requires the transfer of any General Fund fund balance in excess of the four percent statutory reserve and TABOR refund to the Highway Users Tax Fund and the Capital Projects Fund in a two-thirds to one-third ratio, respectively. While this provision increases the funding for transportation and capital projects, it makes it unlawful to accumulate a surplus in the General Fund that would mitigate the effects of future revenue shortfalls. In Fiscal Year 2004-05, $121.8 million will be transferred out of the General Fund under this requirement.
- Pension Plan Contributions – The funding ratio (actuarial value of assets, using a four-year smoothed-market value, divided by actuarial accrued liability) of the State and School Division of the Public Employees Retirement Association (PERA) declined from 87.9 percent to 75.2 percent within its most recent fiscal year. The amortization period for the plan's liability is infinite, which means that at the current contribution level the liability associated with existing benefits will never be fully paid. The legislature recently set the state contribution rate at 10.15 percent. While this is an increase over Fiscal Year 2003-04, it is 1.3 percentage points (or 11.4 percent) below the average during the 1990s. PERA's actuary estimates that the contribution rate would need to be 17.3 percent to achieve the 40-year amortization period currently called for by the Governmental Accounting Standards Board. An increase in employer contribution is among the options available to address this problem, however, that option places additional pressure on all state funds that make payroll payments to PERA for covered employees.
- Election 2000 Amendment 23 – This constitutional requirement was intended to dedicate a portion of TABOR refunds to education programs. OSPB estimates that $289.7 million will be diverted from general-purpose tax revenue in Fiscal Year 2004-05 under this requirement. In addition, the state is required to increase funding for education by specified percentages from General Fund sources. This revenue diversion and mandated expenditure growth infringes on general funding for other programs because of the existing spending limits.
- Cash Basis Accounting – For Fiscal Year 2002-03 and future years, the Legislature changed the budgetary accounting for June payroll and Medicaid expenditures to the cash basis. This causes the outflow of resources to be deferred into the following year. As a result, the state does not use full accrual accounting to calculate budgetary compliance. Instead, potentially significant liabilities are delayed until the following year under the hopeful assumption that subsequent revenues will be adequate to pay those liabilities. Departures from Generally Accepted Accounting Principles (GAAP) such as this are expected to adversely affect the state's credit rating. However, it will be difficult for the state to return to the GAAP basis for budgetary expenditures because of the significant one-time budgetary impact of recording payroll and Medicaid expenditures that were previously deferred.
- Temporary Spending Reductions – The Legislature made the following temporary spending reductions for Fiscal Year 2003-04:
    - Payments to counties for the senior Homestead Property Tax Exemption were suspended reducing General Fund expenditures by an estimated $55 million. These payments were also suspended for Fiscal Year 2004-05.

- Payments to the Fire and Police Pension Association for Old Hire Pension Plans were suspended reducing General Fund expenditures by an estimated $25 million. These payments were also suspended for Fiscal Year 2004-05.

These demands on the General Fund will return at the end of the suspension periods.

- Debt Service – Debt service payments on the remaining $1.5 billion of Transportation Revenue Anticipation Notes issued by the Department of Transportation begin in earnest in the upcoming fiscal years – $84.8 million and $168.0 million in Fiscal Years 2004-05 and 2005-06, respectively. While a portion of the debt services will be funded by federal funds, a significant amount will be funded by state sources. When most of the notes were issued, the diversion of surplus general-purpose revenues was expected to accumulate to fund that debt service. However, no diversion was available in recent years or the current year, and no material diversion or transfer is anticipated after Fiscal Year 2004-05. While this is not a General Fund responsibility, the use of other transportation resources to pay the debt service may be unacceptable because of the impact on road maintenance and construction statewide.

BASIC FINANCIAL STATEMENTS

STATE · OF · COLORADO
UNION AND CONSTITUTION
NIL SINE NUMINE
1876

STATEMENT OF NET ASSETS
JUNE 30, 2004

(DOLLARS IN THOUSANDS)	PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS:				
Current Assets:				
Cash and Pooled Cash	$ 1,387,469	$ 678,233	$ 2,065,702	$ 114,987
Investments	10,209	182,572	192,781	20,215
Taxes Receivable, net	738,769	92,485	831,254	362
Other Receivables, net	143,717	180,707	324,424	159,912
Due From Other Governments	282,252	86,355	368,607	144
Internal Balances	22,070	(22,070)	-	-
Due From Component Units	-	5,406	5,406	-
Inventories	16,696	33,065	49,761	7,816
Prepaids, Advances, and Deferred Charges	29,628	18,396	48,024	6,639
Total Current Assets	2,630,810	1,255,149	3,885,959	310,075
Noncurrent Assets:				
Restricted Cash and Pooled Cash	1,360,083	121,764	1,481,847	54,684
Restricted Investments	408,790	243,390	652,180	297,577
Restricted Receivables	347,245	889,108	1,236,353	15,503
Investments	4,055	577,619	581,674	1,150,992
Other Long-Term Assets	325,376	99,358	424,734	765,525
Depreciable Capital Assets and Infrastructure, net	1,208,235	2,623,814	3,832,049	584,306
Land and Nondepreciable Infrastructure	11,583,157	371,552	11,954,709	21,271
Total Noncurrent Assets	15,236,941	4,926,605	20,163,546	2,889,858
TOTAL ASSETS	17,867,751	6,181,754	24,049,505	3,199,933
LIABILITIES:				
Current Liabilities:				
Tax Refunds Payable	425,610	-	425,610	-
Accounts Payable and Accrued Liabilities	687,136	334,136	1,021,272	55,422
Due To Other Governments	172,239	37,120	209,359	821
Due To Component Units	-	703	703	-
Deferred Revenue	84,431	131,496	215,927	1,989
Accrued Compensated Absences	7,992	9,719	17,711	10,314
Claims and Judgments Payable	12,084	-	12,084	8,798
Leases Payable	2,821	5,537	8,358	301
Notes, Bonds, COP's Payable	419,778	80,127	499,905	39,234
Other Current Liabilities	37,152	107,611	144,763	130,904
Total Current Liabilities	1,849,243	706,449	2,555,692	247,783
Noncurrent Liabilities:				
Deposits Held In Custody For Others	10	-	10	101,172
Accrued Compensated Absences	112,104	128,635	240,739	-
Claims and Judgments Payable	29,200	-	29,200	-
Capital Lease Payable	13,219	80,994	94,213	5,992
Notes, Bonds, COP's Payable	1,540,053	1,578,762	3,118,815	985,300
Other Long-Term Liabilities	516,756	70,174	586,930	51,285
Total Noncurrent Liabilities	2,211,342	1,858,565	4,069,907	1,143,749
TOTAL LIABILITIES	4,060,585	2,565,014	6,625,599	1,391,532
NET ASSETS:				
Invested in Capital Assets, Net of Related Debt	11,747,276	2,195,837	13,943,113	249,120
Restricted for:				
Highway Construction and Maintenance	559,450	-	559,450	-
State Education	147,286	-	147,286	-
Unemployment Insurance	-	200,311	200,311	-
Debt Service	7,965	103,602	111,567	-
Emergencies	172,202	39,277	211,479	29
Permanent Funds and Endowments:				
Expendable	1,297	17,449	18,746	530,507
Nonexpendable	392,542	49,659	442,201	367,144
Court Awards and Other Purposes	134,658	297,765	432,423	313,055
Unrestricted	644,490	712,840	1,357,330	348,546
TOTAL NET ASSETS	$ 13,807,166	$ 3,616,740	$ 17,423,906	$ 1,808,401

The notes to the financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

(DOLLARS IN THOUSANDS)	Expenses		Program Revenues		
Functions/Programs	Expenses	Indirect Cost Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:					
Governmental Activities:					
General Government	$ 182,312	$ (20,724)	$ 83,588	$ 128,317	$ 27
Business, Community, and Consumer Affairs	341,539	2,050	115,447	202,025	307
Education	172,454	1,369	7,756	406,593	5,381
Health and Rehabilitation	476,344	1,228	71,851	323,241	-
Justice	930,864	5,510	120,326	60,410	1,204
Natural Resources	79,618	1,496	79,022	21,006	57
Social Assistance	2,951,529	2,688	21,271	2,401,898	-
Transportation	743,990	2,163	220,184	58,318	480,466
Payments to School Districts	3,131,486	-	-	-	-
Payments to Other Governments	1,674,416	-	-	-	-
Interest on Debt	9,625	-	-	-	-
Total Governmental Activities	10,694,177	(4,220)	719,445	3,601,808	487,442
Business-Type Activities:					
Higher Education	3,125,440	2,686	1,539,246	1,105,872	73,932
Unemployment Insurance	591,789	-	338,255	131,423	-
Student Obligation Bond Authority	37,355	-	34,069	20,573	-
Lottery	353,812	347	407,325	-	-
Other Business-types	245,801	1,187	168,288	86,324	20
Total Business-type Activities	4,354,197	4,220	2,487,183	1,344,192	73,952
Total Primary Government	15,048,374	-	3,206,628	4,946,000	561,394
Component Units:					
University of Colorado Hospital Authority	425,046	-	436,454	279	13,398
Denver Metropolitan Baseball Stadium District	5,842	-	637	-	-
Colorado Water Resources and Power Development Authority	37,783	-	25,561	22,238	-
University of Colorado Foundation	101,678	-	4,594	134,838	-
Colorado State University Foundation	25,425	-	806	39,489	-
Colorado School of Mines Foundation	10,517	-	99	24,961	-
University of Northern Colorado Foundation	10,926	-	2,450	11,023	-
CoverColorado	31,790	-	29,211	104	-
Total Component Units	$ 649,007	$ -	$ 499,812	$ 232,932	$ 13,398

General Revenues:
- Taxes:
  - Sales and Use Taxes
  - Excise Taxes
  - Individual Income Tax
  - Corporate Income Tax
  - Other Taxes
  - Restricted for Education:
    - Individual Income Tax
    - Corporate and Fiduciary Income Tax
  - Restricted for Transportation:
    - Fuel Taxes
    - Other Taxes
- Unrestricted Investment Earnings
- Other General Revenues
- Payment from State of Colorado

Special and Extraordinary Item

(Transfers-Out) / Transfers-In

Internal Capital Contributions

Total General Revenues, Special Items, and Transfers

Change in Net Assets

Net Assets - Beginning
- Prior Period Adjustment (Note 28)
- Accounting Changes (Note 28)

Net Assets - Ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ 50,344	$ -	$ 50,344	
(25,810)	-	(25,810)	
245,907	-	245,907	
(82,480)	-	(82,480)	
(754,434)	-	(754,434)	
18,971	-	18,971	
(531,048)	-	(531,048)	
12,815	-	12,815	
(3,131,486)	-	(3,131,486)	
(1,674,416)	-	(1,674,416)	
(9,625)	-	(9,625)	
(5,881,262)	-	(5,881,262)	
-	(409,076)	(409,076)	
-	(122,111)	(122,111)	
-	17,287	17,287	
-	53,166	53,166	
-	7,644	7,644	
-	(453,090)	(453,090)	
(5,881,262)	(453,090)	(6,334,352)	
-	-	-	25,085
-	-	-	(5,205)
-	-	-	10,016
-	-	-	37,754
-	-	-	14,870
-	-	-	14,543
-	-	-	2,547
-	-	-	(2,475)
-	-	-	97,135
1,920,934	-	1,920,934	262
112,741	-	112,741	-
3,253,027	-	3,253,027	-
220,236	-	220,236	-
465,826	-	465,826	-
260,402	-	260,402	-
18,298	-	18,298	-
556,309	-	556,309	-
671	-	671	-
16,534	-	16,534	64,151
99,200	-	99,200	-
-	-	-	11,634
-	-	-	(49,161)
(546,580)	546,580	-	-
(20)	15,330	15,310	-
6,377,578	561,910	6,939,488	26,886
496,316	108,820	605,136	124,021
13,135,877	3,504,704	16,640,581	824,919
174,973	3,216	178,189	-
-	-	-	859,461
$ 13,807,166	$ 3,616,740	$ 17,423,906	$ 1,808,401

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

(DOLLARS IN THOUSANDS)	GENERAL	PUBLIC SCHOOL	HIGHWAY USERS TAX
ASSETS:			
Cash and Pooled Cash	$ 523,977	$ 22,346	$ 26,852
Taxes Receivable, net	776,881	-	-
Other Receivables, net	58,331	-	2,660
Due From Other Governments	271,745	177	82
Due From Other Funds	41,270	5,518	11,132
Inventories	9,430	-	6,047
Prepaids, Advances, and Deferred Charges	18,722	-	66
Restricted Cash and Pooled Cash	-	-	967,608
Restricted Investments	-	-	24
Restricted Receivables	-	-	343,943
Investments	4,239	-	-
Other Long-Term Assets	300	-	8,547
Land and Nondepreciable Infrastructure	-	-	-
TOTAL ASSETS	$ 1,704,895	$ 28,041	$ 1,366,961
LIABILITIES:			
Tax Refunds Payable	$ 421,817	$ -	$ 304
Accounts Payable and Accrued Liabilities	443,958	1,744	182,958
Due To Other Governments	61,515	7,951	51,892
Due To Other Funds	13,381	19	477
Deferred Revenue	115,040	-	18,947
Compensated Absences Payable	39	-	-
Claims and Judgments Payable	358	-	-
Notes, Bonds, COP's Payable	397,023	-	-
Other Current Liabilities	4,777	-	35
Deposits Held In Custody For Others	5	-	-
TOTAL LIABILITIES	1,457,913	9,714	254,613
FUND BALANCES:			
Reserved for:			
Encumbrances	2,106	-	731,774
Noncurrent Assets	300	-	8,547
Debt Service	-	-	-
Statutory Purposes	207,003	-	-
Risk Management	33,301	-	-
Emergencies	-	-	-
Funds Reported as Restricted	-	-	345,972
Unreserved, Reported in:			
Special Revenue Funds	-	18,327	23,262
Capital Projects Funds	-	-	-
Nonmajor Special Revenue Funds	-	-	-
Nonmajor Permanent Funds	-	-	-
Unreserved:			
Designated for Unrealized Investment Gains:			
Reported in Major Funds	4,272	-	2,793
Reported in Nonmajor Special Revenue Funds	-	-	-
Reported in Nonmajor Permanent Funds	-	-	-
TOTAL FUND BALANCES	246,982	18,327	1,112,348
TOTAL LIABILITIES AND FUND BALANCES	$ 1,704,895	$ 28,041	$ 1,366,961

The notes to the financial statements are an integral part of this statement.

CAPITAL PROJECTS	STATE EDUCATION	OTHER GOVERNMENTAL FUNDS	TOTAL
$ 39,453	$ -	$ 752,699	$ 1,365,327
-	-	49,276	826,157
1,113	-	81,276	143,380
4,373	-	3,996	280,373
668	-	59,377	117,965
-	-	299	15,776
6,198	-	4,172	29,158
-	88,482	303,993	1,360,083
-	57,848	350,918	408,790
-	997	2,305	347,245
-	-	10,025	14,264
423	-	222,400	231,670
-	-	12,689	12,689
$ 52,228	$ 147,327	$ 1,853,425	$ 5,152,877
$ -	$ -	$ 3,489	$ 425,610
12,426	-	34,491	675,577
-	41	50,834	172,233
382	-	79,993	94,252
2,902	-	34,346	171,235
-	-	-	39
-	-	11,726	12,084
-	-	-	397,023
538	-	3,820	9,170
-	-	5	10
16,248	41	218,704	1,957,233
63,640	-	-	797,520
423	-	269,873	279,143
-	-	7,965	7,965
11,565	-	-	218,568
-	-	-	33,301
-	-	172,202	172,202
-	143,533	508,923	998,428
-	-	-	41,589
(39,986)	-	-	(39,986)
-	-	664,258	664,258
-	-	1,291	1,291
338	3,753	-	11,156
-	-	5,491	5,491
-	-	4,718	4,718
35,980	147,286	1,634,721	3,195,644
$ 52,228	$ 147,327	$ 1,853,425	$ 5,152,877

GOVERNMENTAL FUNDS BALANCE SHEET
RECONCILED TO
STATEMENT OF NET ASSETS
JUNE 30, 2004

(DOLLARS IN THOUSANDS)	TOTAL GOVERNMENTAL FUNDS	(A) INTERNAL SERVICE FUNDS	(B) CAPITAL ASSET BALANCES	(C) DEBT RELATED BALANCES	(D) CENTRALIZED RISK MANAGEMENT LIABILITIES	(E) OTHER MEASUREMENT FOCUS ADJUSTMENTS	(F) INTERNAL BALANCES ELIMINATION	STATEMENT OF NET ASSETS TOTALS
ASSETS:								
Current Assets:								
Cash and Pooled Cash	$ 1,365,327	$ 22,102	$ -	$ -	$ -	$ 40	$ -	$ 1,387,469
Investments	-	-	-	-	-	10,209	-	10,209
Taxes Receivable, net	826,157	239	-	-	-	(87,627)	-	738,769
Other Receivables, net	143,380	197	-	-	-	140	-	143,717
Due From Other Governments	280,373	230	-	-	-	1,649	-	282,252
Due From Other Funds	117,965	77	-	-	-	(1,667)	(94,305)	22,070
Inventories	15,776	920	-	-	-	-	-	16,696
Prepaids, Advances, and Deferred Charges	29,158	470	-	-	-	-	-	29,628
Total Current Assets	2,778,136	24,235	-	-	-	(77,256)	(94,305)	2,630,810
Noncurrent Assets:								
Restricted Cash and Pooled Cash	1,360,083	-	-	-	-	-	-	1,360,083
Restricted Investments	408,790	-	-	-	-	-	-	408,790
Restricted Receivables	347,245	-	-	-	-	-	-	347,245
Investments	14,264	-	-	-	-	(10,209)	-	4,055
Other Long-Term Assets	231,670	430	-	-	-	93,276	-	325,376
Depreciable Capital Assets and Infrastructure, net	-	65,696	1,142,539	-	-	-	-	1,208,235
Land and Nondepreciable Infrastructure	12,689	-	11,570,468	-	-	-	-	11,583,157
Total Noncurrent Assets	2,374,741	66,126	12,713,007	-	-	83,067	-	15,236,941
TOTAL ASSETS	5,152,877	90,361	12,713,007	-	-	5,811	(94,305)	17,867,751
LIABILITIES:								
Current Liabilities:								
Tax Refunds Payable	425,610	-	-	-	-	-	-	425,610
Accounts Payable and Accrued Liabilities	675,577	7,352	-	4,207	-	-	-	687,136
Due To Other Governments	172,233	-	-	-	-	6	-	172,239
Due To Other Funds	94,252	59	-	-	-	(6)	(94,305)	-
Deferred Revenue	171,235	823	-	-	-	(87,627)	-	84,431
Compensated Absences Payable	39	40	-	-	-	7,913	-	7,992
Claims and Judgments Payable	12,084	-	-	-	-	-	-	12,084
Leases Payable	-	184	-	2,637	-	-	-	2,821
Notes, Bonds, COP's Payable	397,023	11,635	-	11,120	-	-	-	419,778
Other Current Liabilities	9,170	-	-	-	27,982	-	-	37,152
Total Current Liabilities	1,957,223	20,093	-	17,964	27,982	(79,714)	(94,305)	1,849,243
Noncurrent Liabilities:								
Deposits Held In Custody For Others	10	-	-	-	-	-	-	10
Accrued Compensated Absences	-	1,460	-	-	-	110,644	-	112,104
Claims and Judgments Payable	-	-	-	-		29,200	-	29,200
Capital Lease Payable	-	9,151	-	4,068	-	-	-	13,219
Notes, Bonds, COP's Payable	-	22,023	-	1,518,030	-	-	-	1,540,053
Other Long-Term Liabilities	-	-	-	-	70,689	446,067	-	516,756
Total Noncurrent Liabilities	10	32,634	-	1,522,098	70,689	585,911	-	2,211,342
TOTAL LIABILITIES	1,957,233	52,727	-	1,540,062	98,671	506,197	(94,305)	4,060,585
NET ASSETS:								
Invested in Capital Assets, Net of Related Debt	12,689	22,703	12,713,007	(1,001,123)	-	-	-	11,747,276
Restricted for:								
Highway Construction and Maintenance	1,080,425	-	-	(520,975)	-	-	-	559,450
State Education	147,286	-	-	-	-	-	-	147,286
Debt Service	7,965	-	-	-	-	-	-	7,965
Emergencies	172,202	-	-	-	-	-	-	172,202
Permanent Funds and Endowments:								
Expendable	1,297	-	-	-	-	-	-	1,297
Nonexpendable	392,542	-	-	-	-	-	-	392,542
Court Awards and Other Purposes	134,658	-	-	-	-	-	-	134,658
Unrestricted	1,246,580	14,931	-	(17,964)	(98,671)	(500,386)	-	644,490
TOTAL NET ASSETS	$ 3,195,644	$ 37,634	$ 12,713,007	$ (1,540,062)	$ (98,671)	$ (500,386)	$ -	$ 13,807,166

The notes to the financial statements are an integral part of this statement.

Differences Between the *Balance Sheet – Governmental Funds* and Governmental Activities on the Government-Wide *Statement of Net Assets*

(A) Management uses Internal Services Funds to charge the costs of goods and services sold by state agencies solely within the state. Because the sales are primarily to governmental funds, the assets and liabilities of the Internal Service Funds are included in the governmental activities on the government-wide *Statement of Net Assets.* Internal Service Funds are reported using proprietary fund type accounting in the fund-level financial statements. In addition to minor internal sales within the Department of Transportation and the Department of Public Safety, the state's Internal Service Funds provide the following goods and services to nearly all state agencies:

- Fleet management, printing, and mail services;
- Information management services;
- Telecommunication services;
- Building maintenance and management in the capitol complex;
- Administrative hearings services;
- Debt collection.

(B) Capital assets used in governmental activities are not financial resources, and therefore, they are not included in the fund-level financial statements. However, capital assets are economic resources, and therefore, they are reported in the government-wide *Statement of Net Assets.*

(C) Long-term liabilities such as leases, bonds, notes, mortgages, and certificates of participation (including accrued interest) are not due and payable in the current period, and therefore, they are not included in the fund-level financial statements. However, from an economic perspective these liabilities reduce net assets and are therefore reported in the *Statement of Net Assets*. The portion reported as current in the reconciliation is payable within the following fiscal year. The largest portion of the long-term balance is related to Transportation Revenue Anticipation Notes issued by the Department of Transportation.

(D) Risk management liabilities are actuarially determined claims and consist of a current and long-term portion. Generally accepted accounting principles (GAAP) list claims and judgments as an exception to the full accrual basis of accounting that constitutes the modified accrual basis of accounting. The current portion (payable within one year) is excluded from the fund-level statements because it is not payable with expendable available financial resources. In this instance, "payable with expendable available financial resources" means the amounts are not accrued as fund liabilities because they are not budgeted in the current year. The long-term portion of the risk management liability is excluded from the fund-level statements because it is not due and payable in the current period.

(E) Other measurement focus adjustments include:

- Interfund balances receivable from or payable to Fiduciary Funds are reported on the fund-level *Balance Sheet – Governmental Funds* as due from/to other funds. On the government-wide *Statement of Net Assets*, these amounts are considered external receivables and payables.
- Long-term assets and long-term taxes receivable, are not available to pay for current period expenditures; therefore, the related revenue is reported as deferred revenue on the fund-level *Balance Sheet – Governmental Funds*. From an economic perspective, this revenue is earned and the related deferred revenue is removed from the government-wide *Statement of Net Assets* when the revenue is recognized on the government-wide *Statement of Activities*.
- Compensated absences are a GAAP modification of the full accrual basis of accounting similar to claims and judgments discussed above. Therefore, both the current and long-term portions of the liability are shown on the government-wide *Statement of Net Assets,* but they are not reported on the fund-level *Balance Sheet – Governmental Funds.*
- Other long-term liabilities are not reported on the fund-level *Balance Sheet – Governmental Funds* because the amounts are not due and payable from current financial resources. However, from an economic perspective, these liabilities reduce net assets, and they are therefore reported on the government-wide *Statement of Net Assets*.

(F) All interfund payable balances shown on the fund-level *Balance Sheet – Governmental Funds* are reported in the internal balances line on the government-wide *Statement of Net Assets* along with all governmental-activities interfund receivables.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2004

(DOLLARS IN THOUSANDS)	GENERAL	PUBLIC SCHOOL	HIGHWAY USERS TAX
REVENUES:			
Taxes:			
Individual and Fiduciary Income	$ 3,188,770	$ -	$ -
Corporate Income	217,703	-	-
Sales and Use	1,908,355	-	-
Excise	96,642	-	556,312
Other Taxes	243,547	-	671
Licenses, Permits, and Fines	46,311	-	226,193
Charges for Goods and Services	57,056	-	5,209
Investment Income (Loss)	5,218	7	27,677
Federal Grants and Contracts	3,070,415	-	494,124
Other	242,151	3,270	42,267
TOTAL REVENUES	9,076,168	3,277	1,352,453
EXPENDITURES:			
Current:			
General Government	211,939	-	7,603
Business, Community and Consumer Affairs	133,732	-	-
Education	91,638	90	-
Health and Rehabilitation	397,209	-	6,935
Justice	812,349	-	63,859
Natural Resources	52,253	-	-
Social Assistance	2,885,339	-	-
Transportation	-	-	1,096,973
Capital Outlay	12,065	-	12,943
Intergovernmental:			
Cities	22,904	-	106,630
Counties	1,101,659	-	155,772
School Districts	448,623	2,317,501	-
Special Districts	68,063	-	15,252
Federal	1,523	-	10
Other	23,512	-	238
Debt Service	11,724	-	-
TOTAL EXPENDITURES	6,274,532	2,317,591	1,466,215
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,801,636	(2,314,314)	(113,762)
OTHER FINANCING SOURCES (USES):			
Transfers-In	239,691	2,319,739	5,723
Transfers-Out	(2,931,219)	(1,024)	(111,320)
Face Amount of Debt Issued	-	-	234,915
Bond Premium/Discount	-	-	20,059
Capital Lease Debt Issuance	1,750	-	-
Sale of Capital Assets	(2)	-	1,182
Debt Refunding Issuance	-	-	-
Debt Refunding Payments	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(2,689,780)	2,318,715	150,559
NET CHANGE IN FUND BALANCES	111,856	4,401	36,797
FUND BALANCE, FISCAL YEAR BEGINNING	134,715	13,926	1,075,551
Prior Period Adjustment (See Note 28)	411	-	-
FUND BALANCE, FISCAL YEAR END	$ 246,982	$ 18,327	$ 1,112,348

The notes to the financial statements are an integral part of this statement.

CAPITAL PROJECTS	STATE EDUCATION	OTHER GOVERNMENTAL FUNDS	TOTAL
$ -	$ 261,190	$ -	$ 3,449,960
-	17,512	-	235,215
-	-	10,730	1,919,085
-	-	1,515	654,469
-	-	291,388	535,606
763	-	278,037	551,304
-	-	45,955	108,220
1,834	1,758	17,920	54,414
21,329	-	293,705	3,879,573
4,828	24	65,746	358,286
28,754	280,484	1,004,996	11,746,132
4,118	-	43,360	267,020
1,928	-	160,758	296,418
3,830	23	23,913	119,494
17	-	45,827	449,988
1,628	-	19,040	896,876
2,937	-	29,540	84,730
14,793	-	69,998	2,970,130
8	-	1,100	1,098,081
28,424	-	20,396	73,828
548	-	80,638	210,720
336	-	61,587	1,319,354
-	339,770	25,592	3,131,486
132	-	13,692	97,139
-	-	723	2,256
749	-	20,447	44,946
-	-	80,490	92,214
59,448	339,793	697,101	11,154,680
(30,694)	(59,309)	307,895	591,452
21,452	-	232,833	2,819,438
(5,637)	(11,950)	(294,079)	(3,355,229)
-	-	-	234,915
-	-	32,606	52,665
-	-	71	1,821
-	-	10,976	12,156
-	-	280,220	280,220
-	-	(310,798)	(310,798)
15,815	(11,950)	(48,171)	(264,812)
(14,879)	(71,259)	259,724	326,640
50,859	218,545	1,333,605	2,827,201
-	-	41,392	41,803
$ 35,980	$ 147,286	$ 1,634,721	$ 3,195,644

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES RECONCILED TO STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004

(DOLLARS IN THOUSANDS)	TOTAL GOVERNMENTAL FUNDS	(A) INTERNAL SERVICE FUNDS	(B) CAPITAL RELATED ITEMS	(C) LONG-TERM DEBT TRANSACTIONS	(D) OTHER MEASUREMENT FOCUS ADJUSTMENTS	STATEMENT OF ACTIVITIES TOTALS
REVENUES:						
Taxes:						
Individual and Fiduciary Income	$ 3,449,960	$ -	$ -	$ -	$ 17,921	$ 3,467,881
Corporate Income	235,215	-	-	-	2,533	237,748
Sales and Use	1,919,085	-	-	-	1,851	1,920,936
Excise	654,469	-	-	-	14,585	669,054
Other Taxes	535,606	-	-	-	(2,386)	533,220
Licenses, Permits, and Fines	551,304	-	-	-	3,866	555,170
Charges for Goods and Services	108,220	-	-	-	-	108,220
Investment Income (Loss)	54,414	127	-	-	(15,206)	39,335
Federal Grants and Contracts	3,879,573	-	-	-	-	3,879,573
Other	358,286	-	55	-	114	358,455
TOTAL REVENUES	11,746,132	127	55	-	23,278	11,769,592
EXPENDITURES:						
Current:						
General Government	267,020	(584)	9,704	-	(19,471)	256,669
Business, Community and Consumer Affairs	296,418	(378)	3,214	-	67,910	367,164
Education	119,494	(71)	506	-	(212)	119,717
Health and Rehabilitation	449,988	(101)	5,116	-	(351)	454,652
Justice	896,876	(3,961)	26,655	-	761	920,331
Natural Resources	84,730	(110)	2,490	-	(200)	86,910
Social Assistance	2,970,130	(254)	(11,098)	-	(680)	2,958,098
Transportation	1,098,081	(184)	(423,240)	-	(547)	674,110
Capital Outlay	73,828	-	(64,112)	-	-	9,716
Intergovernmental:						
Cities	210,720	-	-	-	-	210,720
Counties	1,319,354	-	-	-	-	1,319,354
School Districts	3,131,486	-	-	-	-	3,131,486
Special Districts	97,139	-	-	-	-	97,139
Federal	2,256	-	-	-	-	2,256
Other	44,946	-	-	-	-	44,946
Debt Service	92,214	975	-	(7,747)	-	85,442
TOTAL EXPENDITURES	11,154,680	(4,668)	(450,765)	(7,747)	47,210	10,738,710
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	591,452	4,795	450,820	7,747	(23,932)	1,030,882
OTHER FINANCING SOURCES (USES):						
Transfers-In	2,819,438	803	-	-	-	2,820,241
Transfers-Out	(3,355,229)	(4,209)	-	-	-	(3,359,438)
Face Amount of Debt Issued	234,915	-	-	(234,640)	-	275
Bond Premium/Discount	52,665	-	-	(52,665)	-	-
Capital Lease Debt Issuance	1,821	-	-	(1,821)	-	-
Sale of Capital Assets	12,156	-	(8,212)	-	-	3,944
Debt Refunding Issuance	280,220	-	-	(280,220)	-	-
Debt Refunding Payments	(310,798)	-	-	310,798	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(264,812)	(3,406)	(8,212)	(258,548)	-	(534,978)
Internal Service Fund Charges to BTAs	-	412	-	-	-	412
NET CHANGE FOR THE YEAR	$ 326,640	$ 1,801	$ 442,608	$ (250,801)	$ (23,932)	$ 496,316

The notes to the financial statements are an integral part of this statement.

Differences Between the *Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds* and Governmental Activities on the Government-Wide *Statement of Activities*

(A) Management uses Internal Services Funds to charge the costs of goods and services sold by state agencies solely within the state. Internal Service Funds are intended to operate on cost reimbursement basis and should break even each period. If an Internal Service Funds makes a profit, the other funds of the state have been overcharged. If an Internal Service Fund has an operating loss, the other funds of the state have been undercharged. In order to show the true cost of services purchased from Internal Service Funds, an adjustment is made that allocates the net revenue/expense of each Internal Service Fund to the programs that purchased the service. Investment income, debt service, and transfers of the Internal Service fund are not allocated. In addition to minor internal sales within the Department of Transportation and the Department of Public Safety, the state's Internal Service Funds provide the following goods and services to nearly all state agencies:

- Fleet management, printing, and mail services;
- Information management services;
- Telecommunication services;
- Building maintenance and management in the capitol complex;
- Administrative hearings services;
- Debt collection.

(B) The following adjustments relate to capital assets:

- Capital assets, received as donations, are not reported on the fund-level *Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds* because they are not current financial resources. However, such donations increase net assets and are reported on both the government-wide *Statement of Net Assets* and *Statement of Activities*.
- Depreciation is not reported on the fund-level *Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds*, but it is reported for the economic perspective on which the government-wide *Statement of Activities* is presented.
- Expenditures reported for capital outlay on the fund-level *Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds* are generally reported as a conversion of cash to a capital asset on the government-wide *Statement of Net Assets*. They are not reported as expenses on the government-wide *Statement of Activities*.
- On the fund-level *Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds* all cash received on disposal of capital assets is reported as a gain on sale of capital assets. On the government-wide *Statement of Activities* the reported gain or loss on sale is based on the book value of the asset.

(C) The following adjustments relate to debt issuance and debt service including leases:

- Payments on principal and debt refunding payments are reported as expenditures and other financing uses, respectively, on the fund-level *Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds*. These payments are reported as reductions of lease, bond, and other debt liability balances on the government-wide *Statement of Net Assets* and are not reported on the government-wide *Statement of Activities*.
- Amortization of issuance costs, debt premium/discount, and gain/loss on refunding are not reported on the fund-level *Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds*, but are reported on the government-wide *Statement of Activities*.
- Lease proceeds, issuance of debt, and debt refunding proceeds are all reported as other financing sources on the fund-level *Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds*. From an economic perspective lease proceeds, debt issuances, and debt refunding proceeds are reported as liabilities on the government-wide *Statement of Net Assets* and are not reported on the government-wide *Statement of Activities*.

(D) Other measurement focus adjustments include:

- Long-term taxes receivable and certain other long-term assets are offset by deferred revenue and are not part of fund balance on the fund-level *Balance Sheet – Governmental Funds*; however, from a full accrual perspective, changes in the deferred revenue balances result in adjustments to revenue that are recognized and reported on the government-wide *Statement of Activities*.
- Compensated absences accruals and claims and judgments are not normally expected to be liquidated from expendable available financial resources; and therefore, they are not reported on the fund-level *Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds*. However, from a full accrual perspective, these are expenses that are reported on the government-wide *Statement of Activities*.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004

(DOLLARS IN THOUSANDS)	HIGHER EDUCATION INSTITUTIONS	UNEMPLOYMENT INSURANCE
ASSETS:		
Current Assets:		
Cash and Pooled Cash	$ 459,324	$ 126,760
Investments	151,715	-
Taxes Receivable, net	-	92,481
Student and Other Receivables, net	151,183	6,049
Due From Other Governments	79,496	1,525
Due From Other Funds	6,044	-
Due From Component Units	5,406	-
Inventories	21,965	-
Prepaids, Advances, and Deferred Charges	12,758	-
Total Current Assets	887,891	226,815
Noncurrent Assets:		
Restricted Cash and Pooled Cash	44,713	-
Restricted Investments	131,671	-
Restricted Receivables	-	-
Investments	577,373	-
Other Long-Term Assets	87,959	-
Depreciable Capital Assets and Infrastructure, net	2,527,600	-
Land and Nondepreciable Infrastructure	261,321	-
Total Noncurrent Assets	3,630,637	-
TOTAL ASSETS	4,518,528	226,815
LIABILITIES:		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	311,953	356
Due To Other Governments	-	-
Due To Other Funds	3,201	11,026
Due To Component Units	703	-
Deferred Revenue	101,296	-
Compensated Absences Payable	8,891	-
Leases Payable	5,188	-
Notes, Bonds, COP's Payable	32,912	-
Other Current Liabilities	75,110	15,122
Total Current Liabilities	539,254	26,504
Noncurrent Liabilities:		
Accrued Compensated Absences	120,254	-
Capital Lease Payable	80,588	-
Notes, Bonds, COP's Payable	736,142	-
Other Long-Term Liabilities	33,521	-
Total Noncurrent Liabilities	970,505	-
TOTAL LIABILITIES	1,509,759	26,504
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	1,997,450	-
Restricted for:		
Unemployment Insurance	-	200,311
Debt Service	4,405	-
Emergencies	-	-
Permanent Funds and Endowments:		
Expendable	17,449	-
Nonexpendable	49,659	-
Court Awards and Other Purposes	296,330	-
Unrestricted	643,476	-
TOTAL NET ASSETS	$ 3,008,769	$ 200,311

The notes to the financial statements are an integral part of this statement.

BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
STUDENT OBLIGATION BOND AUTHORITY	STATE LOTTERY	OTHER ENTERPRISES	TOTAL	INTERNAL SERVICE FUNDS
$ 30,545	$ 25,458	$ 36,146	$ 678,233	$ 22,102
30,857	-	-	182,572	-
-	-	4	92,485	239
1,770	14,742	6,963	180,707	197
-	-	5,190	86,211	230
484	-	2,374	8,902	77
-	-	-	5,406	-
-	1,321	9,779	33,065	920
362	3,564	1,712	18,396	470
64,018	45,085	62,168	1,285,977	24,235
-	-	77,051	121,764	-
111,719	-	-	243,390	-
885,728	-	3,380	889,108	-
-	-	246	577,619	-
10,079	-	1,320	99,358	430
1,387	1,029	93,799	2,623,815	65,696
-	-	110,231	371,552	-
1,008,913	1,029	286,027	4,926,606	66,126
1,072,931	46,114	348,195	6,212,583	90,361
2,711	3,182	15,934	334,136	7,352
18,822	26	7,458	26,306	-
308	25,806	1,301	41,642	59
-	-	-	703	-
-	299	29,901	131,496	823
-	78	750	9,719	40
-	-	349	5,537	184
46,765	-	450	80,127	11,635
2,831	14,224	324	107,611	-
71,437	43,615	56,467	737,277	20,093
96	654	7,631	128,635	1,460
-	-	406	80,994	9,151
835,832	-	6,788	1,578,762	22,023
36,524	129	-	70,174	-
872,452	783	14,825	1,858,565	32,634
943,889	44,398	71,292	2,595,842	52,727
1,387	1,029	195,972	2,195,838	22,703
-	-	-	200,311	-
99,197	-	-	103,602	-
-	-	39,277	39,277	-
-	-	-	17,449	-
-	-	-	49,659	-
-	-	1,435	297,765	-
28,458	687	40,219	712,840	14,931
$ 129,042	$ 1,716	$ 276,903	$ 3,616,741	$ 37,634

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2004

(DOLLARS IN THOUSANDS)	HIGHER EDUCATION INSTITUTIONS	UNEMPLOYMENT INSURANCE
OPERATING REVENUES:		
License and Permits	$ -	$ -
Tuition and Fees	895,161	-
Pledged Tuition and Fees	35,467	-
Scholarship Allowance for Tuition and Fees	(169,794)	-
Sales of Goods and Services	490,854	-
Pledged Sales of Goods & Services	196,938	-
Scholarship Allowance for Sales of Goods & Services	(14,638)	-
Investment Income (Loss)	1,321	-
Pledged Investment Income	-	-
Rental Income	14,988	-
Gifts and Donations	8,579	-
Federal Grants and Contracts	727,534	126,546
Pledged Federal Grants and Contracts	133,462	-
Intergovernmental Revenue	6,013	-
Other	141,177	338,255
Pledged Other Revenues	7,014	-
TOTAL OPERATING REVENUES	2,474,076	464,801
OPERATING EXPENSES:		
Salaries and Fringe Benefits	1,978,854	-
Operating and Travel	777,395	596,197
Cost of Goods Sold	108,273	-
Depreciation and Amortization	182,819	-
Intergovernmental Distributions	33,836	-
Debt Service	-	-
Prizes and Awards	70	-
TOTAL OPERATING EXPENSES	3,081,247	596,197
OPERATING INCOME (LOSS)	(607,171)	(131,396)
NONOPERATING REVENUES AND (EXPENSES):		
Fines and Settlements	83	-
Investment Income (Loss)	45,540	9,284
Pledged Investment Income	1,621	-
Rental Income	28,017	-
Gifts and Donations	75,265	-
Intergovernmental Distributions	(19,544)	-
Gain/(Loss) on Sale of Capital Assets	4,336	-
Debt Service	(30,516)	-
Other Expenses	-	-
Other Revenues	8,532	-
TOTAL NONOPERATING REVENUES (EXPENSES)	113,334	9,284
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(493,837)	(122,112)
CONTRIBUTIONS, TRANSFERS, AND OTHER ITEMS:		
Capital Contributions	96,993	-
Additions to Permanent Endowments	33	-
Transfers-In	605,218	-
Transfers-Out	(3,025)	-
TOTAL CONTRIBUTIONS AND TRANSFERS	699,219	-
CHANGE IN NET ASSETS	205,382	(122,112)
TOTAL NET ASSETS - FISCAL YEAR BEGINNING	2,800,609	322,423
Prior Period/Other Adjustments (See Note 28)	2,778	-
TOTAL NET ASSETS - FISCAL YEAR ENDING	$ 3,008,769	$ 200,311

The notes to the financial statements are an integral part of this statement.

BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
STUDENT OBLIGATION BOND AUTHORITY	STATE LOTTERY	OTHER ENTERPRISES	TOTAL	INTERNAL SERVICE FUNDS
$ -	$ 61	$ 66,136	$ 66,197	$ -
-	-	396	895,557	-
-	-	-	35,467	-
-	-	-	(169,794)	-
530	407,175	77,470	976,029	77,161
-	-	-	196,938	-
-	-	-	(14,638)	-
3,697	-	488	5,506	-
2,252	-	-	2,252	-
-	-	1,417	16,405	8,798
-	-	-	8,579	-
-	-	93,517	947,597	-
14,623	-	-	148,085	-
-	-	12,596	18,609	-
6	89	1,587	481,114	363
33,534	-	-	40,548	-
54,642	407,325	253,607	3,654,451	86,322
1,454	8,616	105,046	2,093,970	19,359
12,521	42,352	99,432	1,527,897	45,266
4,949	10,196	19,220	142,638	4,078
329	490	7,037	190,675	16,693
-	-	4,646	38,482	3
17,862	-	10,036	27,898	-
-	242,527	672	243,269	2
37,115	304,181	246,089	4,264,829	85,401
17,527	103,144	7,518	(610,378)	921
-	-	471	554	134
-	-	(445)	54,379	126
-	-	-	1,621	-
-	-	360	28,377	-
-	-	1,122	76,387	-
-	(49,639)	-	(69,183)	-
-	-	385	4,721	1,048
-	-	(789)	(31,305)	(975)
-	-	(3)	(3)	(122)
-	-	-	8,532	-
-	(49,639)	1,101	74,080	211
17,527	53,505	8,619	(536,298)	1,132
-	-	5,541	102,534	4,083
-	-	19	52	-
-	-	510	605,728	803
(268)	(54,763)	(5,139)	(63,195)	(4,209)
(268)	(54,763)	931	645,119	677
17,259	(1,258)	9,550	108,821	1,809
111,783	2,974	266,915	3,504,704	19,709
-	-	438	3,216	16,116
$ 129,042	$ 1,716	$ 276,903	$ 3,616,741	$ 37,634

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

(DOLLARS IN THOUSANDS)	HIGHER EDUCATION INSTITUTIONS	UNEMPLOYMENT INSURANCE
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from:		
Tuition, Fees, and Student Loans	$ 786,528	$ -
Fees for Service	625,605	-
Sales of Products	123,613	-
Gifts, Grants, and Contracts	977,844	130,674
Loan and Note Repayments	21,012	-
Unemployment Insurance Taxes	-	285,401
Other Sources	44,158	-
Cash Payments to or for:		
Employees	(1,925,284)	-
Suppliers	(822,064)	-
Sales Commissions and Lottery Prizes	-	-
Unemployment Benefits	-	(580,628)
Scholarships	(79,649)	-
Others for Student Loans and Loan Losses	(20,541)	-
Other Governments	(33,836)	-
Other	(14,162)	(5,006)
NET CASH PROVIDED BY OPERATING ACTIVITIES	(316,776)	(169,559)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers-In	605,218	-
Transfers-Out	(3,025)	-
Receipt of Deposits Held in Custody	220,305	-
Release of Deposits Held in Custody	(210,803)	-
Gifts for Other Than Capital Purposes	75,298	-
Intergovernmental Distributions	(19,544)	-
NonCapital Debt Service Payments	(274)	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES	667,175	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of Capital Assets	(327,958)	-
Capital Contributions	3,900	-
Capital Gifts, Grants, and Contracts	28,377	-
Proceeds from Sale of Capital Assets	19,671	-
Income from Property	43,005	-
Capital Debt Proceeds	125,962	-
Capital Debt Service Payments	(64,479)	-
Capital Lease Payments	(8,333)	-
NET CASH FROM CAPITAL RELATED FINANCING ACTIVITIES	(179,855)	-

The notes to the financial statements are an integral part of this statement.

(Continued)

BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
STUDENT OBLIGATION BOND AUTHORITY	LOTTERY	OTHER ENTERPRISE	TOTALS	INTERNAL SERVICE FUNDS
$ -	$ -	$ 947	$ 787,475	$ 3
1,974	-	105,023	732,602	75,503
-	407,927	33,499	565,039	1,782
14,633	-	95,679	1,218,830	-
262,469	-	-	283,481	-
-	-	-	285,401	-
-	123	15,054	59,335	268
(1,490)	(7,993)	(92,280)	(2,027,047)	(17,991)
(15,279)	(24,418)	(79,841)	(941,602)	(50,420)
-	(277,519)	(6,171)	(283,690)	-
-	-	-	(580,628)	-
-	-	-	(79,649)	-
(328,793)	-	(52,186)	(401,520)	-
-	-	(4,632)	(38,468)	(3)
-	(34)	(2,368)	(21,570)	(39)
(66,486)	98,086	12,724	(442,011)	9,103
-	-	510	605,728	803
(268)	(54,763)	(5,139)	(63,195)	(4,209)
-	-	6	220,311	-
-	-	(103)	(210,906)	-
-	-	912	76,210	-
-	(49,250)	-	(68,794)	-
(53,740)	-	(280)	(54,294)	-
(54,008)	(104,013)	(4,094)	505,060	(3,406)
(141)	(132)	(14,095)	(342,326)	(16,766)
-	-	-	3,900	-
-	-	-	28,377	3,846
-	-	61	19,732	8,288
-	-	1,618	44,623	8,801
-	-	46	126,008	29,433
-	-	(869)	(65,348)	(38,257)
-	-	(292)	(8,625)	(1)
(141)	(132)	(13,531)	(193,659)	(4,656)

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

(Continued)

(DOLLARS IN THOUSANDS)	HIGHER EDUCATION INSTITUTIONS	UNEMPLOYMENT INSURANCE
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and Dividends on Investments	28,763	9,284
Proceeds from Sale/Maturity of Investments	3,462,009	-
Purchases of Investments	(3,545,357)	-
Increase(Decrease) from Unrealized Gain(Loss) on Invesments	(13,135)	-
NET CASH FROM INVESTING ACTIVITIES	(67,720)	9,284
NET INCREASE (DECREASE) IN CASH AND POOLED CASH	102,824	(160,275)
CASH AND POOLED CASH , FISCAL YEAR BEGINNING	401,213	287,035
CASH AND POOLED CASH, FISCAL YEAR END	$ 504,037	$ 126,760
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	$ (607,171)	$ (131,396)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	182,819	-
Investment/Rental Income and Other Revenue in Operating Income	(14,988)	-
Fines, Donations, and Grants and Contracts in NonOperating	8,615	-
Loss on Disposal of Capital Assets	43	-
Compensated Absences	3,471	-
Interest and Other Expense in Operating Income	2,732	-
Net Changes in Assets and Liabilities Related to Operating Activities:		
(Increase) Decrease in Operating Receivables	103,069	(41,032)
(Increase) Decrease in Inventories	1,186	-
(Increase) Decrease in Other Operating Assets	(2,068)	-
Increase (Decrease) in Accounts Payable	1,823	6,737
Increase (Decrease) in Other Operating Liabilities	3,693	(3,868)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ (316,776)	$ (169,559)
SUPPLEMENTARY INFORMATION - NONCASH TRANSACTIONS:		
Capital Assets Funded by the Capital Projects Fund	5,909	-
Capital Assets Acquired by Grants or Donations and Payable Increases	58,873	-
Unrealized Gain/(Loss) on Investments and Interest Receivable Accruals	33,661	-
Loss on Disposal of Capital Assets	2,765	-
Amortization of Debt Valuation Accounts and Interest Payable Accruals	235	-
Assumption of Capital Lease Obligation	3,356	-

The notes to the financial statements are an integral part of this statement.

BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
STUDENT OBLIGATION BOND AUTHORITY	STATE LOTTERY	OTHER ENTERPRISE	TOTALS	INTERNAL SERVICE FUNDS
3,438	843	3,133	45,461	202
1,536,355	-	-	4,998,364	-
(1,419,470)	-	-	(4,964,827)	-
(826)	(861)	(3,090)	(17,912)	(76)
119,497	(18)	43	61,086	126
(1,138)	(6,077)	(4,858)	(69,524)	1,167
31,683	31,535	118,055	869,521	20,935
$ 30,545	$ 25,458	$ 113,197	$ 799,997	$ 22,102
$ 17,527	$ 103,144	$ 7,518	$ (610,378)	$ 921
329	490	7,037	190,675	16,693
(5,949)	-	(1,905)	(22,842)	(8,802)
-	-	697	9,312	134
-	-	28	71	-
2	(240)	(301)	2,932	206
15,298	40	208	18,278	133
(90,122)	615	(1,147)	(28,617)	(270)
-	(273)	(116)	797	(236)
(5,448)	(876)	767	(7,625)	(213)
442	458	122	9,582	375
1,435	(5,272)	(184)	(4,196)	162
$ (66,486)	$ 98,086	$ 12,724	$ (442,011)	$ 9,103
-	-	1,304	7,213	232
-	-	30	58,903	5
3,091	-	(10)	36,742	-
-	21	-	2,786	-
-	-	-	235	-
-	-	263	3,619	-

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	PENSION TRUST FUNDS	INVESTMENT TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS	
(DOLLARS IN THOUSANDS)	PENSION AND BENEFIT TRUST	PINNACOL ASSURANCE	PRIVATE PURPOSE TRUST	AGENCY	TOTALS
ASSETS:					
Current Assets:					
Cash and Pooled Cash	$ 5,753	$ 93,398	$ 62,847	$ 329,059	$ 491,057
Investments	-	12,588	579	5,643	18,810
Taxes Receivable, net	-	-	-	81,555	81,555
Other Receivables, net	1,185	13,130	6,202	414	20,931
Due From Other Funds	-	-	308	10,512	10,820
Inventories	-	-	-	4	4
Prepaids, Advances, and Deferred Charges	28	-	-	-	28
Noncurrent Assets:					
Investments:					
Government Securities	-	189,688	-	-	189,688
Corporate Bonds	-	547,640	-	-	547,640
Asset Backed Securities	-	21,453	-	-	21,453
Mortgages	-	520,798	-	-	520,798
Mutual Funds	286,120	124,422	1,517,101	-	1,927,643
Guaranteed Investment Contracts	-	-	17,653	-	17,653
Other Long-Term Assets	-	-	-	8,463	8,463
TOTAL ASSETS	293,086	1,523,117	1,604,690	435,650	3,856,543
LIABILITIES:					
Current Liabilities:					
Tax Refunds Payable	-	-	-	790	790
Accounts Payable and Accrued Liabilities	1,240	-	37,601	361	39,202
Due To Other Governments	-	-	-	147,016	147,016
Due To Other Funds	-	-	146	1,665	1,811
Claims and Judgments Payable	-	-	-	545	545
Other Current Liabilities	-	-	-	244,887	244,887
Noncurrent Liabilities:					
Deposits Held In Custody For Others	-	-	-	40,220	40,220
Accrued Compensated Absences	29	-	-	-	29
Other Long-Term Liabilities	-	-	2,040	166	2,206
TOTAL LIABILITIES	1,269	-	39,787	435,650	476,706
NET ASSETS:					
Held in Trust for:					
Pension/Benefit Plan Participants	291,814	-	-	-	291,814
Investment Trust Participants	-	1,523,117	-	-	1,523,117
Individuals, Organizations, and Other Entities	-	-	1,564,903	-	1,564,903
Unrestricted	3	-	-	-	3
TOTAL NET ASSETS	$ 291,817	$ 1,523,117	$ 1,564,903	$ -	$ 3,379,837

The notes to the financial statements are an integral part of this statement.

STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	PENSION TRUST FUNDS	INVESTMENT TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	
(DOLLARS IN THOUSANDS)	PENSION AND BENEFIT TRUST	PINNACOL ASSURANCE	PRIVATE PURPOSE TRUST	TOTALS
ADDITIONS:				
Additions By Participants	$ 1,207	$ 560,876	$ 489,699	$ 1,051,782
Member Contributions	112,838	-	-	112,838
Employer Contributions	76,402	-	-	76,402
Investment Income/(Loss)	29,673	12,942	145,402	188,017
Employee Deferral Fees	450	-	-	450
Unclaimed Property Receipts	-	-	40,917	40,917
Other Additions	375	520	1,603	2,498
Transfers-In	-	-	241	241
TOTAL ADDITIONS	220,945	574,338	677,862	1,473,145
DEDUCTIONS:				
Distributions to Participants	48,323	469,553	-	517,876
Health Insurance Premiums Paid	119,391	-	-	119,391
Other Benefits Plan Expense	28,255	-	-	28,255
Payments in Accordance with Trust Agreements	-	-	89,090	89,090
Administrative Expense	390	-	-	390
Other Deductions	879	-	-	879
Transfers-Out	426	-	3,151	3,577
TOTAL DEDUCTIONS	197,664	469,553	92,241	759,458
CHANGE IN NET ASSETS	23,281	104,785	585,621	713,687
NET ASSETS AVAILABLE:				
FISCAL YEAR BEGINNING	268,536	1,418,332	979,282	2,666,150
FISCAL YEAR ENDING	$ 291,817	$ 1,523,117	$ 1,564,903	$ 3,379,837

The notes to the financial statements are an integral part of this statement.

STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2004

(DOLLARS IN THOUSANDS)	UNIVERSITY OF COLORADO HOSPITAL AUTHORITY	COLORADO WATER RESOURCES AND POWER DEVELOPMENT AUTHORITY	DENVER METROPOLITAN MAJOR LEAGUE BASEBALL STADIUM DISTRICT
ASSETS:			
Current Assets:			
Cash and Pooled Cash	$ 15,105	$ 84,743	$ 2,525
Investments	-	-	-
Taxes Receivable, net	-	-	362
Other Receivables, net	68,325	47,720	92
Due From Other Governments	-	144	-
Inventories	7,816	-	-
Prepaids, Advances, and Deferred Charges	5,668	-	4
Total Current Assets	96,914	132,607	2,983
Noncurrent Assets:			
Restricted Cash and Pooled Cash	-	54,684	-
Restricted Investments	8,131	289,446	-
Restricted Receivables	10,707	4,796	-
Investments	134,414		-
Other Long-Term Assets	29,732	682,329	322
Depreciable Capital Assets and Infrastructure, net	368,968	56	144,798
Land and Nondepreciable Infrastructure	3,095	-	18,176
Total Noncurrent Assets	555,047	1,031,311	163,296
TOTAL ASSETS	651,961	1,163,918	166,279
LIABILITIES:			
Current Liabilities:			
Accounts Payable and Accrued Liabilities	39,200	10,091	-
Due To Other Governments	-	821	-
Deferred Revenue	-	298	-
Compensated Absences Payable	10,314	-	-
Claims and Judgments Payable	-	-	-
Leases Payable	-	-	-
Notes, Bonds, COP's Payable	5,175	33,440	-
Other Current Liabilities	-	123,192	-
Total Current Liabilities	54,689	167,842	-
Noncurrent Liabilities:			
Deposits Held In Custody For Others	-	-	-
Capital Lease Payable	-	-	-
Notes, Bonds, COP's Payable	291,240	623,169	-
Other Long-Term Liabilities	1,107	9,821	-
Total Noncurrent Liabilities	292,347	632,990	-
TOTAL LIABILITIES	347,036	800,832	-
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	79,416	56	162,974
Restricted for:			
Emergencies	-	-	29
Permanent Funds and Endowments:			
Expendable	-	-	-
Nonexpendable	-	-	-
Court Awards and Other Purposes	12,837	289,208	491
Unrestricted	212,672	73,822	2,785
TOTAL NET ASSETS	$ 304,925	$ 363,086	$ 166,279

The notes to the financial statements are an integral part of this statement.

UNIVERSITY OF COLORADO FOUNDATION	COLORADO STATE UNIVERSITY FOUNDATION	COLORADO SCHOOL OF MINES FOUNDATION	UNIVERSITY OF NORTHERN COLORADO FOUNDATION	COVER COLORADO	TOTAL
$ 10,488	$ 480	$ 998	$ 23	$ 625	$ 114,987
-	-	-	-	20,215	20,215
-	-	-	-	-	362
20,867	10,798	9,499	2,416	195	159,912
-	-	-	-	-	144
-	-	-	-	-	7,816
445	522	-	-	-	6,639
31,800	11,800	10,497	2,439	21,035	310,075
-	-	-	-	-	54,684
-	-	-	-	-	297,577
-	-	-	-	-	15,503
614,169	179,248	138,869	84,292	-	1,150,992
50,818	2,042	220	62	-	765,525
68,454	274	1,397	345	14	584,306
-	-	-	-	-	21,271
733,441	181,564	140,486	84,699	14	2,889,858
765,241	193,364	150,983	87,138	21,049	3,199,933
3,554	1,213	349	559	456	55,422
-	-	-	-	-	821
990	58	-	-	643	1,989
-	-	-	-	-	10,314
-	-	-	-	8,798	8,798
301	-	-	-	-	301
-	-	-	-	619	39,234
7,712	-	-	-	-	130,904
12,557	1,271	349	559	10,516	247,783
77,673	12,414	10,367	718	-	101,172
5,992	-	-	-	-	5,992
70,891	-	-	-	-	985,300
28,234	1,011	10,958	154	-	51,285
182,790	13,425	21,325	872	-	1,143,749
195,347	14,696	21,674	1,431	10,516	1,391,532
4,644	274	1,397	345	14	249,120
-	-	-	-	-	29
364,539	94,557	35,602	35,809	-	530,507
176,605	67,451	81,285	41,803	-	367,144
-	-	-	-	10,519	313,055
24,106	16,386	11,025	7,750	-	348,546
$ 569,894	$ 178,668	$ 129,309	$ 85,707	$ 10,533	$ 1,808,401

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS COMPONENT UNITS FOR THE YEAR ENDED JUNE 30, 2004

(DOLLARS IN THOUSANDS)	UNIVERSITY OF COLORADO HOSPITAL AUTHORITY	COLORADO WATER RESOURCES AND POWER DEVELOPMENT AUTHORITY	DENVER METROPOLITAN MAJOR LEAGUE BASEBALL STADIUM DISTRICT
OPERATING REVENUES:			
Fees	$ -	$ 25,466	$ -
Sales of Goods and Services	419,172	-	-
Investment Income (Loss)	-	16,592	-
Rental Income	-	-	637
Gifts and Donations	-	-	-
Federal Grants and Contracts	-	3,146	-
Other	17,282	94	-
TOTAL OPERATING REVENUES	436,454	45,298	637
OPERATING EXPENSES:			
Salaries and Fringe Benefits	198,894	936	-
Operating and Travel	97,854	4,639	62
Cost of Goods Sold	81,293	-	-
Depreciation and Amortization	32,647	7	4,180
Debt Service	-	32,201	-
Foundation Program Distributions	-	-	-
TOTAL OPERATING EXPENSES	410,688	37,783	4,242
OPERATING INCOME (LOSS)	25,766	7,515	(3,605)
NONOPERATING REVENUES AND (EXPENSES):			
Taxes	-	-	262
Investment Income (Loss)	13,136	-	20
Gain/(Loss) on Sale of Capital Assets	2	-	-
Debt Service	(13,719)	-	-
Other Expenses	(641)	-	(1,600)
Other Revenues	-	-	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(1,222)	-	(1,318)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	24,544	7,515	(4,923)
CONTRIBUTIONS, TRANSFERS, AND OTHER ITEMS:			
Capital Contributions	13,677	19,093	-
Special and/or Extraordinary Item (See Note 17)	(49,161)	-	-
TOTAL CONTRIBUTIONS AND TRANSFERS	(35,484)	19,093	-
CHANGE IN NET ASSETS	(10,940)	26,608	(4,923)
TOTAL NET ASSETS - FISCAL YEAR BEGINNING	315,865	336,478	171,202
Accounting Changes (See Note 28)	-	-	-
TOTAL NET ASSETS - FISCAL YEAR ENDING	$ 304,925	$ 363,086	$ 166,279

The notes to the financial statements are an integral part of this statement.

UNIVERSITY OF COLORADO FOUNDATION	COLORADO STATE UNIVERSITY FOUNDATION	COLORADO SCHOOL OF MINES FOUNDATION	UNIVERSITY OF NORTHERN COLORADO FOUNDATION	COVER COLORADO	TOTAL
$ -	$ -	$ -	$ 1,143	$ 29,210	$ 55,819
-	-	-	-	-	419,172
-	-	-	-	-	16,592
3,414	-	-	-	-	4,051
82,625	27,204	9,203	4,254	-	123,286
-	-	-	-	-	3,146
1,180	806	99	1,306	-	20,767
87,219	28,010	9,302	6,703	29,210	642,833
-	-	-	-	-	199,830
17,854	1,825	2,173	1,648	31,780	157,835
-	-	-	-	-	81,293
-	-	-	-	9	36,843
-	-	-	-	-	32,201
83,824	23,600	8,344	9,278	-	125,046
101,678	25,425	10,517	10,926	31,789	633,048
(14,459)	2,585	(1,215)	(4,223)	(2,579)	9,785
-	-	-	-	-	262
73,593	19,344	19,190	9,302	104	134,689
-	-	-	-	-	2
-	-	-	-	-	(13,719)
-	-	-	-	-	(2,241)
-	-	-	-	11,634	11,634
73,593	19,344	19,190	9,302	11,738	130,627
59,134	21,929	17,975	5,079	9,159	140,412
-	-	-	-	-	32,770
-	-	-	-	-	(49,161)
-	-	-	-	-	(16,391)
59,134	21,929	17,975	5,079	9,159	124,021
-	-	-	-	1,374	824,919
510,760	156,739	111,334	80,628	-	859,461
$ 569,894	$ 178,668	$ 129,309	$ 85,707	$ 10,533	$ 1,808,401

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - COMPONENT UNITS RECAST TO THE STATEMENT OF ACTIVITIES FORMAT FOR THE YEAR ENDED JUNE 30, 2004

	Statement of Revenues, Expenses, and Changes in Net Assets Totals	*Statement of Activities* Treatment	*Statement of Activities* Amounts
OPERATING REVENUES:			
Fees	$ 55,819	Charges for Services	$ 499,812
Sales of Goods and Services	419,172	Charges for Services	
Investment Income (Loss)	16,592	Unrestricted Investment Earning	16,592
Rental Income	4,051	Charges for Services	
Gifts and Donations	123,286	Operating Grants & Contributions	126,430
Federal Grants and Contracts	3,146	Operating Grants & Contributions	
Other	20,767	Charges for Services	
TOTAL OPERATING REVENUES	642,833		
OPERATING EXPENSES:			
Salaries and Fringe Benefits	199,830	Expenses	649,007
Operating and Travel	157,835	Expenses	
Cost of Goods Sold	81,293	Expenses	
Depreciation and Amortization	36,843	Expenses	
Debt Service	32,201	Expenses	
Foundation Program Distributions	125,046	Expenses	
TOTAL OPERATING EXPENSES	633,048		
OPERATING INCOME (LOSS)	9,785		
NONOPERATING REVENUES AND (EXPENSES):			
Taxes	262	Sales & Use Taxes	262
Investment Income (Loss)	134,689	Unrestricted Investment Earning	47,559
		Operating Grants & Contributions	87,130
Gain/(Loss) on Sale of Capital Assets	2	Expenses	
Debt Service	(13,719)	Expenses	
Other Expenses	(2,241)	Expenses	
Other Revenues	11,634	Payment from State	11,634
TOTAL NONOPERATING REVENUES (EXPENSES)	130,627		
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	140,412		
CONTRIBUTIONS, TRANSFERS, AND OTHER ITEMS:			
Capital Contributions	19,093	Operating Grants & Contributions	19,372
Capital Contributions	13,677	Capital Grants & Contributions	13,398
Special and/or Extraordinary Item	(49,161)	Special and/or Extraordinary Item	(49,161)
TOTAL CONTRIBUTIONS AND TRANSFERS	(16,391)		
CHANGE IN NET ASSETS	124,021		124,021
TOTAL NET ASSETS - FISCAL YEAR BEGINNING	824,919		824,919
Accounting Changes (See Note 28)	859,461		859,461
TOTAL NET ASSETS - FISCAL YEAR ENDING	$ 1,808,401		$ 1,808,401

The notes to the financial statements are an integral part of this schedule.

NOTES TO THE FINANCIAL STATEMENTS

NOTES 1 through 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the State of Colorado have been prepared in conformance with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard setting body for establishing governmental accounting and financial reporting principles. In Fiscal Year 2003-04 the state implemented GASB Statement No. 39 – *Determining Whether Certain Organizations are Component Units*. The implementation resulted in the discrete presentation of the four higher education foundations listed in Note 2. The state also implemented GASB Technical Bulletin 2004-1 – *Tobacco Settlement Recognition and Financial Reporting Entity Issues.* The implementation resulted in a prior period adjustment discussed in Note 28.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosed amount of contingent liabilities at the date of the financial statements, and the reported amounts of revenues, expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 – GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report all nonfiduciary activities of the primary government and its component units. Fiduciary activities of the primary government and its component units are excluded from the government-wide statements because those resources are not available to fund the programs of the government. The government-wide statements include the *Statement of Net Assets* and the *Statement of Activities*; these statements show the financial position and changes in financial position from the prior year (see additional discussion in Note 3).

NOTE 2 – REPORTING ENTITY

For financial reporting purposes, the State of Colorado's primary government includes all funds of the state, its departments, agencies, and state funded institutions of higher education that make up the state's legal entity. The state's reporting entity also includes those component units, which are legally separate entities, for which the state's elected officials are financially accountable.

Financial accountability is defined in GASB Statement No. 14 – *The Financial Reporting Entity*. The state is financially accountable for those entities for which the state appoints a voting majority of the governing board and either is able to impose its will upon the entity or there exists a financial benefit or burden relationship with the state. For those entities that the state does not appoint a voting majority of the governing board, GASB Statement No. 14 includes them in the reporting entity if they are fiscally dependent. Entities that do not meet the specific criteria for inclusion may still be included if it would be misleading to exclude them. Under GASB Statement No. 39, individually significant legally separate tax-exempt organizations are included as component units if their resources are for the direct benefit of the state and the state can access those resources.

The following entities are component units that are discretely presented in the basic financial statements:

- University of Colorado Hospital Authority
- Colorado Water Resources and Power Development Authority
- Denver Metropolitan Major League Baseball Stadium District
- University of Colorado Foundation
- Colorado State University Foundation
- Colorado School of Mines Foundation
- University of Northern Colorado Foundation
- CoverColorado

With the exception of the University of Colorado Hospital Authority and the four foundations, the majority of each governing board for these entities is appointed by the Governor and confirmed by the Senate. The Board of Regents of the University of Colorado appoints the board of the University of Colorado Hospital Authority.

The University of Colorado Hospital Authority and CoverColorado are included because they present a financial burden on the state. The Baseball Stadium District is included because its board serves at the pleasure of the Governor, and therefore, the state is able to impose its will upon the entity. The Water Resources and Power Development Authority is included because the state is able to impose its will upon the authority.

The four foundations meet the GASB Statement No. 39 criteria discussed above and are included because they are deemed by management to be individually significant.

Detailed financial information may be obtained directly from these organizations at the following addresses:

University of Colorado Hospital Authority
Chief Financial Officer
Mail Stop F-401, P.O. Box 6506
Aurora, Colorado 80045-0506

Colorado Water Resources and Power Development Authority
1580 Logan Street, Suite 620
Denver, Colorado 80203

Denver Metropolitan Major League Baseball Stadium District
2195 Blake Street
Denver, Colorado 80205

University of Colorado Foundation
4740 Walnut Street
Boulder, Colorado 80301

Colorado State University Foundation
410 University Services Center
Fort Collins, Colorado 80523

Colorado School of Mines Foundation
P.O. Box 4005
Golden, Colorado 80401

University of Northern Colorado Foundation
501 20th Street, Campus Box 20
Greeley, Colorado 80639

CoverColorado
425 South Cherry Street, Suite 160
Glendale, Colorado 80246

The following related organizations, for which the state appoints a voting majority of their governing boards, are not part of the reporting entity based on the criteria of GASB Statement No. 14 as amended by GASB Statement No. 39:

- Pinnacol Assurance (formerly Colorado Compensation Insurance Authority)
- Colorado Educational and Cultural Facilities Authority
- Colorado Health Facilities Authority
- Colorado Institute of Technology
- Colorado Agricultural Development Authority
- Colorado Housing and Finance Authority
- Colorado Sheep and Wool Authority
- Colorado Beef Council Authority
- Fire and Police Benefit Association
- The State Board of the Great Outdoors Colorado Trust Fund

Even though the appointment of governing boards of these authorities is similar to those included in the reporting entity, the state cannot impose its will, nor does it have a financial benefit or burden relationship with these entities. Detailed financial information may be obtained directly from these organizations.

Various college and university foundations exist for the benefit of the related state higher education institutions, but they do not meet all of the GASB Statement No. 39 requirements for inclusion as component units. These entities are included in the various note disclosures if they qualify as related parties or if omitting them would be misleading.

The state has entered a joint operating agreement with the Huerfano County Hospital District to provide patient care at the Colorado State Veterans Nursing Home at Walsenburg. The facility is owned by the state, but it is operated by the hospital district under a twenty-year contract that is renewable at the district's option for successive ten-year terms up to 99 years from the original commencement date in November 1993.

The state's contract with the district states that the district is responsible for funding the operating deficits of the nursing home; however, since the state owns the nursing home, it retains ultimate financial responsibility for the home. Only the state's share of assets, liabilities, revenues and expenses associated with the joint operation are shown in these financial statements. These include the land, building, and some of the equipment for the nursing home as well as revenues and expenses associated with the state's on-site contract administrator. The state's pass-through of U.S. Veterans Administration's funds to the district is also shown as revenue and expense of the state.

NOTE 3 – BASIS OF PRESENTATION – GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements focus on the government as a whole. The *Statement of Net Assets* and the *Statement of Activities* are presented using the economic resources measurement focus and the full accrual basis of accounting. Under this presentation, all revenues, expenses, and all current and long-term assets and liabilities of the government are reported including capital assets, depreciation, and long-term debt.

The government-wide statements show the segregation between the primary government and its component units. The primary government is further subdivided between governmental activities and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The *Statement of Net Assets* presents the financial position of the government. The net assets section of the statement focuses on whether assets, net of related liabilities, have been restricted as to the purpose for which they may be

used. This differs from the concept of reservations of fund balance used in the governmental fund statements to show availability of assets for appropriation. When an external party or the State Constitution places a restriction on the use of certain assets, those assets, net of related liabilities, are reported in the line item Restricted Net Assets. The nature of the asset may also result in a restriction on asset use. The line item Invested in Capital Assets, Net of Related Debt, comprises capital assets net of depreciation and reduced by the outstanding balance of bonds, mortgages, notes, or other borrowings that were used to finance the acquisition, construction, or improvement of the capital asset. Internal Service Fund assets and liabilities are reported in the government-wide *Statement of Net Assets* as part of the governmental activities.

The *Statement of Activities* shows the change in financial position for the year. It focuses on the net program cost of individual functions and business-type activities (BTAs) in state government. It does this by presenting direct and allocated indirect costs reduced by program revenues of the function or BTA. Direct costs are those that can be specifically identified with a program. The state allocates indirect costs based on an approved Statewide Federal Indirect Cost Plan. Program revenues comprise fines and forfeitures, charges for goods and services, and capital and operating grants. Taxes, with the exception of unemployment insurance tax used to support business-type activities, are presented as general revenues. General revenues are presented at the bottom of the statement and do not affect the calculation of net program cost.

The state reports only its Enterprise Funds as business-type activities. The business-type activities follow all current GASB pronouncements. They also follow all Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Interfund transactions, such as federal and state grants moving between state agencies, have been eliminated from the government-wide statements to the extent that they occur within either the governmental or business-type activities, except as follows. In order not to misstate the sales revenue and purchasing expenses of individual functions or BTAs, the effects of interfund services provided and used have not been eliminated. Balances between governmental and business-type activities are presented as internal balances and are eliminated in the total column. Internal Service Fund activity has been eliminated by allocating the net revenue/expense of the Internal Service Fund to the function originally charged for the internal sale.

Some of the state's component units have fiscal year ends that differ from the state's fiscal year end. However, there were no significant receivable and payable balances between the primary government and those component units at the fiscal year end reporting dates. The four foundations reported as component units have the same fiscal year end as the state. Amounts shown as due from or due to the component units are receivable from or payable to these foundations.

Interfund balances between the primary government's fiduciary activities and the primary government are presented on the government-wide statements as external receivables and payables.

NOTE 4 – BASIS OF PRESENTATION – FUND FINANCIAL STATEMENTS

Primary Government

The fund level statements provide additional detail about the primary government and its component units. The information is presented in four types – governmental funds, proprietary funds, fiduciary funds, and component units. With the exception of the Fiduciary Fund type, each type is presented with a major fund focus.

The Governmental Accounting Standards Board has defined major funds based on percentage thresholds; however, it allows presentation of any fund as a major fund when that fund is particularly important to financial statement users. The Capital Projects Fund, the State Education Fund, and the Lottery Fund do not meet the percentage threshold requirements, but they are presented as major funds under the discretion provided by the standard. All of the state's component units are reported as major except Cover-Colorado, which is presented as the sole nonmajor component unit.

The state's major funds report the following activities:

GOVERNMENTAL FUND TYPE:

General Fund
Transactions related to resources obtained and used for those services traditionally provided by state government, which are not accounted for in other funds, are accounted for in the General Fund. Resources obtained from federal grants that support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements.

Public School Fund
The Public School Fund receives transfers from the General Fund on a quarterly basis and makes distributions to local school districts on a monthly basis. The fund also receives minor transfers from other state programs that are also distributed to the local school districts.

Highway Users Tax Fund
Expenditures of this fund are for the construction and maintenance of public highways, the operations of the State Patrol, and the motor vehicle related operations of the

Department of Revenue. Revenues are from excise taxes on motor fuels, driver and vehicle registration fees, and other related taxes. Other financing sources include the issuance of revenue bonds. Most of the state's infrastructure is financed by this fund.

Capital Projects Fund

Transactions related to resources obtained and used for acquisition, construction, or improvement of state owned facilities and certain equipment are accounted for in the Capital Projects Fund.

State Education Fund

The State Education Fund was created in the State Constitution by a vote of the people in November 2000. The fund's primary revenue source is a tax of one third of one percent on federal taxable income. The revenues are restricted for the purpose of improving Colorado's primary education by funding specific programs and by guaranteeing appropriation growth of at least one percent greater than annual inflation through Fiscal Year 2010-11.

PROPRIETARY FUND TYPE:

Higher Education Institutions

This fund reports the activities of all state supported institutions of higher education. A combination of transfers from the state General Fund, tuition, grants, and fees primarily funds this activity. This activity has significant capital debt secured solely by pledged revenues.

Unemployment Insurance

This fund accounts for the collection of unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants.

Colorado Student Obligation Bond Authority

The Colorado Student Obligation Bond Authority issues revenue bonds to originate and purchase student loans, and operates a prepaid tuition program designed to keep pace with average tuition inflation in Colorado. The authority also operates an IRS Section 529 tax-advantaged College Savings Plan that is presented as a Private Purpose Trust Fund.

Lottery

The State Lottery encompasses the various lottery and lotto games run under state statute. The primary revenue source is lottery ticket sales, and the net proceeds are primarily distributed to the Great Outdoors Colorado Program (a related organization), the Conservation Trust Fund, and when receipts are adequate, the contingency reserve in the State Public School Fund. The funds are used primarily for open space purchases and recreational facilities throughout the state.

Nonmajor funds of each fund type are aggregated into a single column for presentation in the basic financial statements. In addition to the major funds discussed above, the state categorizes and reports the following fund categories in supplementary information in the Comprehensive Annual Financial Report.

GOVERNMENTAL FUND TYPE:

Special Revenue Funds

Transactions related to resources obtained from specific sources, and dedicated to specific purposes are accounted for in the Special Revenue Funds. The individual nonmajor funds include the Water Projects Construction Fund, the Labor Fund, the Gaming Fund, the Tobacco Litigation Settlement Fund, and a large number of smaller funds.

Debt Service Fund

This fund accounts for the accumulation of resources, principally transfers from other funds, for the payment of long-term debt principal and interest. It also accounts for the issuance of debt solely to refund debt of other funds. The primary debt serviced by this fund consists of certificates of participation and notes issued by the Department of Transportation to fund infrastructure.

Permanent Funds

This collection of funds reports resources that are legally restricted to the extent that only earnings, and not principal, may be used to support the state's programs. The individual nonmajor funds included in this category are the State Lands Fund and several smaller funds. On the government-wide financial statements the net assets of these funds are presented as restricted with separate identification of the nonexpendable (principal) and expendable (earnings) amounts.

PROPRIETARY FUND TYPE:

Enterprise Funds

The state uses Enterprise Funds to account for activities that charge fees, primarily to external users, to recover the costs of the activity. In some instances, the requirement to recover costs is a legal mandate, and in others it is due to management's pricing policy. The individual nonmajor funds include, the Wildlife Fund, the Guaranteed Student Loan Fund, the State Fair Authority, Correctional Industries, State Nursing Homes, Prison Canteens, and several smaller funds.

Internal Service Funds

The state uses Internal Service Funds to account for sales of goods and services, primarily to internal customers, on a cost reimbursement basis. The major fund concept does not apply to Internal Service Funds. The state's Internal Service Funds reported in supplementary information included Central Services, General Government Computer Center, Telecommunications, Capitol Complex, Highways, Public Safety, Administrative Hearings, and Debt Collection. In the fund financial statements, these activities are aggregated into a single column. In the government-wide statements, the Internal Service Funds are included in the governmental

activities on the *Statement of Net Assets,* and they are included in the *Statement of Activities* through an allocation of their net revenue/expense back to the programs originally charged for the goods or services.

FIDUCIARY FUND TYPE:

The resources reported in Fiduciary Fund types are not available for use in the state's programs; therefore, none of the Fiduciary Funds are included in the government-wide financial statements.

Pension Trust Funds
In the basic financial statements, the state reports in a single column, the activities related to resources being held in trust for members and beneficiaries of the Deferred Compensation Plan, the Defined Contribution Pension Plan, and Group Benefits Plan. (Individual financial statements of these plans are presented in Note 21). Participation in the defined contribution plan is limited to select employees – primarily legislators and elected officials. Most state employees are covered by the defined benefit plan operated by the Public Employees Retirement Association (see Note 19).

Investment Trust Fund
As directed by statute, the state operates an external investment account solely for the benefit of Pinnacol Assurance, a related organization.

Private Purpose Trust Funds
Private Purpose Trust Funds are used to report the resources held in trust for the benefit of other governments, private organizations, or individuals. A single column in the basic financial statements aggregates the Treasurer's Private Purpose Trusts (including escheats activity), the College Savings Plan operated by the Colorado Student Obligation Bond Authority, and several smaller funds.

Agency Funds
Agency funds are used to report resources held in a purely custodial capacity for other individuals, private organizations, or other governments. Typically the time between receipt and disbursement of these resources is short and investment earnings are inconsequential.

PRESENTATION OF INTERNAL BALANCES

Substantially all intrafund transactions and balances of the primary government have been eliminated from the fund level financial statements. Interfund sales and federal grant pass-throughs are not eliminated, but are shown as revenues and expenditures/expenses of the various funds. Substantially all other interfund transactions are classified as transfers-in or transfers-out after the revenues and expenditures/expenses are reported on each of the operating statements.

Component Units

The University of Colorado Hospital Authority uses proprietary fund accounting for its operations. The financial statements for the authority's noncontributory defined benefit pension plan are prepared under the accrual basis of accounting, but are not presented in the state's Comprehensive Annual Financial Report. The pension plan statements are available from the authority. Financial information for the authority is presented as of June 30, 2004 .

The Colorado Water Resources and Power Development Authority is engaged only in business-type activities, and it uses proprietary fund accounting for its operations. The authority's financial information is presented as of December 31, 2003.

The Denver Metropolitan Major League Baseball Stadium District uses proprietary fund accounting in preparation of its financial statements. CoverColorado uses proprietary accounting in preparing its financial statements, and applies applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements that do not conflict with or contradict GASB pronouncements. The financial information for both entities is presented as of December 31, 2003.

The four foundations presented as component units all follow FASB statements applicable to not-for-profit entities. The foundation's audited not-for-profit financial statements have been recast into the governmental format as allowed by GASB Statement No. 39. Financial information for all four component units is presented as of June 30, 2004.

NOTE 5 – BASIS OF ACCOUNTING

Primary Government

The basis of accounting applied to a fund depends on both the type of fund and the financial statement on which the fund is presented.

GOVERNMENT-WIDE STATEMENTS:

All transactions and balances on the government-wide financial statements are reported on the full accrual basis of accounting. Under full accrual, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange transactions are recognized when the exchange takes place and the earnings process is complete. Similar recognition occurs for nonexchange transactions depending on the type of transaction.

- Derived tax revenues are recognized when the underlying exchange transaction occurs.
- Imposed nonexchange revenues are recognized when the state has an enforceable legal claim.

- Government mandated and voluntary nonexchange revenues are recognized when all eligibility requirements are met – assets may be recognized if received before eligibility requirements are met.

FUND LEVEL FINANCIAL STATEMENTS:

Governmental Funds

All transactions and balances of governmental funds are presented on the modified accrual basis of accounting consistent with the flow of current financial resources measurement focus and the requirements of Governmental Accounting Standards Board Interpretation No. 6. Under the modified accrual basis of accounting, revenues are recognized when they are measurable and available. The state defines revenues as available if they are expected to be collected within one year. Historical data, adjusted for economic trends, are used in the estimation of the following revenue accruals:

- Sales, use, liquor, and cigarette taxes are accrued based on filings received and an estimate of filings due by June 30.
- Income taxes, net of refunds, to be collected from individuals, corporations, and trusts are accrued based on current income earned by the taxpayer before June 30. Quarterly filings, withholding statements, and other historical data are used to estimate the taxpayer's current income. The revenue is accrued net of an allowance for uncollectible taxes.

Revenues earned under the terms of reimbursement agreements with other governments or private sources are recorded at the time the related expenditures are made if other eligibility requirements have been met.

Expenditures are recognized in the funds when:

- The related liability is incurred and is due and payable in full (examples include professional services, supplies, utilities, and travel),
- The matured portion of general long-term indebtedness is due and payable (or resources have been designated in the Debt Service Fund and the debt service is payable within thirty days of fiscal year end),
- The liability has matured and is normally expected to be liquidated with expendable available financial resources.

Under these recognition criteria, compensated absences, claims and judgments, special termination benefits, and environmental postremediation liabilities are reported as fund liabilities only in the period that they become due and payable. Expenditures/liabilities not recognized in the fund level statements are reported as expenses/liabilities on the government-wide statements.

Proprietary and Fiduciary Funds

All transactions and balances of the proprietary and fiduciary fund types are reported on the full accrual basis of accounting as describe above for the government-wide statements.

Component Units

The University of Colorado Hospital Authority follows the provisions of Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting* and has early implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. As a governmental entity, the hospital applies all Governmental Accounting Standards Board (GASB) statements and has elected to apply the provisions of all relevant pronouncements of Financial Accounting Standards Board, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The Colorado Water Resources and Power Development Authority uses the accrual basis of accounting in preparing its financial statements under which revenues are recognized when earned and expenses are recognized when incurred. The authority elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

NOTE 6 – ACCOUNTING POLICIES AFFECTING SPECIFIC ASSETS, LIABILITIES, AND NET ASSETS

A. CASH AND POOLED CASH

Primary Government

For purposes of reporting cash flows, cash and pooled cash is defined as cash-on-hand, demand deposits, certificates of deposit with financial institutions, pooled cash with the State Treasurer, and warrants payable.

Component Units

The University of Colorado Hospital Authority defines cash and cash equivalents as cash on hand, demand deposits, and short-term investments with initial maturities of three months or less, excluding amounts restricted under trust agreements.

CoverColorado, Colorado School of Mines Foundation, and the Colorado State University Foundation considers highly liquid investments with an initial maturity of three months or less to be cash equivalents.

The Denver Metropolitan Major League Baseball Stadium District and the Colorado Water Resources and Power Development Authority consider highly liquid investments

with maturity of three months or less when purchased to be cash equivalents.

The University of Northern Colorado Foundation considers all cash on deposit in demand savings and time deposits with maturity of three months or less to be cash equivalents.

The University of Colorado Foundation considers money market accounts and investments purchased with original maturities of less than three months to be cash equivalents.

B. RECEIVABLES

Component Units

The University of Colorado Foundation, the Colorado State University Foundation, the Colorado School of Mines Foundation, and the University of Northern Colorado Foundation all record unconditional promises to give as revenue and receivable in the period that the pledge is made. The University of Colorado Foundation and the Colorado State University Foundation use the allowance method to determine the uncollectible portion of unconditional contributions receivable. The Colorado School of Mines Foundation and the University of Northern Colorado Foundation recognize conditional promises to give as revenue and receivable when the conditions on which the pledges are dependent are substantially met.

C. INVENTORY

Inventories of the various state agencies primarily comprise finished goods inventories held for resale and consumable items such as office and institutional supplies, fuel, and maintenance items.

Inventories of the governmental funds are stated at cost, while inventories of the proprietary funds are stated at the lower of cost or market. The state uses various valuation methods (FIFO, average cost, etc.) depending upon the state agency. The method used in each agency is consistent from year to year.

Consumable inventories that are deemed material are expended at the time they are consumed. Immaterial consumable inventories are expended at the time of purchase, while inventories held for resale are expensed at the time of sale.

D. INVESTMENTS

Investments, including those held by the State Treasurer and reported as pooled cash, include both short and long-term investments. They are stated at fair value except for certain money market investments (see Note 15). Investments that do not have an established market are reported at their estimated fair value. The State Treasurer records investment interest in individual funds based on book yield as adjusted for amortization of investment premiums and discounts.

E. CAPITAL ASSETS

Primary Government

Depreciable capital assets are reported at historical cost net of accumulated depreciation on the government-wide *Statement of Net Assets*. Donated capital assets are carried at their fair market value at the date of donation (net of accumulated depreciation). State agencies are allowed to capitalize works of art, historical treasures, and assets below established thresholds. Agencies must capitalize all land regardless of cost and furniture and equipment when the cost of the item exceeds $5,000. The state uses a higher threshold for buildings ($50,000) and infrastructure ($500,000). Land, certain land improvements, construction in progress, and certain works of art or historical treasures are reported as nondepreciable assets.

Infrastructure owned by the Colorado Department of Transportation is reported using the modified approach, under which maintenance and preservation costs are expenditures and depreciation is not recorded (see Note RSI-2 to the Required Supplementary Information, page 128, for more information on the modified approach). Other infrastructure, which is primarily owned by the Department of Natural Resources, is capitalized and depreciated.

The state capitalizes interest incurred during the construction of capital assets that are reported in Enterprise Funds.

All depreciable capital assets are depreciated using the straight-line method. State agencies are required to use actual experience in setting useful lives for depreciating their capital assets.

The following table lists the range of lives that state agencies normally use in depreciating capital assets. Certain buildings are depreciated over longer lives, but they are excluded from the following table.

(Amounts in Years)

Asset Class	Shortest Period Used	Longest Period Used
Land Improvements	5	50
Buildings	5	100
Leasehold Improvements	3	40
Equipment	3	50
Software	3	23
Library Books	5	20
Collections	23.5	23.5
Other Capital Assets	3	23
Infrastructure	25	50

Component Units

The University of Colorado Hospital Authority capitalizes interest during the construction of capital assets. The

authority depreciates capital assets over the estimated useful life of the asset class using the straight-line method. The hospital's long-lived assets consist primarily of leasehold improvements, buildings and building improvements, and equipment, which are subject to the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.*

F. DEFERRED REVENUE

Under reimbursement agreements, receipts from the federal government and other program sponsors are deferred until the related expenditures are made. On the fund level financial statements, revenues related to taxes receivable that the state does not expect to collect until after the following fiscal year are deferred. However, these receivables are recognized as revenue on the government-wide financial statements.

G. ACCRUED COMPENSATED ABSENCES LIABILITY

Primary Government

State law concerning the accrual of sick leave was changed effective July 1, 1988. After that date all employees in classified permanent positions within the State Personnel System accrue sick leave at the rate of 6.66 hours per month. Total sick leave per employee is limited to their respective accrued balance on July 1, 1988, plus 360 additional hours. After earning the maximum accrual, each employee converts five hours of unused sick leave to one hour of annual leave. Employees are paid for one-fourth of their unused sick leave upon death or retirement.

Annual leave is earned at increasing rates based on employment longevity. In no event can a classified employee accumulate more than 42 days of annual leave at the end of a fiscal year. Employees are paid 100 percent of their annual leave balance upon leaving state service.

In accordance with GASB Interpretation No. 6, compensated absence liabilities related to the governmental funds are recognized as liabilities of the fund only to the extent that they are due and payable at June 30. For all other fund types, both current and long-term portions are recorded as individual fund liabilities. On the government-wide *Statement of Net Assets,* all compensated absence liabilities are reported.

Component Units

Employees of the University of Colorado Hospital Authority use paid time off (PTO) for vacation, holidays, short-term illness, and personal absences. Extended illness pay (EIP) is used to continue salary during extended absences due to medical disability or serious health conditions. Both PTO and EIP earnings are based on length of service and actual hours worked. The hospital records PTO expense as it is earned. Accrued EIP is based solely on amounts estimated to become payable to that portion of the employee base which will ultimately retire from the hospital.

The Colorado Water Resources and Power Development Authority recognizes unused vacation benefits as they are earned.

H. INSURANCE

The state has an agreement with Pinnacol Assurance, a related organization, to act as the third party administrator for the state's self-insured workers' compensation claims. The state reimburses Pinnacol for the current cost of claims paid and related administrative expenses. Actuarially determined liabilities are accrued for claims to be paid in future years.

The state insures its property through private carriers and is self-insured against general liability risks for both its officials and employees (see Note 22).

I. NET ASSETS AND FUND BALANCES

In the financial statements, assets in excess of liabilities are represented in two ways based on the measurement focus used in reporting the fund.

On the government-wide *Statement of Net Assets,* the proprietary funds' *Statement of Net Assets,* and the fiduciary funds' *Statement of Fiduciary Net Assets,* net assets are segregated into restricted and unrestricted balances. Restrictions are limitations on how the net assets may be used. Restrictions may be placed on net assets by the external party that provided the resources to the government, by the State Constitution, or by the nature of the asset (such as, in the case of capital assets).

On the *Balance Sheet – Governmental Funds,* assets in excess of liabilities are reported as fund balances and are segregated between reserved and unreserved amounts. Reserves are legal requirements that make funds unavailable for appropriation by segregating them for a specific use. Conversely, unreserved balances are generally available for appropriation. However, management may also make designations of unreserved fund balance that signal management's intent that certain fund balance amounts are currently unavailable for appropriation. Designated unreserved fund balances are not legally segregated.

The following paragraphs describe the restrictions reported in the financial statements.

Invested in Capital Assets Net of Related Debt – This item comprises capital assets net of accumulated depreciation if applicable. It is reduced by the outstanding balances of leases, bonds, or other borrowings that were used to acquire, construct, or improve the related capital asset.

Restricted for Highway Construction and Maintenance – Article X Section 18 of the State Constitution restricts the motor fuels tax portion of the Highway Users Tax Fund. The unrestricted portion of the fund is appropriated for activities other than highway construction and maintenance.

Restricted for State Education – The entire net assets balance of the State Education Fund, a major governmental fund, is restricted based on Article IX, Section 17, of the State Constitution. Section 17 is commonly referred to as Amendment 23, which references the ballot number assigned to the issue in the general election of 2000.

Restricted for Unemployment Insurance – The entire net assets balance of the Unemployment Insurance Fund, a major Enterprise Fund, is reported as restricted because federal regulations limit its use to paying unemployment insurance claims.

Restricted for Debt Service – The net assets of the Debt Service Fund, a nonmajor governmental fund, are restricted to be used only for upcoming principal and interest payments. The payments are primarily related to the Transportation Revenue Anticipation Notes issued by the Department of Transportation, but also include payments on Certificates of Participation issued by the Department of Personnel & Administration. The Higher Education Institutions Enterprise Fund also reports certain balances restricted for principal and interest payments on revenue-bonded debt.

Restricted for Emergencies – The State Legislature designates the fund balance of certain funds as an emergency reserve as required by Article X, Section 20 (TABOR) of the State Constitution. The requirement is to reserve three percent or more of fiscal year spending for emergencies. Fiscal year spending is defined in TABOR as all spending and reserve increases except for spending from certain excluded revenues (see Note 8B).

Restricted Permanent Funds and Endowments – This item is segregated into two components. The restricted balances reported as nonexpendable are related to the principal portion of governmental Permanent Funds, such as the State Lands Fund, and the endowment portion of the Higher Education Institutions Enterprise Fund that must be maintained in perpetuity. The restricted balances reported as expendable are the earnings on the related principal balances. In general these earnings can only be used for education program purposes.

Restricted for Court Awards and Other Purposes – The state operates certain funds that were established at the direction of federal courts, state courts, or other external parties. The net assets of these funds are limited as to use by the court or the external party. The state received $73.1 million and $73.2 million in Fiscal Years 2003-04 and 2002-03, respectively, from the federal government as a result of the Jobs and Growth Tax Relief Reconciliation Act of 2003. The Act restricts the use of the funds to "the types of expenditures permitted under the most recently approved budget for the state." The Colorado Supreme Court opined that legislation could exclude these funds from the definition of custodial moneys that would qualify them as restricted. However, the related legislation only applied this authority to these funds prospectively. Therefore, the unexpended net assets of these funds are reported as restricted.

The fund balance of the General Fund is reserved as provided by statute or as provided by generally accepted accounting principles. The unreserved and undesignated portion of fund equity on the budgetary basis remaining at year end is required by legislation to be transferred in the following year to the Highway Fund and the Capital Projects Fund in the ratio of two-thirds to one-third.

The following paragraphs describe the reservations reported in the fund-level financial statements.

Reserved for Encumbrances - In the General Fund, this reserve is for the portion of the current fiscal year appropriation that was encumbered for goods and services that were not received before June 30 due to extenuating circumstances. The specific appropriation related to these items is rolled-forward to the following fiscal year.

In the Special Revenue and Capital Projects Funds this reserve represents purchase orders, contracts, and long-term contracts related to construction of major capital projects. Since the resources of these funds are often received after the long-term contracts are executed and recorded as encumbrances, the unreserved undesignated amount may reflect a deficit. When a deficit occurs it is funded by future proceeds of the fund.

Reserved for Noncurrent Assets – This item reserves the portion of fund balance that relates to long-term interfund receivables and other long-term assets that are not offset by deferred revenue. These assets are not currently available for appropriation.

Reserved for Debt Service – The fund balance of the Debt Service Fund, a nonmajor governmental fund, is not available for appropriation because it is restricted to use only for upcoming principal and interest payments. The payments are primarily related to the Transportation Revenue Anticipation Notes issued by the Department of Transportation but also include payments on Certificates of Participation issued by the Department of Personnel & Administration.

Reserve for Statutory Purposes – The statutory reserve in the Capital Projects Fund is the fund balance of the Corrections Expansion Reserve and the balance of certain other projects that are allowed to maintain a fund balance in the Capital Projects fund. These projects are not required to revert excess cash revenue to the Capital Projects Fund. In the General Fund this reserve normally represents the requirement in Colorado Revised Statutes 24-75-201.1(d) to reserve four percent of General Fund appropriations for expenditures, and it is only presented in

full when the unreserved undesignated fund balance is positive. On a GAAP basis, General Fund assets were not adequate to meet the Fiscal Year 2003-04 statutorily required reserve of $223.6 million. This resulted in the $207.0 million reserve shown on the *Balance Sheet – Governmental Funds.* The state complied with the reserve requirement on the budget basis by deferring Medicaid and payroll expenditures to the following fiscal year.

Reserved for Risk Management – The Reserve for Risk Management represents the fund equity of the state Risk Management Funds. Because there is no plan to fund the actuarial liabilities of the Risk Management Fund, it is accounted for in the General Fund as required by Governmental Accounting Standards Board Statement No. 10.

Reserved for Emergencies – The state Legislature designates the fund balance of certain funds as an emergency reserve as required by Article X, Section 20 (TABOR) of the State Constitution. The requirement is to reserve three percent or more of fiscal year spending for emergencies. Fiscal year spending is defined in TABOR as all spending and reserve increases except for spending from certain excluded revenues. See Note 8B for more information on the current year amount of the emergency reserve.

Reserved for Funds Reported as Restricted – This reserve is the portion of fund balance that is restricted by the State Constitution or external parties. The balances are reserved because they are restricted; and therefore, are not available for appropriation for general governmental purposes.

Unreserved - Designated for Unrealized Investment Gains In all fund types, this designation represents the amount by which the fair value of investments exceeds amortized cost. It is not equivalent to the net change in fair value of investments.

NOTE 7 – ACCOUNTING POLICIES AFFECTING REVENUES, EXPENDITURES/EXPENSES

A. PROGRAM REVENUES

The government-wide *Statement of Activities* presents two broad types of revenues – program revenues and general revenues. All taxes, with the exception of unemployment insurance tax used to support business-type activities, are reported as general revenues. Unrestricted investment earnings and the court ordered awards of the Tobacco Litigation Settlement Fund are also reported as general revenues. Except for transfers, permanent fund additions, and special items, all other revenues are reported as program revenues. In general, program revenues include:

- Fees for services, tuition, licenses, certifications, and inspections,
- Fines and forfeitures,
- Sales of products,
- Rents and royalties,
- Donations and contributions,
- Intergovernmental revenues (including capital and operating grants).

B. INDIRECT COST ALLOCATION

The state allocates indirect costs on the government-wide *Statement of Activities.* In general, the allocation reduces costs shown in the general government functions and increases costs in the other functions and business-type activities (BTAs). The allocation is based on the Statewide Indirect Cost Allocation Plan Agreement with the federal government that was approved during Fiscal Year 2003-04. The Plan uses cost from Fiscal Year 2001-02 that will be incorporated in state agency indirect cost rates to be charged to federal grants in Fiscal Year 2005-06. The allocation of costs between the governmental activities and BTAs would normally result in an adjustment of internal balances on the government-wide *Statement of Net Assets.* However, since the amount allocated from the governmental activities to the BTAs is small, an offsetting adjustment is made to the Transfers line item at the bottom of the *Statement of Activities.*

C. OPERATING REVENUES AND EXPENSES

Primary Government

The state reports four major Enterprise Funds and several nonmajor Enterprise Funds. Because these enterprises engage in a wide variety of activities, the state's definition of operating revenues and expenses is highly generalized. For these funds, operating revenues and expenses are defined as transactions that result from the core business activity of the proprietary fund.

In general this definition provides consistency between operating income on the *Statement of Revenues, Expenses, and Changes in Net Assets* and cash from operations on the *Statement of Cash Flows.* However, certain exceptions occur including:

- Interest earnings and expenses of proprietary funds for which the core business activity is lending are reported as operating revenues and expenses on the *Statement of Revenues, Expenses, and Changes in Net Assets* but are reported as investing activities on the *Statement of Cash Flows.*
- Rental income of proprietary funds for which the core business activity is real estate services is reported as operating revenue on the *Statement of Revenues, Expenses, and Changes in Net Assets* but is reported as a capital and related financing activities on the *Statement of Cash Flows*.
- Some fines, donations, and certain grants and contracts are reported as nonoperating revenues on the *Statement of Revenues, Expenses, and Changes in Net Assets* but are reported as cash from operations on the *Statement of Cash Flows.*

The state higher education institutions have defined operating revenues and expenses as generally resulting from providing goods and services for instruction, research, public service or related support services to an individual or entity separate from the institution.

Component Units

The Denver Metropolitan Major League Baseball Stadium District defines operating revenues as those revenues for which cash flows are reported as operating activities. In general these revenues are derived from its principal on-going operations – leasing the ballpark and related activities. Nonoperating revenues include revenue from other than exchange or exchange-like transactions, such as, taxes, interest, and other income.

NOTES 8 and 9 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

NOTE 8 – LEGAL COMPLIANCE

A. OVEREXPENDITURES

Depending on the accounting fund type involved, expenditures/expenses are determined using the modified accrual or accrual basis of accounting even if the accrual will result in an overexpenditure. If earned cash revenues plus available fund balance and earned federal revenues are less than cash and federal expenditures, then those excess expenditures are considered general funded expenditures. If general funded expenditures exceed the general funded appropriation then an overexpenditure occurs even if the expenditures did not exceed the total legislative line item appropriation. Agencies are not allowed to use general-purpose revenue to support an expenditure/expense that was appropriated from cash or federal funds. Budget-to-actual comparisons are presented in the Required Supplementary Information Section beginning on page 118.

Within the limitations discussed below, the State Controller may allow certain overexpenditures of the legal appropriation, as provided by Colorado Revised Statutes 24-75-109. Unlimited overexpenditures are allowed in the Medicaid program. The Department of Human Services is allowed $1 million of overexpenditures not related to Medicaid and unlimited overexpenditures for self-insurance of its workers' compensation plan. Statute also allows overexpenditures up to $1 million in total for the remainder of the Executive Branch. An additional $1 million of combined transfers and overexpenditures are allowed for the Judicial Branch.

The State Controller is required to restrict the subsequent year appropriation whether or not he allows an overexpenditure. The restriction requires the agency to seek a supplemental appropriation from the General Assembly, earn adequate cash or federal revenue to cover the expenditure in the following year, or reduce their subsequent year's expenditures.

Total overexpenditures at June 30, 2004, were $9,585,955, as described below.

Medicaid Overexpenditures:

- Medical Services Premiums. – The Department of Health Care Policy and Financing overexpended this line item by $8,437,980 of general funds. The department overexpended the line when it paid $14.6 million to settle a lawsuit with a major managed care provider. On the Schedule of Revenues, Expenditures and Change in General Fund Surplus on page 125, this line item is part of the $66.3 million reversion for the department. The reversion is the result of a decision to restrict rather than reduce the department's budget related to additional temporary federal participation in the Medicaid program; federal participation increased from 50 percent to 52.95 percent. Unspent restrictions are reported as reversions on the schedule. In total, the legislature restricted $68.7 million of spending authority for the additional Medicaid participation. If the department's budget had been reduced rather than restricted for this amount, they would have reported an net overexpenditure of $2.4 million.
- Mental Health Community Programs – Medicaid Mental Health Fee for Service Payments – The Department of Health Care Policy and Financing overexpended this line item by $216,459 of general funds. The line item funds the Department of Human Services Administered Medicaid Programs, and the overexpenditure occurred because the cost of care for clients of the program exceeded the estimate upon which the budget for the line item was established.
- Mental Health Capitation – The Department of Health Care Policy and Financing overexpended this line item by $453,049 of general funds. The line item funds the Department of Human Services Administered Medicaid Programs, and the overexpenditure occurred because the actual client services provided exceeded the estimate upon which the budget was established.

- Residential Treatment for Youth HB99-1116 – The Department of Health Care Policy and Financing overexpended this line item by $12,190 of cash funds for which the supporting revenues are tobacco settlement proceeds that are exempt from TABOR limits. The line item funds the Department of Human Services Administered Medicaid Programs, and the overexpenditure occurred because the actual client services provided exceeded the estimate upon which the budget was established.

Department of Human Services Overexpenditures Other Than Medicaid:

- Office of Operations – Utilities – The Department of Human Services overexpended this budget line item by $349,627 of general funds. The overexpenditure occurred because the actual price and usage of energy exceeded the estimate upon which the budget for this line item was appropriated.

Statewide Overexpenditures Subject to the $1 Million Limit:

- Office of Information Technology – Project Oversight for the HCPF HIPAA Implementation – The Governor's Office overexpended this line item by $61,590 of cash funds for which the supporting revenues are exempt from TABOR limits. The appropriation for this amount was made in Fiscal Year 2002-03, and that appropriation lapsed at the end of that fiscal year. The State Controller established spending authority in Fiscal Year 2003-04 based on the authority provided in CRS-24-75-111. That authority requires the affected department to obtain a supplemental appropriation; however, the supplemental appropriation legislation did not include this item.
- Medicaid Management Information System Contract – The Department of Health Care Policy and Financing overexpended this line item by $55,060 of general funds. The department overexpended the line item because a complicated line item funding mix resulted in less cash and federal revenues than expected, and therefore, an unexpected amount of expenditures were applied to the general funded appropriation.

A separately issued report comparing line item expenditures to authorized budget is available upon request from the State Controller's Office.

B. TAX, SPENDING, AND DEBT LIMITATIONS

Certain state revenues, primarily taxes and fees, are limited under Article X, Section 20 (TABOR) of the State Constitution. The growth in these revenues from year to year is limited to the rate of population growth plus the rate of inflation. The constitution also requires voter approval for any new tax, tax rate increase, or new debt. These limitations apply to the state as a whole, not to individual funds, departments, or agencies of the state. Government run businesses accounted for as enterprise funds that have the authority to issue bonded debt and that receive less than ten percent of annual revenues from state and local governments are exempted from the TABOR revenue limits.

Annual revenues that exceed the constitutional limitation must be refunded unless voters approve otherwise. The state did not exceed the TABOR limit in Fiscal Years 2003-04, 2002-03, or 2001-02. The state would have exceeded the TABOR limit in Fiscal Year 2003-04 by $374.7 million if not for the growth dividend. The growth dividend is the result of legislation passed in the 2002 legislative session, and it allows the state to increase the TABOR limit by up to 6.0 percentage points over the nine years following the passage of the legislation. The increase allows the state to recoup amounts refunded to taxpayers during the 1990's that would not have been refunded if the intercensus population estimates accurately matched the 2000 population census. Before Fiscal Year 2001-02, the state exceeded the revenue growth limitation in each year since Fiscal Year 1996-97.

TABOR requires the state to reserve three percent of fiscal year nonexempt revenues for emergencies. In Fiscal Year 2003-04 this amount was $249,959,719. At June 30, 2004, the financial net assets of the following funds were applied to the reserve:

- Tobacco Litigation Settlement Trust Fund (a nonmajor Special Revenue Fund) – $26,231,928
- Controlled Maintenance Trust Fund (a nonmajor Other Special Revenue Fund) – $258,368
- Colorado River Recovery Program Loan Fund (part of the Water Projects Fund, a nonmajor Special Revenue Fund) – $11,567,428
- Fish and Wildlife Resources Fund (part of the Water Projects Fund, a nonmajor Special Revenue Fund) – $4,742,170
- Perpetual Base Account of the Severance Tax Trust Fund (a nonmajor Other Special Revenue Fund) – $118,107,841
- Species Conservation Trust Fund (a nonmajor Other Special Revenue Fund) – $11,293,740
- Wildlife Cash Fund (a nonmajor Enterprise Fund) – $39,276,958

The remaining amount of $38,481,284 needed to meet the emergency reserve requirement comes from the $146.4 million of Capital Assets Net of Related Debt shown for the Wildlife Fund on the *Combining Statement of Net Assets – Other Enterprise Funds*. Legislation also designated state capital assets up to $87.4 million to be

used as part of the emergency reserve if the previously listed funds were inadequate to meet the reserve requirement. In the event of an emergency that exceeded the financial assets in the reserve, the designated capital assets would have to be liquidated to meet the constitutional requirement.

NOTE 9 – UNRESTRICTED NET ASSETS DEFICITS

The GAAP requirement to reduce unrestricted net assets for amounts invested in capital assets (net of related debt) results in some funds showing unrestricted net asset deficits. These deficits do not represent a legal infraction. All three of the following net asset deficits appear on combining statements presented in supplementary information in the Comprehensive Annual Financial Report.

The Telecommunications Fund, an Internal Service Fund, shows a deficit unrestricted net assets of $1,295,983 on the *Combining Statement of Net Assets – Internal Service Funds.*

The Capital Complex Fund, an Internal Service Fund, shows a deficit unrestricted net assets of $119,988 on the *Combining Statement of Net Assets – Internal Service Funds.*

The State Fair Authority, a nonmajor Enterprise Fund, shows a deficit unrestricted net assets of $583,652 on the *Combining Statement of Net Assets – Enterprise Funds*.

NOTES 10 through 18 – DETAILS OF ASSET ITEMS

NOTE 10 – CASH AND POOLED CASH

Primary Government

The State Treasury acts as a bank for all state agencies, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. Interest earnings on these investments are credited to the General Fund unless a specific statute directs otherwise. Most funds are required to invest in noninterest bearing warrants of the General Fund if the General Fund overdraws its rights in the pool. This means that under certain conditions participating funds would not receive the interest earnings to which they would otherwise be entitled. The detailed composition of the Treasury pooled cash and investment is shown in the annual Treasurer's Report.

State agencies are authorized by various statutes to deposit funds in accounts outside the custody of the State Treasury. Legally authorized deposits include demand deposits and certificates of deposit. The state's cash management policy is to invest all major revenues as soon as the moneys are available within the banking system. Electronic transfers are used by the state to enhance availability of funds for investment purposes.

Colorado statutes require protection of public moneys in banks beyond that provided by the federal insurance corporations. The Public Deposit Protection Act in Colorado Revised Statutes 11-10.5-107(5) requires all eligible depositories holding public deposits to pledge designated eligible collateral having market value equal to at least 102 percent of the deposits exceeding those amounts insured by federal insurance.

The state maintains accounts for various purposes at locations throughout the state. Cash balances in these accounts that are not required for immediate use are invested in certificates of deposit by the fund custodian or moved to the State Treasurer's pooled cash investments.

Including restricted amounts, the Cash and Pooled Cash line on the financial statements includes $3,378.9 million of claims of the state's funds on monies in the treasurer's pooled cash. At June 30, 2004, the treasurer had invested $3,308.4 million of the pool with the balance of $70.5 million held in demand deposits and certificates of deposit. At June 30, 2004, the state had cash balances in all funds with a carrying value of $874.7 million; this amount includes the $70.5 million held as cash in the treasurer's pool. The state categorizes its cash into three categories as to its risk:

- Category 1 is federally insured deposits, or deposits fully collateralized with securities held by the state or its agent in the state's name.
- Category 2 is deposits uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the state's name.
- Category 3 is uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the state's name.

The bank balances of these funds are categorized by risk as follows:

Risk Category	Bank Balance June 30
1	$ 142,071,976
2	724,753,965
3	870,297
Total	$ 867,696,238

Component Units

The University of Colorado Hospital Authority had cash balances of $15.1 million and $27.5 million at June 30, 2004 and 2003, respectively, with related bank balances of $22.0 million and $33.7 million, respectively. These deposits were either insured or collateralized with securities held by the hospital or by its agent in the hospital's name.

At December 31, 2003 and 2002, the Colorado Water Resources and Power Development Authority had federally insured deposits with a bank balance of $568,339 and $42,013, and carrying amounts of $358,914 and $37,907, respectively. It also reported as cash and cash equivalents $62.0 million held by the State Treasurer in a Treasurer's Agency Fund and $77.0 million held in a local government investment pool. These amounts are not subject to custodial, insurance, or collateralization risk classification.

At December 31, 2003 the Denver Metropolitan Major League Baseball Stadium District had federally insured cash deposits with a bank balance of $45,253. They also had $2.5 million in bank money market funds that are carried at cost, which approximates market value. All of the district's cash and cash equivalents are maintained with a single major Denver bank resulting in a concentration of credit risk.

At June 30, 2004, the Colorado School of Mines Foundation cash accounts exceeded the federally insured limit by $1,673,000.

NOTE 11 – NONCASH TRANSACTIONS IN THE PROPRIETARY FUND TYPES

In the proprietary fund types, noncash transactions occur that do not affect the fund-level *Statement of Cash Flows – All Proprietary Funds*. These transactions are summarized at the bottom of the fund-level statement and the related combining statements. In order for a transaction to be reported as noncash, it must affect real accounts (that is, accounts shown on the *Statement of Net Assets*) and be reported outside of the Cash From Operation section of the *Statement of Cash Flows.* The following general types of transaction are reported as noncash:

- Capital Assets Funded By the Capital Projects Fund – Most capital construction projects funded by general revenues are accounted for in the Capital Projects Fund. Several of the state's Enterprise and Internal Service Funds receive capital assets funded and accounted for in this manner. These funds record Capital Contributions when the asset is received, and no cash transaction is reported on the *Statement of Cash Flows.* Certain state agencies are authorized to move general revenue cash to the Enterprise or Internal Service Fund for capital projects; when this occurs, a cash transaction is reported on the *Statement of Cash Flows.*
- Donation of Capital Assets – Capital assets received as donations are reported as capital contributions, and no cash transaction is reported on the *Statement of Cash Flows.* Although no cash is received, these transactions change the capital asset balances reported on the *Statement of Net Assets;* therefore, they are reported as noncash.
- Unrealized Gain/Loss on Investments – Nearly all proprietary funds recorded unrealized gains on the investments underlying the treasurer's pooled cash in which they participate. The unrealized gains on the treasurer's pool are shown as increases in cash balances. The unrealized gains/losses on investments individually held are shown as increases/decreases in investment balances, and therefore, are reported as noncash transactions. Note 15 shows the combined effect of these two sources of unrealized gains/losses.
- Loss on Disposal of Capital Assets – When the cash received at disposal of a capital asset is less than the carrying value of the asset, a loss is recorded. This loss results in a reduction of the amount reported for capital assets on the *Statement of Net Assets,* but since no cash is exchanged for the loss amount, this portion of the transaction is reported as noncash.
- Amortization of Debt Related Amounts – Amortization of bond premiums, discounts, issuance costs, and gain/loss on refunding adjusts debt service amounts shown for both capital and noncapital financing activities. These transactions change the amount of capital or noncapital debt reported on the *Statement of Net Assets.* Since no cash is received or disbursed in these transactions, they are reported as noncash.
- Assumption of Capital Lease Obligation – Although no cash is exchanged, entering a capital lease changes both the capital asset and related lease liability balances reported on the *Statement of Net Assets.* Therefore, these transactions are reported as noncash.

NOTE 12 – RECEIVABLES

Primary Government

The taxes receivable of $831.3 million shown on the government-wide *Statement of Net Assets* comprises:

- $689.3 million primarily of self-assessed income, estate, and sales taxes recorded in the General Fund. In addition, $87.6 million of taxes receivable is expected to be collected after one year and is reported as an Other Long-Term Asset, offset by deferred revenue on the *Balance Sheet – Governmental Funds*,
- $92.5 million of insurance premium tax recorded in the Unemployment Insurance Fund, a major Enterprise Fund,
- $49.3 million recorded in nonmajor Special Revenue Funds, of which, approximately $10.6 million is from gaming taxes, $21.0 million is insurance premium taxes, and the balance is primarily from severance taxes and employment taxes.

In addition, $54.1 million of taxes receivable and $275.3 million of intergovernmental receivables were recorded in the Highway Users Tax Fund, a major Special Revenue Fund. The tax receivable was primarily fuel taxes while the intergovernmental receivable was primarily due from the federal government, and both were reported as restricted receivables.

The other receivables of $324.4 million shown on the government-wide *Statement of Net Assets* are net of $89.3 million in allowance for doubtful accounts and primarily comprise the following:

- $151.2 million of student and other receivables of Higher Education Institutions, a major Enterprise Fund,
- $58.3 million of receivables recorded in the General Fund, of which, $17.4 million is from interest receivable on investments. The Department of Health Care Policy and Financing recorded receivables of $23.8 million related primarily to certification of providers expenditures as match for Medicaid grant funds, rebates from drug companies, and overpayments to healthcare providers. The Colorado Mental Health Hospitals recorded $10.4 million of patient receivables.
- $81.3 million of receivables recorded by Other Governmental Funds including $44.4 million of tobacco settlement revenues expected within the following year and $11.8 million recorded by the Water Projects Fund.

In addition, $882.2 million of student loan receivables of the Colorado Student Obligation Bond Authority (CSOBA), a major Enterprise Fund, are reported as restricted receivables that would otherwise be reported as Other Long Term Assets. These receivables are restricted to paying the debt service of bonds issued by CSOBA.

Component Units

The University of Colorado Hospital Authority has a significant concentration of patient accounts receivable with Medicare (21 percent), Medicaid (7 percent), managed care including Blue Cross (48 percent), other commercial insurance (7 percent), and self-pay and medically indigent (11 percent). However, the authority's management does not believe there are credit risks associated with these payers other than the self-pay and medically indigent category. Further, the authority continually monitors and adjusts its reserves and allowances associated with these receivables.

Net patient-service revenues under the Medicare and Medicaid programs in Fiscal Year 2003-04 and 2002-03 were approximately $148.2 million and $151.7 million, respectively. Medicaid, Medicare, and other third-party payer programs reimburse providers at rates generally less than the hospital's billing rates. Net patient-service revenue is adjusted for these differences and is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. The hospital's net patient service revenue for the years ended June 30, 2004 and 2003, increased approximately $8.0 million and $22.4 million, respectively, due to final settlements.

The hospital reports pledges at their net present value. As a result, two pledges received during 2001 totaling $40 million were discounted at rates ranging from 4.25 percent to 5.75 percent. After the discounts were applied at June 30, 2004, the hospital reported receivables restricted by donors in the amount of $21.0 million. The hospital also received three pledges during 2004 totaling $12 million. These pledges were discounted at a rate of 5.75 percent. After the discounts were applied at June 20, 2004, the hospital reported additional receivables restricted by donors in the amount of $10.7 million.

The Colorado Water Resources and Power Development Authority had loans receivable of $720.1 million and $670.9 million at December 31, 2003 and 2002, respectively. During 2003, the authority made new loans of $88.1 million and canceled or received repayments for existing loans of $38.9 million.

The University of Colorado Foundation previously recorded $65 million of contributions to be received over a five-year period from a single donor. To date, the foundation has collected $37.7 million of this pledge; the remaining $27.3 million represents 34 percent of contributions receivable at June 30, 2004. Contributions receivable of $20.5 million and $49.4 million are reported as part of Other Receivables and as part of Other Long Term Assets, respectively, in the *Statement of Net Assets –*

Component Units. At June 30, 2004, the amount reported as contributions receivable includes $81.0 million of unconditional promises to give which were offset by a $9.0 million allowance for uncollectible contributions and a $5.6 million unamortized pledge discount using discount rates ranging from .89 percent to 6.31 percent.

At June 30, 2004, the Other Receivables amount shown for the Colorado State University Foundation includes contributions receivable of $12.1 million which were offset by $1.5 million of unamortized pledge discounts calculated using the five-year U.S. Treasury bond rate.

At June 30, 2004, the Other Receivables amount shown for the Colorado School of Mines Foundation includes contributions receivable of $5.3 million, which were offset by $530,713 million of allowance for uncollectible pledges and unamortized pledge discounts. Approximately $2.5 million is due from irrevocable remainder trusts, and the balance is due from the Colorado School of Mines and from loans to students. Approximately 60 percent of the foundation's contributions receivable at June 30, 2004, consists of pledges from five donors.

NOTE 13 – INVENTORY

Inventories of $49.8 million shown on the government-wide *Statement of Net Assets* at June 30, 2004, primarily comprise:

- $7.8 million of manufacturing inventories recorded by Correctional Industries, a nonmajor Enterprise Fund,
- $16.2 million of resale inventories recorded primarily by Higher Education Institutions, a major Enterprise Fund,
- $19.9 million of consumable supplies inventories, of which, $5.9 million was recorded by the Highway User's Tax Fund, a major Special Revenue Fund, $7.5 million by the Higher Education Institutions, a major Enterprise Fund, and $4.7 million by the General Fund.

NOTE 14 – PREPAIDS, ADVANCES, AND DEFERRED CHARGES

Prepaids, Advances and Deferred Charges of $48.0 million shown on the government-wide *Statement of Net Assets* are primarily general prepaid expenses except for the following individually significant items:

- $12.7 million advanced to Colorado counties and special districts by the General Fund related to social assistance programs,
- $6.2 million advanced to federal projects by the Division of Parks and Recreation from the Capital Projects Fund, and
- $3.6 million of prize expense paid by the Colorado Lottery, a major Enterprise Fund, to a multistate organization related to participation in the Powerball lottery game.

NOTE 15 – INVESTMENTS

Primary Government

The state holds investments both for its own benefit and as an agent for certain entities as provided by law. The state does not invest its funds with any external investment pool. Funds not required for immediate payment of expenditures are administered by the authorized custodian of the funds or pooled and invested by the State Treasurer. The fair value of the state's investments are determined from quoted market prices except for money market investments that are reported at amortized cost which approximates market.

The following schedule reconciles deposits and investments to the financial statements for the primary government including fiduciary funds:

(Amounts in Thousands)

Footnote Amounts		Carrying Amount
Deposits (Note 10)	$	874,730
Investments		7,977,726
Total	$	8,852,456
Financial Statement Amounts		
Net Cash and Pooled Cash	$	2,556,759
Add: Warrants Payable Included in Cash		143,530
Total Cash and Pooled Cash		2,700,289
Add: Restricted Cash		1,481,847
Add: Restricted Investments		652,180
Add: Investments		4,018,140
Total	$	8,852,456

The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments in those prior periods. Realized gains from the sale of investments underlying the treasurer's pooled cash were $3,259,958 for Fiscal Year 2003-04. Realized gains on investments held in the General Fund were $4,984,285 for Fiscal Year 2003-04. Excluding the Individual Investment Trust Fund, the Deferred Compensation Plan, and the Defined Contribution Plan, the state recognized $6,630,242 of net realized gains from the sale of investments of other funds during Fiscal Year 2003-04.

The State Treasurer maintains an agency fund for the Great Outdoors Colorado Program (GOCO), a related organization. At June 30, 2004 and 2003, the treasurer had $51.3 million and $53.6 million at fair value, respectively, of GOCO's funds on deposit and invested. The treasurer also maintains an individual investment account (reported as an Investment Trust Fund) for Pinnacol Assurance, a related organization. At June 30, 2004 and 2003, the treasurer had $1,510.0 million and $1,405.7 million at fair value, respectively, of Pinnacol's funds on deposit and invested.

Colorado Revised Statutes 24-75-601.1 authorizes the type of investments that the state may hold. In general, the statute requires securities that are of the highest quality as determined by national rating agencies, are guaranteed by another state or the federal government, or are a registered money market fund whose policies meet criteria set forth in the statute. The state may enter securities lending agreements that meet certain collateralization and other requirements, and it may invest in securities issued by Colorado public entities including authorities established by the state.

The state categorizes the custodial risks of its investments into the following categories:

- Category A is those investments that are insured or registered securities held by the state or its agent in the state's name.
- Category B is those investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the state's name.
- Category C is those investments that are uninsured and unregistered, with securities held by the counterparty or its agent, but not in the state's name.

Open-end mutual funds and certain other investments are not categorized as to custodial risk because ownership is not evidenced by a security. The following table lists the state's investments by type and risk category:

(Amounts in Thousands)

Type of Investment*	Risk Category A	Risk Category B	Risk Category C	Total Fair Value
U.S. Government Securities	$ 2,212,433	$ 5,372	$ 444	$ 2,218,249
Commercial Paper	794,584	1,955	9,464	806,003
Corporate Bonds	1,153,999	35,144	1,057	1,190,200
Corporate Securities	11,957	9,817	1,733	23,507
Repurchase Agreements	41,397	613	-	42,010
Asset Backed Securities	445,234	-	-	445,234
Mortgages	639,079	-	-	639,079
Total	$ 5,298,683	$ 52,901	$ 12,698	5,364,282
Investments not Subject to Categorization:				
Mutual Funds				2,061,418
Guaranteed Investment Agreements				510,058
Money Markets				25,476
Other				16,492
Total Investments				$ 7,977,726

*Note: Amounts include the treasurer's pool and individual investment accounts.

The following schedule shows the state's net unrealized gains and (losses) by fund category.

(Amounts in Thousands)

	Fiscal Year 2003-04	Fiscal Year 2002-03
Governmental Activities:		
Major Funds		
General Fund	$ (26,385)	$ 3,960
Highway Users Tax	(12,097)	2,757
Capital Projects	157	(68)
State Education	(12,121)	13,410
NonMajor Funds:		
State Lands	(22,524)	8,720
Other Permanent Trusts	(186)	65
Water Projects	(2,306)	699
Labor	(124)	51
Gaming	(3,166)	1,125
Tobacco Settlement	(1,379)	(342)
Other Special Revenue	(7,915)	3,180
Highways (Internal Service)	(76)	34
Business-Type Activities:		
Major Funds		
Higher Education Institutions	16,309	12,485
Student Obligation Bond Authority	2,266	300
Lottery	(861)	399
NonMajor Funds:		
Wildlife	(2,142)	765
Guaranteed Student Loan	(725)	(374)
State Fair Authority	(27)	(1)
Correctional Industries	(166)	84
State Nursing Homes	(61)	45
Prison Canteens	26	1
Other Enterprise Activities	(6)	5
Fiduciary:		
Pension/Benefits Trust	(52)	(576)
Investment Trust	(72,514)	77,300
Private Purpose Trust	120,667	70,679
	$ (25,408)	$ 194,703

Component Units

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which governmental units may invest. The risk criteria are defined the same as for the primary government.

Investments of the University of Colorado Hospital Authority are reported at fair values which are based on quoted market prices, if available, or estimated using market prices for similar securities. Interest, dividends, and realized and unrealized gains and losses are based on the specific identification method and are included in nonoperating income when earned. Restricted investments of the authority include assets held by a trustee under bond indenture or insurance agreements. All of the authority's investments that are subject to categorization at June 30, 2004, are classified as category 'A'.

The hospital uses interest rate swap agreements to manage interest costs and risks associated with changing interest rates. Credit loss from counter party nonperformance is not anticipated. At June 30, 2004, the hospital was party to a basis swap agreement having a notional amount of $72.0 million. The fair value of the swap was ($393,000) and ($855,000), respectively at June 30, 2004 and 2003, based on the gross unrealized market gain/loss. The interest rate swap is scheduled to terminate in 2006. The hospital was also party to a receiver swap having a notional amount of $50.0 million. The fair value of the swap was ($660,000) at June 30, 2004. In 2004, these two swap agreements produced a net positive cash flow of approximately $598,000. Gains and losses are reported in income, as the agreements do not qualify for hedge accounting.

The Colorado Water Resources and Power Development Authority investments are reported at fair value. The authority is allowed to invest in instruments authorized for Colorado governmental units, which are similar to the investments authorized for the State Treasurer's portfolio

disclosed above. The authority owns all of the securities shown in risk category "C" below. Those investments are purchased and held in a trustee's Federal Reserve account pursuant to bond indentures. The trustee is considered to be the purchaser as well as the custodian of these investments.

The following table lists by type and risk category the investments of component units that are not foundations:

(Amounts in Thousands)

Type of Investment	Risk Category A	Risk Category B	Risk Category C	Total Fair Value
U.S. Government Securities	$ 100,110	$ -	$ 267,334	$ 367,444
Corporate Bonds	35,826	-	-	35,826
Equity Securities	40,296	-	-	40,296
Subtotal	$ 176,232	$ -	$ 267,334	443,566
Investments not Subject to Categorization:				
Guaranteed Investment Contracts				5,750
Other				569
Total				$ 449,885

The four Higher Education Institution foundations reported as component units on the *Statement of Net Assets – Component Units* do not classify investments according to risk because they prepare their financial statements under standards set by the Financial Accounting Standards Board.

At June 30, 2004, the University of Colorado Foundation held $247.9 million of domestic equity securities, $86.6 million of international equity securities, $99.2 million of fixed income securities, and $175.1 million of alternative investments including real estate, private equities, hedge funds, and oil and gas assets.

At June 30, 2004, the Colorado State University Foundation held individual small and large capitalization equity securities totaling $15.0 million, fixed income mutual funds of $41.4 million, alternative and other investment mutual funds of $44.2 million, and various equity mutual funds of $77.5 million.

At June 30, 2004, the Colorado School of Mines Foundation (CSMF) held bond and bond mutual funds totaling $27.3 million, stock and stock mutual funds totaling $67.8 million, and investments in limited partnerships and limited liability companies totaling $28.4 million. Of the foundation's $138.9 million of investments, $15.2 million, or 10.9 percent, was related to split interest agreements. CSMF is also the beneficiary of an endowment valued at $7.8 million and a long-term trust valued at $1.8 million which are reported as Investments on the *Statement of Net Assets – Component Units.*

At June 30, 2004, the University of Northern Colorado Foundation held $22.8 million of fixed income securities (including $17.3 million of corporate notes), $54.1 million of equity securities, and $7.4 million of other investments. These amounts include $3.3 million of assets held in a separate trust for the benefit of the foundation. During Fiscal Year 2003-04, the carrying value of a donated building held for sale by the foundation exceeded the amount received at the sale of the building, and therefore, a $2.2 million loss on the sale was offset against Investment Income on the *Statement of Revenue, Expenses, and Changes in Net Assets – Component Units.*

NOTE 16 – TREASURER'S INVESTMENT POOL

Participation in the State Treasurer's cash/investment pool is mandatory for all state agencies with the exception of the University of Colorado. The treasurer determines the fair value of the pool's investments at each month-end for performance tracking purposes. Short-term realized gains, losses, and interest earnings, adjusted for amortization of investment premiums and discounts, are distributed monthly. If the statutes authorize the participant to receive interest and investment earnings, these gains or losses are prorated according to the average of the participant's daily balance during the month.

Colorado Revised Statutes 24-36-113 authorizes the State Treasurer to enter collateralized securities lending agreements. During Fiscal Year 2003-04, the State Treasurer loaned U. S. government, federal agencies' securities, mortgage pools, and collateralize mortgage obligation securities, held for Pinnacol Assurance, a related organization, to Morgan Stanley. The agreement with Morgan Stanley requires that all securities must be collateralized. The State Treasurer also loaned U.S. government and federal agencies securities held for the Colorado Treasury Pool, the Public School Permanent Fund, the Prepaid Tuition Fund (a portion of the Colorado Student Obligation Bond Authority), the State Education Fund, and the Controlled Maintenance Trust Fund (an Other Special Revenue Fund) to Deutsche Bank. The agreement with Deutsche Bank terminated on December 31, 2003. Thereafter, these securities were transferred to and covered under the agreement with Morgan Stanley. During Fiscal Year 2003-04, Morgan Stanley and Deutsche Bank paid the treasurer an agreed upon fee for use of these securities. Collateral is deposited and held in a custodial bank.

Currently, collateral held by the custodial bank includes A-rated or better domestic corporate securities. Corporate securities held as collateral must equal at least 105 percent of the market value of the loaned securities. The State Treasurer does not have the authority to pledge or sell collateral securities without borrower default nor does the treasurer accept cash as collateral.

Morgan Stanley, acting as principal, agent, and fiduciary, is directly responsible for safeguarding the assets, and it carries a financial institution bond that is substantially more than the amount required by the New York Stock Exchange. On June 30, 2004, the market value of securities on loan to Morgan Stanley was $1,840,051,251. The market value of the collateral securities pledged was $1,974,235,145.

NOTE 17 – CAPITAL ASSETS

Primary Government

During Fiscal Year 2003-04 Higher Education Institutions, a major Enterprise Fund, capitalized $8.7 million of interest incurred during the construction of capital assets.

The following page shows the capital asset activity for Fiscal Year 2003-04.

(Amounts in Thousands)

	Restated Beginning Balance	Increases	CIP Transfers	Decreases	Ending Balance
GOVERNMENTAL ACTIVITIES:					
Capital Assets Not Being Depreciated:					
Land	$ 78,629	$ 5,555	$ -	$ (5,417)	$ 78,767
Land Improvements	2,575	-	-	-	2,575
Collections	8,197	-	-	-	8,197
Construction in Progress (CIP)	946,063	434,634	(36,556)	(9,527)	1,334,614
Infrastructure	10,105,161	34,133	21,189	(1,479)	10,159,004
Total Capital Assets Not Being Depreciated	11,140,625	474,322	(15,367)	(16,423)	11,583,157
Capital Assets Being Depreciated:					
Leasehold and Land Improvements	70,751	12,213	3,354	(1,088)	85,230
Buildings	1,329,488	4,490	11,472	(1,134)	1,344,316
Vehicles and Equipment	500,713	38,178	133	(29,235)	509,789
Library Materials and Collections	5,711	411	-	(50)	6,072
Other Capital Assets	21,082	136	-	-	21,218
Infrastructure	19,511	790	408	-	20,709
Total Capital Assets Being Depreciated	1,947,256	56,218	15,367	(31,507)	1,987,334
Less: Accumulated Depreciation:					
Leasehold and Land Improvements	(31,544)	(2,940)	-	732	(33,752)
Buildings	(420,796)	(30,636)	-	1,054	(450,378)
Vehicles and Equipment	(249,221)	(48,036)	-	30,942	(266,315)
Library Materials and Collections	(5,061)	(247)	-	654	(4,654)
Other Capital Assets	(16,978)	-	-	-	(16,978)
Infrastructure	(6,476)	(546)	-	-	(7,022)
Total Accumulated Depreciation	(730,076)	(82,405)	-	33,382	(779,099)
Total Capital Assets Being Depreciated, net	1,217,180	(26,187)	15,367	1,875	1,208,235
TOTAL GOVERNMENTAL ACTIVITIES	12,357,805	448,135	-	(14,548)	12,791,392
BUSINESS-TYPE ACTIVITIES:					
Capital Assets Not Being Depreciated:					
Land	170,724	17,503	85	(1,015)	187,297
Land Improvements	9,530	987	1,914	-	12,431
Collections	11,586	639	-	(10)	12,215
Construction in Progress (CIP)	328,245	249,100	(399,815)	(17,921)	159,609
Total Capital Assets Not Being Depreciated	520,085	268,229	(397,816)	(18,946)	371,552
Capital Assets Being Depreciated:					
Leasehold and Land Improvements	277,425	3,967	33,234	(4,638)	309,988
Buildings	2,702,173	32,294	362,196	(11,613)	3,085,050
Vehicles and Equipment	595,821	106,143	1,867	(38,365)	665,466
Library Materials and Collections	349,143	23,004	-	(2,403)	369,744
Other Capital Assets	8,958	-	(58)	(226)	8,674
Infrastructure	18,146	-	577	-	18,723
Total Capital Assets Being Depreciated	3,951,666	165,408	397,816	(57,245)	4,457,645
Accumulated Depreciation:					
Leasehold and Land Improvements	(106,870)	(13,254)	-	1,088	(119,036)
Buildings	(948,511)	(99,788)	-	9,674	(1,038,625)
Vehicles and Equipment	(410,828)	(57,558)	-	32,939	(435,447)
Library Materials and Collections	(217,716)	(17,390)	-	2,265	(232,841)
Other Capital Assets	(22)	-	-	22	-
Infrastructure	(7,434)	(448)	-	-	(7,882)
Total Accumulated Depreciation	(1,691,381)	(188,438)	-	45,988	(1,833,831)
Total Capital Assets Being Depreciated, net	2,260,285	(23,030)	397,816	(11,257)	2,623,814
TOTAL BUSINESS-TYPE ACTIVITIES	2,780,370	245,199	-	(30,203)	2,995,366
TOTAL CAPITAL ASSETS, NET	$ 15,138,175	$ 693,334	$ -	$ (44,751)	$ 15,786,758

On the government-wide *Statement of Activities,* depreciation was charged to the functional programs and business-type activities as follows:

(Amounts in Thousands)

	Depreciation Amount
GOVERNMENTAL ACTIVITIES:	
General Government	$ 8,088
Business, Community, and Consumer Affairs	3,214
Education	506
Health and Rehabilitation	5,116
Justice	26,655
Natural Resources	3,503
Social Assistance	3,748
Transportation	10,765
Internal Service Funds (Charged to programs and BTAs based on useage)	16,692
Total Depreciation Expense Governmental Activities	78,287
BUSINESS-TYPE ACTIVITIES	
Higher Education Institutions	182,819
Colorado Student Obligation Bond Authority	329
State Lottery	490
Other Enterprise Funds	7,037
Total Depreciation Expense Business Type Activities	190,675
Total Depreciation Expense Primary Government	$ 268,962

Component Units

At June 30, 2004, the University of Colorado Hospital Authority reported gross amounts for the nondepreciable assets of land and construction in progress of $3.1 million. Depreciable assets included buildings and improvements of $441.9 million and equipment of $187.5 million. Accumulated depreciation related to these capital assets was $260.4 million.

The hospital also reported impairment to capital assets as a result of the planned transition to the Fitzsimons campus and the acceleration of the construction and completion of a new inpatient facility. The estimated net book value of the buildings and leasehold improvements to be vacated along with the prepaid lease on the administrative office building that will be terminated is reported at $49.2 million. The impairment is shown as a special item on the fund-level *Statement of Revenue, Expenses, and Changes in Fund Net Assets – Component Units* and the government-wide *Statement of Activities*.

As of June 30, 2004, the hospital had entered into various commitments for site development and infrastructure at the Anschutz Inpatient Pavilion, the Center for Dependency, Addiction, and Rehabilitiation (CeDAR), and the Fitzsimons campus. Costs incurred for these projects approximated $161.7 million while estimated costs to complete are $17.2 million.

The Colorado Water Resources and Power Development Authority reported capital assets of $56,462, net of accumulated depreciation of $126,472, at December 31, 2003.

The Denver Metropolitan Major League Baseball Stadium District reported land, land improvements, buildings, and other property and equipment, of $163.0 million and $167.1 million, net of accumulated depreciation, at December 31, 2003 and 2002, respectively. The district depreciates land improvements, buildings, and other property and equipment using the straight-line method over estimated useful lives that range from 3 to 50 years. Accumulated depreciation was $39.7 million and $35.5 million at December 31, 2003 and 2002, respectively.

The University of Colorado Foundation reported land, land improvements, buildings, and other property and equipment, of $68.5 million and $62.4 million, net of accumulated depreciation of $5.2 million and $3.7 million, at June 30, 2004 and 2003, respectively. The foundation capitalized interest of approximately $2.6 million and $0.9 million respectively in Fiscal Years 2003-04 and 2002-03, respectively.

NOTE 18 – OTHER LONG-TERM ASSETS

The $424.7 million shown as Other Long-term Assets on the government-wide *Statement of Net Assets* is primarily long-term taxes receivable and long-term loans. Long-term taxes receivable of $87.6 million, related to the General Fund and the Highway Users Tax Fund, are not segregated on the *Balance Sheet – Governmental Fund,* but rather, they are shown in Taxes Receivable and are offset by Deferred Revenue.

The $231.7 million of Other Long-Term Assets shown on the fund-level *Balance Sheet – Governmental Funds* is primarily related to loans issued by the Highway Users Tax Fund ($8.5 million), a major Special Revenue Fund, and the Water Projects Fund ($198.7 million), a nonmajor Special Revenue Fund. The Water Conservation Board makes the water loans to local entities for the purpose of constructing water projects in the state. The loans are made for periods ranging from 10 to 40 years at interest rates of 2 to 7 percent, and they require the local entities or districts to make a yearly payment of principal and interest. Long-term receivables of the State Lands Fund, a nonmajor Permanent Fund, in the amount of $12.8 million are also reported in this line. In the governmental funds, the state has reserved the fund balance for long-term assets and long-term loans receivable not offset by deferred revenue.

The $99.4 million shown as Other Long-term Assets on the *Statement of Net Assets – Proprietary Funds* is primarily student loans issued by Higher Education Institutions and the Colorado Student Obligation Bond Authority, but also includes deferred debt issuance costs. Most of the Colorado Student Obligation Bond Authority student loans are not reported in this line but rather are reported as restricted receivables.

NOTES 19 through 26 – DETAILS OF LIABILITY ITEMS

NOTE 19 – PENSION SYSTEM AND OBLIGATIONS

Primary Government

A. PLAN DESCRIPTION

Virtually all State of Colorado employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families during retirement or in case of death or disability. The state plan and the other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at P.O. Box 5800, Denver, CO 80217-5800 or by calling the PERA Infoline at 1-800-759-7372.

Administration of the Plan

The plan, a cost-sharing multiple-employer defined benefit plan, is administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931, and it includes the State and School Division Trust Fund, the Municipal Division Trust Fund, and the Judicial Division Trust Fund. The authority to establish or amend plan benefits is retained by the General Assembly in accordance with Title 24, Article 51 of the Colorado Revised Statutes (CRS).

Members with five or more years of service automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement.

Defined Retirement Benefits

Plan members are eligible to receive a monthly retirement benefit when they reach age 65 or meet the age and service requirements as follows.

Service Retirement Benefits (Other Than Troopers)

Minimum Service Credit	Minimum Age
30 years	50
Age and Service = 80 years or more	55
5 years	65
Less than 5 years	65

Reduced Service Retirement Benefits (Other Than Troopers)

Minimum Service Credit	Minimum Age
25 years	50
20 years	55
5 years	60

State troopers and Colorado Bureau of Investigation (CBI) officers are eligible for retirement benefits at the following age and years of service; any age – 30, 50 – 25, 55 – 20 and 65 – 5. Reduced service benefits are calculated similarly to a service retirement benefit; however, the benefit is reduced by percentages that vary from 0.25 to 0.5, depending on age and years of service, for each month before the eligible date for the full service retirement. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55, have a minimum of 5 year of service credit, and their age plus years of service equals 80 or more.

Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest annual salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit. Service retirement benefits are calculated at 2.5 percent of HAS for each year of service credit. The benefit is limited to 100 percent (40 years) and

cannot exceed the maximum amount allowed by federal law.

PERA retirement and survivor benefits increase at 3.5 percent compounded annually. If the member has not been retired for a full year, the benefit is increased proportionately.

Money Purchase Retirement Benefit

A money purchase benefit is determined by the member's life expectancy and the value of the member's contribution account plus a matching amount as of the date of retirement. The matching amount is 100 percent of the member's contributions and accrued interest at the time of retirement. For members who have less than five years of service, a money purchase benefit is payable beginning at age 65.

Service Requirement and Termination

Plan members who terminate PERA-covered employment may request a member contribution account refund or leave the account with PERA; a refund cancels a former PERA member's rights to future PERA benefits. Members who are under age 65 or are not eligible for retirement that withdraw from the plan receive a refund of their contributions, interest on their contributions, plus an additional 50 percent of their contribution and interest. If the withdrawing member has reached age 65 or is retirement eligible, the matching payment increases to 100 percent. The interest rate paid (7.0 percent in 2003, 6.8 percent beginning January 1, 2004) is set at 80 percent of the PERA actuarial investment assumption rate (8.75 percent in 2003, 8.5 percent beginning January 1, 2004).

Disability and Survivor Benefits

PERA provides a two-tiered disability program. Disabled members who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may apply for disability benefits. If the member is not totally and permanently disabled, they are provided reasonable income replacement (maximum 60% of PERA includable salary for 22 months) and rehabilitation or retraining services. If the member is totally and permanently disabled they receive disability retirement benefits based on HAS and earned, purchased, and in some circumstances, projected service credit.

If a member dies before retirement, their survivors are entitled to a single payment or monthly benefits. The surviving spouse may be eligible to receive the higher of the money purchase benefit or the defined benefit, but not less than 25 percent of HAS. The order of payment to survivors is dependent on the years of service and retirement eligibility of the deceased member. Under various conditions, survivors include qualified children under 18 (23 if a full-time student), the member's spouse, qualified children over 23, financially dependent parents, named beneficiaries, and the member's estate.

B. FUNDING POLICY

Members and employers are required to contribute to PERA at a rate set by statute. The contribution requirements of plan members and affiliated employers are established under Title 24, Article 51, Part 4 of the Colorado Revised Statutes as amended. Members are required to contribute 8 percent of their gross covered wages, except for state troopers and Colorado Bureau of Investigation officers, who contribute 10 percent. Annual gross covered wages subject to PERA are gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code.

On January 1, 2001, the state began matching employees' contributions to eligible tax deferred retirement programs under the PERA Matchmaker Program. At that time the state match was contingent on PERA's actuarial determination that the plan was overfunded (actuarial value of assets in excess of actuarial liabilities). In any period in which the plan is overfunded, a reduced contribution rate is calculated that will eliminate the overfunding in ten years. The difference between the statutory rate and the reduced rate is allocated by PERA to three separate programs – 20 percent to reducing the employer's contribution, 30 percent to the Health Care Trust Fund, and 50 percent to the MatchMaker Program. However, statutory minimum reductions in the employer contribution superseded these percentages in Fiscal Year 2003-04 for the State and School Division and for state troopers.

During Fiscal Year 2003-04, the state contributed 10.15 percent (12.85 percent for state troopers and 12.66 percent for judges in the Judicial Branch) of the employee's gross covered wages, which was allocated by PERA as follows:

- 1.10 percent was allocated to the Health Care Trust Fund.
- Throughout the fiscal year, the amount needed to meet the match requirement set by the PERA Board was allocated to individual member's eligible voluntary tax-deferred retirement programs. During calendar year 2003, the matching amount was set at 100 percent of up to 2 percent of employee gross covered wages paid during the month (6 percent for judges in the Judicial Branch). From January 1, 2004 to May 31, 2004, the matching amount was set at 100 percent of up to 1 percent of employee gross covered wages (5 percent for judges in the Judicial Branch). Legislation passed in the 2004 legislative session terminated the employer's match for pay periods ending after May 31, 2004. The match will resume when the actuarial value of the defined benefit plan assets are one hundred ten percent of actuarially accrued plan liabilities.

- The balance remaining after allocations to the Matchmaker Program and the Health Care Trust Fund was allocated to the defined benefit plan.

At December 31, 2003, the State and School Division of PERA was underfunded with an infinite amortization period, which means that the unfunded actuarial liability would never be funded at the current contribution rate. Per statutes, the PERA board is required to reduce the amortization period to ten years by reducing the amount available for matching contributions under the Matchmaker Program. However, the matching contribution may not change by more than one percent in any year. As a result of this requirement, the state continued to contribute to the Matchmaker Program for most of Fiscal Year 2003-04 at the same time that its contributions to the defined benefit plan are inadequate to meet its nonmandatory 40-year amortization period, which is the target set in the Colorado Revised Statutes.

The state made retirement contributions of $167.7 million, $155.7 million, $135.8 million, $156.0 million, $174.2 million, and $184.9 million, in Fiscal Years 2003-04, 2002-03, 2001-02, 2000-01, 1999-00, and 1998-99, respectively. These amounts do not include the Health Care Fund contribution. For each year, the retirement contribution was equal to the statutory requirement.

The Fire and Police Pension Association, a related organization, was established to ensure the financial viability of local government pension plans for police and firefighters. In Fiscal Years 2003-04 and 2002-03, the State Treasurer transferred $3.66 million and $29.1 million, respectively, to the association to enhance its actuarial soundness. This included the state's cost for the accidental death and disability insurance policy the association provides to volunteer firefighters.

Component Units

The University of Colorado Hospital Authority participates in two retirement plans, which cover substantially all of its employees. One plan is the Public Employees Retirement Association defined benefit plan for state employees. The hospital made contributions of $172,000 and $203,000 to this plan in Fiscal Years 2003-04 and 2002-03, respectively. The other plan is maintained by the authority and comprises a single employer noncontributory defined benefit plan, a single employer defined contribution plan, and a single employer tax-deferred annuity plan. The authority made contributions of $14.1 million and $10.9 million to these plans in Fiscal Years 2003-04 and 2002-03, respectively. Employees contributed $17.8 million and $16.1 million for those years. The financial statements of these pension plans are available from the authority.

Employees of CoverColorado, and the Colorado Water Resources and Power Development Authority are covered under the State and School Division of PERA discussed above.

NOTE 20 – POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Primary Government

Health Care Program

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund. Legislation enacted during the 1999 session established the Health Care Trust Fund effective July 1, 1999. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. Effective July 1, 2000, the maximum monthly subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; and $115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and it is reduced by 5 percent for each year less than 20 years.

Beginning January 1, 2003, the state contribution to the Health Care Trust Fund was 1.10 percent of gross covered wages. The state paid contributions of $20.4 million, $24.6 million, $24.8 million, $21.3 million, $18.6 million, and $14.0 million in Fiscal Years 2003-04, 2002-03, 2001-02, 2000-01, 1999-00, and 1998-99, respectively. Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. The Health Care Trust Fund offers two general types of plans: fully insured plans offered through healthcare organizations and self-insured plans administered for PERA by third party vendors.

The Health Care Trust Fund began providing dental and vision plans to its participants in 2001. The participants pay the premiums for the coverage, and there is no subsidy provided for the dental and vision plans. As of December 31, 2003, there were 37,067 participants, including spouses and dependents, from all contributors to the plan.

Life Insurance Program

PERA provides its members access to two group decreasing-term life insurance plans offered by Prudential and Anthem Life Insurance Company (formerly Rocky Mountain Life Insurance Company). Active members may join one or both plans, and they may continue coverage into retirement.

Other Programs

Separate post-retirement health care and life insurance benefit plans exist in some state colleges and universities but are small in comparison to the PERA plan for state employees.

Component Units

Employees of CoverColorado, and the Colorado Water Resources and Power Development Authority are covered under the PERA Health Care Trust Fund discussed above.

NOTE 21 – OTHER EMPLOYEE BENEFITS

Primary Government

Some employees of various institutions of higher education may be covered under other retirement plans. Presidents, deans, professors, and instructors in state educational institutions are enrolled in defined benefit plans such as the Teachers Insurance and Annuity Association, the Variable Annuity Insurance Corporation, or other similar plans.

Faculty members at the University of Colorado are also under Social Security. Faculty members at Colorado State University were covered exclusively by PERA until May 1993. Faculty members hired after that time are covered by one of several defined contribution plans. Faculty previously covered by PERA had the choice of converting entirely to the defined contribution plan or remaining in PERA for their service until May 1993, with service after that time credited to the defined contribution plan.

The state made contributions to other pension plans of $58.3 million and $59.0 million during Fiscal Years 2003-04 and 2002-03, respectively. In addition, the state paid $51.2 million and $53.2 million in FICA and Medicare taxes on employee wages during Fiscal Years 2003-04 and 2002-03, respectively.

Medical and Disability Benefits

The Group Benefit Plans Fund is a Pension and Other Employee Benefits Fund established for the purpose of risk financing employee and state-official medical claims. The fund includes several medical plan options ranging from provider of choice to managed care. Before January 1, 2000, the state offered a variety of medical plans; some of the plans were fully insured while others were self-insured using Anthem Blue Cross Blue Shield as the plan administrator. After January 1, 2000, self-insured plans were no longer offered, and the state and its employees paid premiums for insurance purchased to cover medical claims. Through Fiscal Year 2001-02, the Group Benefit Plans Fund continued to cover claims originating before January 1, 2000. The state's contribution to the premium is fixed in statute; state employees pay the difference between the statutory contribution and the premium set by the insurer.

Before January 1, 1999, the Group Benefit Plans Fund provided an employer paid short-term disability plan for all employees. On January 1, 1999, the Public Employees Retirement Association (PERA) began covering short-term disability claims for state employees eligible under its retirement plan (see Note 19-A). The Group Benefit Plans Fund continues to provide short-term disability coverage for employees not yet qualified for the retirement plan and secondary benefits for employees also covered under the PERA short-term disability plan.

The Group Benefit Plans program provides an employee with 60 percent of their pay beginning after 30 days of disability or the exhaustion of the employee's sick leave balance, whichever is later. This benefit expires six months after the beginning of the disability. Although fully insured, the Group Benefit Plans disability program includes a risk-sharing feature that provides experience rating refunds and a termination premium that is calculated as earned premiums less the aggregate of incurred claims, claim reserve, retention charge and refunds paid previously over the term of the contract. Refunds, when applicable, are paid annually while deficits are carried forward.

PERA 401k Plan

The Public Employees' Retirement Association (PERA) offers a voluntary 401(k) plan entirely separate from the defined benefit plan. In 2003, PERA members were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution), to a maximum of $12,000. In 2004, the maximum increased to $13,000. Participants who are age 50 and older, and contributing the maximum amount allowable, can make an additional $3,000 catch-up contribution in 2004, for a total contribution of $16,000. Contributions and earnings are tax deferred. On December 31, 2003, the plan had net assets of $914.0 million and 72,185 accounts.

Employee Deferred Compensation Plan

The state initiated a deferred compensation (457) plan for state employees in 1981. The nine-member Deferred Compensation Committee establishes rules and regulations for implementation of the plan. The Committee comprises the State Controller, the State Treasurer, four plan participants elected by plan members, and three plan participants appointed by the Governor, President of the Senate, and Speaker of the House. The plan uses a third party administrator, and all costs of administration and funding are borne by the plan participants. The assets of the plan are not assets of the state, but are held in trust for the exclusive benefit of plan participants and their beneficiaries. Fund equity of the plan was $281.5 million and $260.2 million at June 30, 2004, and June 30, 2003, respectively. The state has no liability for losses under the plan but does have the duty of due care that is required of a fiduciary agent.

Defined Contribution Pension Plan

On January 1, 1999, the state began providing a defined contribution pension plan for certain employees identified in statute. The plan is authorized by Colorado Revised Statutes 24-52-201 through 24-52-206 and is governed by the rules and regulations established for the plan by the nine-member Deferred Compensation Committee. The state is the sole contributing employer of the plan.

The following state employees are eligible for participation: a member of the general assembly, the Governor, the Lieutenant Governor, the Attorney General, the chief deputy attorney general, the solicitor general, the Secretary of State, the deputy secretary of state, the State Treasurer, the deputy state treasurer, a district attorney, an assistant district attorney, a chief deputy district attorney, a deputy district attorney, or other employee of a district attorney, a member of the public utilities commission, an executive director of a department of state appointed by the governor, an employee of the senate or the house of representatives, and a nonclassified employee of the office of the governor. Participation in the plan by eligible employees is voluntary; however, those who do not designate a pension plan become members of the Public Employees Retirement Association (PERA). At June 30, 2004, 152 individuals had accounts with the defined contribution pension plan.

Contributions to the plan are set in statute as a percent of salary and are required to be the same as the contributions to the defined benefit plan administered by PERA. During Fiscal Year 2003-04, the state contribution rate was 10.15 percent and the employee was required to contribute 8 percent of gross covered wages.

The financial statements of the Defined Contribution Plan are prepared on the accrual basis of accounting in accordance with NCGA Statement 1 and Governmental Accounting Standards Board Statement 25. The Plan recognizes member and employer contributions as additions in the period in which the employee provides services. Investments are reported at fair value. The Plan had the following concentrations of investments greater than five percent:

Investment	Balance	Percent
Valic Fixed Interest	$ 1,376,863	27%
Vanguard 500 Index	846,203	16%
MFS Mass Inv Grwth Stk	696,535	14%
Vanguard Asset Alloc	579,623	11%
T Rowe Small Cap	665,424	13%
MFS Mass Inv Trust A	310,531	6%
Templeton World Fund	466,653	9%
Other	177,973	4%
Totals	$ 5,119,805	100%

The following page presents the financial statements for the state's pension and other employee benefits plans discussed above.

STATEMENT OF FIDUCIARY NET ASSETS
PENSION AND OTHER EMPLOYEE BENEFIT FUNDS
JUNE 30, 2004

(DOLLARS IN THOUSANDS)	DEFERRED COMPENSATION PLAN	DEFINED CONTRIBUTION PLAN	GROUP BENEFIT PLANS	TOTALS
ASSETS:				
Cash and Pooled Cash	$ 901	$ 3	$ 4,849	$ 5,753
Other Receivables, net	1,033	-	152	1,185
Prepaids, Advances, and Deferred Charges	-	-	28	28
Investments:				
Mutual Funds	279,672	6,448	-	286,120
TOTAL ASSETS	281,606	6,451	5,029	293,086
LIABILITIES:				
Accounts Payable and Accrued Liabilities	94	-	1,146	1,240
Accrued Compensated Absences	4	-	25	29
TOTAL LIABILITIES	98	-	1,171	1,269
NET ASSETS:				
Held in Trust for:				
Pension/Benefit Plan Participants	281,508	6,448	3,858	291,814
Unrestricted	-	3	-	3
TOTAL NET ASSETS	$ 281,508	$ 6,451	$ 3,858	$ 291,817

STATEMENT OF CHANGES IN NET ASSETS
PENSION AND OTHER EMPLOYEE BENEFIT FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

(DOLLARS IN THOUSANDS)	DEFERRED COMPENSATION PLAN	DEFINED CONTRIBUTION PLAN	GROUP BENEFIT PLANS	TOTALS
ADDITIONS:				
Additions By Participants	$ -	$ 1,207	$ -	$ 1,207
Member Contributions	32,805	-	80,033	112,838
Employer Contributions	7,650	-	68,752	76,402
Investment Income/(Loss)	28,637	735	301	29,673
Employee Deferral Fees	446	4	-	450
Other Additions	-	-	375	375
TOTAL ADDITIONS	69,538	1,946	149,461	220,945
DEDUCTIONS:				
Distributions to Participants	47,769	554	-	48,323
Health Insurance Premiums Paid	-	-	119,391	119,391
Other Benefits Plan Expense	-	-	28,255	28,255
Administrative Expense	387	3	-	390
Other Deductions	100	16	763	879
Transfers-Out	-	-	426	426
TOTAL DEDUCTIONS	48,256	573	148,835	197,664
CHANGE IN NET ASSETS	21,282	1,373	626	23,281
NET ASSETS AVAILABLE:				
FISCAL YEAR BEGINNING	260,226	5,078	3,232	268,536
FISCAL YEAR ENDING	$ 281,508	$ 6,451	$ 3,858	$ 291,817

The notes to the financial statements are an integral part of this statement.

Component Units

Employees of the Colorado Water Resources and Power Development Authority are covered under the PERA 401K Defined Contribution Pension Plan discussed above.

NOTE 22 – RISK MANAGEMENT

Primary Government

The state currently self-insures its agencies, officials, and employees for certain risks of losses to which they are exposed. These include general liability, motor vehicle liability, and workers' compensation. The Risk Management Fund is reported as part of the General Fund, and it is used to account for claims adjustment, investigation, defense, and authorization for the settlement and payment of claims or judgments against the state. Property claims are not self-insured; the state has purchased property insurance.

All funds and agencies of the state, with the exception of the component units and the University of Colorado, participate in the Risk Management Fund. Agency premiums are based on an assessment of risk exposure and historical experience. Claims are reported in the General Fund in accordance with GASB Interpretation No. 6, and therefore, related liabilities are only reported to the extent that they are due and payable at June 30. On the government-wide statements, risk management liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Those liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. A contractor completed an actuarial study during Fiscal Year 2003-04 determining both the short and long-term liabilities of the Risk Management Fund.

Colorado employers are liable for occupational injuries and diseases of their employees. Benefits are prescribed by the Workers' Compensation Act of Colorado for medical expenses and loss of wages resulting from job-related disabilities. The state uses the services of Pinnacol Assurance, a related organization, to administer its plan. The state reimburses Pinnacol for the current cost of claims paid and related administrative expenses.

For claims related to events occurring before October 1, 1996, the Regents of the University of Colorado participate in the University of Colorado Insurance Pool – a public-entity self-insurance pool. After that date, the university became self-insured for workers' compensation, auto, and general and property liability. An actuary projects both the pool and the self-insured plan undiscounted liabilities. The university purchases re-insurance for losses over $500,000 per occurrence, except for nonproperty claims excluded from the governmental immunity act. Those nonproperty claims in excess of $6.0 million individually or in aggregate annually are covered by re-insurance.

The University of Colorado Health Sciences Center's Housestaff Health Benefits Plan is a comprehensive self-insurance health and dental benefits program for physicians in training at the Health Sciences Center. The university manages excess risk exposure for staff medical claims by purchasing stop-loss insurance of $150,000 per person and $5.54 million in aggregate annually. There have been no collections against the aggregate stop-loss insurance in the previous three years. An insurance brokerage firm estimates liabilities of the plan using actuarial methods.

The University of Colorado Health Sciences Center also self-insures its faculty, and staff for medical malpractice through the University of Colorado Self-Insurance Trust consistent with the limits of governmental immunity. For claims outside of governmental immunity, the Trust has purchased insurance to cover claims greater than $6.0 million per occurrence and in the aggregate annually. The discounted liability for malpractice is determined annually by an actuarial study.

Colorado State University provides a medical, dental, long-term disability, and an umbrella plan for retirees. The plan was formed in 1985 and is completely self-insured except for medical claims. The medical, dental, and long-term disability plans are funded by monthly contributions of participating employees. Various third-party administrators process claims, and reserves are set according to underwriting review. The plan purchases re-insurance for health claims over $200,000.

The Department of Human Services used Pinnacol Assurance, a related organization, to administer claims related to the Human Services Workers' Compensation Plan, which was self-insured during the period from July 1, 1985, to June 30, 1990. However, new claims are administered by Risk Management and paid from the Risk Management Workers' Compensation Plan.

In Fiscal Year 2003-04, the state added flood and terrorism coverage to its property insurance policy. Settlements did not exceed insurance coverage in any of the past three fiscal years.

Changes in claims liabilities were as follows:

(Amounts in Thousands)

Fiscal Year	Liability at July 1	Current Year Claims and Changes in Estimates	Claim Payments	Liability at June 30
Risk Management:				
Liability Fund				
2003-04	$ 39,750	$ (8,083)	$ 7,126	$ 24,541
2002-03	25,475	21,731	7,456	39,750
2001-02	17,374	29,193	21,092	25,475
Workers' Compensation				
2003-04	68,730	35,242	29,842	74,130
2002-03	65,011	25,952	22,233	68,730
2001-02	81,881	19,015	35,885	65,011
Group Benefit Plans:				
2003-04	-	-	-	-
2002-03	-	-	-	-
2001-02	88	89	177	-
University of Colorado:				
General Liability, Property, and Workers' Compensation				
2003-04	12,033	7,025	6,217	12,841
2002-03	10,886	4,769	3,622	12,033
2001-02	11,386	2,780	3,280	10,886
University of Colorado Health Sciences Center:				
Medical Malpractice				
2003-04	8,759	149	1,269	7,639
2002-03	7,707	2,147	1,095	8,759
2001-02	7,876	333	502	7,707
Housestaff Health Benefits				
2003-04	788	4,135	4,111	812
2002-03	669	4,484	4,365	788
2001-02	551	3,665	3,547	669
Colorado State University:				
Medical, Dental, and Disability Benefits				
2003-04	5,293	11,313	11,832	4,774
2002-03	3,577	12,932	11,216	5,293
2001-02	3,084	7,945	7,452	3,577
Department of Human Services:				
Workers' Compensation				
2003-04	785	51	143	693
2002-03	663	194	72	785
2001-02	814	-	151	663

Component Units

In order to manage malpractice claims risk, the University of Colorado Hospital Authority participates in a self-insurance trust called the University of Colorado Self-Insurance and Risk Management Trust. The trust provides coverage up to the governmental immunity limits and contracts with a commercial insurance company for coverage to $5.0 million per occurrence when governmental immunity does not apply. For Fiscal Year 2003-04, the hospital recorded premium and administrative expenses of $639,000. The trust had a fund balance of $4.0 million in excess of reserves for losses and loss adjustment expense. The hospital purchases insurance coverage for employee health, dental, and accident claims through the University of Colorado and commercial insurance companies.

The Colorado Water Resources and Power Development Authority maintains commercial insurance for most risks of loss. No claims have been made against this commercial coverage in any of the past three fiscal years.

The Denver Metropolitan Major League Baseball Stadium District purchases commercial insurance to mitigate most of its risk of loss. It requires its lessee and contractors to cover certain other risks. These parties provided the required coverage at their own cost in 2003 and 2002. There were no significant reductions in insurance coverage from the prior year.

NOTE 23 – LEASE COMMITMENTS

Primary Government

State management is authorized to enter lease or rental agreements for buildings and/or equipment. All leases contain clauses stipulating that continuation of the lease is subject to funding by the Legislature. Historically, these leases have been renewed in the normal course of business. They are therefore treated as noncancellable for financial reporting purposes.

At June 30, 2004, the state had the following gross amounts of assets under capital lease:

(Amounts in Thousands)

Gross Assets Under Lease

	Land	Buildings	Equipment and Other
Governmental Activities	$ -	$ 1,541	$ 21,277
Business-Type Activities	5,209	77,869	19,409
Total	$ 5,209	$ 79,410	$ 40,686

At June 30, 2004, the state expected the following sublease rentals related to its capital and operating leases:

(Amounts in Thousands)

Sublease Rentals

	Capital	Operating	Total
Governmental Activities	$ -	$ 446	$ 446
Business Type Activities	2,969	182	3,151
Total	$ 2,969	$ 628	$ 3,597

During the year ended June 30, 2004, the state incurred the following contingent rentals related to capital and operating leases:

(Amounts in Thousands)

Contingent Rentals

	Capital	Operating	Total
Business Type Activities	$ -	$ 6	$ 6
Total	$ -	$ 6	$ 6

Colorado State University Research Foundation, a related party, is a not-for-profit Colorado corporation, established to aid and assist the two institutions governed by the Colorado State University System Board of Governors in their research and educational efforts. The support provided by the foundation to the institutions includes patent and licensing management, equipment leasing, municipal lease administration, debt financing, and land acquisition, development and management. Colorado State University subleases space and vehicles from the foundation. The total obligation at June 30, 2004, for the space and vehicles was $530,440 and $421,902, respectively. The Colorado State University System leases equipment and land and buildings from the foundation and has a total lease obligation of $4,909,536.

Fort Lewis College leases assets from the Fort Lewis College Foundation and had a lease payable of $157,718 at June 30, 2004.

Aurora Community College made operating lease payments of approximately $1 million to the Community College of Aurora Foundation, which owns three of the four campus buildings.

Morgan Community College made lease payments of $73,500 to the Morgan Community College Foundation for classroom facilities.

Trinidad State Junior College made operating lease payments of $149,982 to the Trinidad State Junior College Educational Foundation.

The state is obligated under certain leases that it accounts for as operating leases. Operating leases do not give rise to property rights or lease obligations. Therefore, the lease agreements are not reflected in the assets or liabilities of the funds.

For Fiscal Year 2003-04, the state recorded building and land rent of $33.2 million and $18.8 million in governmental and business-type activities, respectively. The state also recorded equipment and vehicle rental expenditures of $6.4 million and $24.1 million in governmental and business-type activities, respectively. The above amounts were payable to entities outside the state and do not include transactions with the state fleet management program. The state recorded $0.8 million of lease interest costs in both the governmental and business-type activities.

The $1.8 million of capital lease proceeds shown on the fund-level *Statement of Revenues, Expenditures, and Changes in Fund Balance* is primarily related to the Department of Human Services recording $1.6 million of leases that finance the acquisition of desktop computers. An equivalent amount of capital outlay expenditure is recognized at the inception of these leases, and therefore, there is no impact on fund balance.

Future minimum payments at June 30, 2004, for existing leases were as follows:

(Amounts in Thousands)

	Operating Leases		Capital Leases	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
2005	$ 27,496	$ 12,865	$ 4,515	$ 10,442
2006	20,302	9,250	2,197	10,101
2007	13,808	6,650	1,747	8,872
2008	11,099	5,466	609	7,533
2009	9,259	4,417	444	6,836
2010 to 2014	6,756	10,785	2,747	31,657
2015 to 2019	146	3,164	3,925	30,301
2020 to 2024	33	-	4,702	22,852
2025 to 2029	-	-	-	12,087
2030 to 2034	-	-	-	2,058
Total Minimum Lease Payments	88,899	52,597	20,886	142,739
Less: Imputed Interest Costs			4,846	56,208
Present Value of Minimum Lease Payment	$ 88,899	$ 52,597	$ 16,040	$ 86,531

Component Units

The University of Colorado Hospital Authority leases certain equipment under noncancellable operating leases. Rental expense for operating leases approximated $6.1 million and $6.2 million for Fiscal Years 2003-04 and 2002-03, respectively. Future minimum lease payments for these leases at June 30, 2004, are:

(Amounts in Thousands)

Fiscal Year	Amount
2005	$ 9,862
2006	2,262
2007	1,583
2008	1,232
2009	1,125
Total Minimum Obligations	$16,064

The Colorado Water Resources and Power Development Authority leases office facilities under an operating lease expiring in 2005. Total rental expense for the year ended December 31, 2003 and 2002, was $108,661 and $121,398, respectively. The total minimum rental commitment under this lease is $209,860 for years 2004 through 2005.

CoverColorado leases office facilities under an operating lease that expires in 2007. Total rental expense for the years ended December 31, 2002, and 2001 was $20,908 and $17,272, respectively. The total minimum rental commitment under this lease is $115,000 for years 2004 through 2007.

Effective October 1, 1999, the University of Colorado Foundation entered an agreement to lease the building in which it operated. The foundation recorded a lease liability equal to the present value of the future minimum lease payments under the lease, which are currently $6.3 million. Total minimum lease payments including interest at June 30, 2004, were $9.2 million. The lessor of the building has promised to make a nonreciprocal transfer of the building to the foundation on or before September 2014. As a result, the foundation recorded a contribution receivable equal to the fair value of the promise to give less the premium paid through the capital lease (the excess of the present value of the future minimum lease payments over the estimated fair value of the building at

the inception of the lease). The net book value of the property and equipment under the capital lease totaled $3,929,167, net of accumulated depreciation of $1,820,833, as of June 30, 2004.

NOTE 24 – SHORT-TERM DEBT

The State Treasurer issued General Fund Tax Revenue Anticipation Notes in the amount of $300.0 million on July 3, 2003. The notes were issued primarily for cash management purposes, and were repaid before June 30, 2004, as required by the State Constitution.

Recent legislation authorized the State Treasurer to issue notes for local school districts in anticipation of local school district revenues to be collected at a later time. The State Treasurer issued $195.0 million of Series A Education Loan Program Tax and Revenue Anticipation Notes on July 15, 2003, and $200.0 million of Series B Education Loan Program Tax and Revenue Anticipation Notes on December 11, 2003. School districts were required to repay the loans prior to the state's fiscal year end, and the State Treasurer placed the loan repayments in a separate account that was restricted to paying off the notes on the August 9, 2004, due date.

The following schedule shows the changes in short-term financing for the period ended June 30, 2004:

(Amount in Thousands)

	Beginning Balance July 1	Changes		Ending Balance June 30
		Additions	Reductions	
Governmental Activities				
Tax Revenue Anticipation Notes	$ -	$ 300,000	$ (300,000)	$ -
Education Loan Anticipation Notes	-	395,000	-	395,000
Total Governmental Activities Short-Term Financing	-	695,000	(300,000)	395,000
Total Short-Term Financing	$ -	$ 695,000	$ (300,000)	$ 395,000

NOTE 25 – NOTES AND BONDS PAYABLE

Primary Government

Many Higher Education Institutions, the Highway Fund, the State Nursing Homes, and the Colorado Student Obligation Bond Authority have issued bonds and notes for the purchase of equipment, construction of facilities and infrastructure, and to finance student loans. Specific user revenues are pledged for the payments of interest and future retirement of the obligations. During Fiscal Year 2003-04, the state's governmental activities had $72.9 million of federal and state revenue available in the Highway Users Tax Fund to meet an equivalent amount of debt service. Collectively, the state's business-type activities had $407.9 million of available net revenue after operating expenses to meet the $107.9 million of debt service requirement related to these bonds. However, the revenue of an individual business-type activity is generally not available to meet the debt service requirements of another business-type activity.

On April 15, 2004, the Colorado Department of Transportation issued Transportation Revenue Anticipation Notes, Series 2004A (TRANs) in the amount of $134,640,000. Voters authorized the issuance in the November 1999 election. Before the November 1999 vote, the Colorado Supreme Court determined that the TRANs do not constitute general obligation debt of the state. The TRANs have an average maturity of 12.6 years and a coupon rate of 5.0 percent. The TRANs are payable solely from certain federal and state funds annually allocated by the State Transportation Commission. This issuance increased the cumulative debt service of the Department of Transportation TRANs to $2.3 billion, which is the maximum authorized by the 1999 election.

The state recorded $136.2 million of interest costs, of which, $78.3 million was recorded by governmental activities and $57.9 million was recorded by business-type activities. The governmental activities interest cost primarily comprises $7.3 million of interest on tax revenue anticipation notes issued by the Department of Treasury, $69.3 million of interest on transportation revenue anticipation notes issued by the Department of Transportation, and $1.6 million of interest primarily on certificates of participation issued by the Department of Personnel & Administration. The business-type activities interest cost primarily comprises $29.3 million of interest on revenue bonds issued by Higher Education Institutions, $17.9 million of interest on bonds issued by the Colorado Student Obligation Bond Authority, and $10.0 million of interest on bonds issued by the Colorado Guaranteed Student Loan Program.

Annual maturities of notes and bonds payable at June 30, 2004, are as follows:

(Amounts in Thousands)

Fiscal Year	Governmental Activities: Revenue Bonds Principal	Revenue Bonds Interest	Notes Payable Principal	Notes Payable Interest	Certificates of Participation Principal	Certificates of Participation Interest	Totals Principal	Totals Interest
2005	$ 5,870	$ 78,917	$ 397,023	$ 5,967	$ 16,885	$ 1,308	$ 419,778	$ 86,192
2006	92,835	75,156	-	-	12,665	768	105,500	75,924
2007	97,490	70,492	-	-	8,580	379	106,070	70,871
2008	102,475	65,514	-	-	4,125	135	106,600	65,649
2009	107,795	60,197	-	-	1,025	36	108,820	60,233
2010 to 2014	630,600	209,356	-	-	450	11	631,050	209,367
2015 to 2019	430,324	36,023	-	-	80	1	$ 430,404	$ 36,024
Subtotals	1,467,389	595,655	397,023	5,967	43,810	2,638	1,908,222	604,260
Unamortized Prem/Discount	51,175	-	-	-	434	-	$ 51,609	$ -
Totals	$1,518,564	$ 595,655	$ 397,023	$ 5,967	$ 44,244	$ 2,638	$1,959,831	$ 604,260

(Amounts in Thousands)

Fiscal Year	Business-Type Activities: Revenue Bonds Principal	Revenue Bonds Interest	Notes Payable Principal	Notes Payable Interest	Mortgages Payable Principal	Mortgages Payable Interest	Certificates of Participation Principal	Certificates of Participation Interest	Totals Principal	Totals Interest
2005	$ 73,220	$ 45,511	$ 448	$ 257	$ 54	$ 15	$ 6,405	$ 3,564	$ 80,127	$ 49,347
2006	71,587	42,686	350	228	53	12	10,020	3,138	82,010	46,064
2007	74,402	40,049	362	214	56	10	2,830	2,804	77,650	43,077
2008	45,949	38,023	372	201	59	7	2,475	2,675	48,855	40,906
2009	49,875	35,918	377	187	62	4	2,590	2,560	52,904	38,669
2010 to 2014	159,996	158,741	2,061	696	8	-	9,885	11,316	171,950	170,753
2015 to 2019	130,810	132,380	2,000	195	-	-	10,235	9,051	143,045	141,626
2020 to 2024	236,447	104,408	-	-	-	-	11,325	6,391	247,772	110,799
2025 to 2029	204,935	64,542	-	-	-	-	12,580	3,229	217,515	67,771
2030 to 2034	145,320	38,322	-	-	-	-	5,790	665	151,110	38,987
2035 to 2039	386,635	8,823	-	-	-	-	-	-	386,635	8,823
Subtotals	1,579,176	709,403	5,970	1,978	292	48	74,135	45,393	1,659,573	756,822
Unamortized Prem/Discount	(273)	-	-	-	-	-	(411)	-	(684)	-
Totals	$1,578,903	$ 709,403	$ 5,970	$ 1,978	$ 292	$ 48	$ 73,724	$ 45,393	$1,658,889	$ 756,822

Component Units

The debt service requirements to maturity for the Water Resources and Power Development Authority at December 31, 2003, excluding unamortized original issue discount and premium and deferred refunding costs are:

(Amounts in Thousands)

Year	Principal	Interest	Total
2004	$ 33,440	$ 32,231	$ 65,671
2005	34,460	30,821	65,281
2006	36,175	29,267	65,442
2007	37,825	27,591	65,416
2008	39,125	25,851	64,976
2009 to 2013	199,885	99,801	299,686
2014 to 2018	164,590	52,265	216,855
2019 to 2023	102,850	15,351	118,201
2024 to 2028	9,855	627	10,482
Total Future Payments	$ 658,205	$ 313,805	$ 972,010

The original principal amount for the outstanding bonds was $878.0 million. Total interest paid during 2003 and 2002 amounted to $32.2 million and $29.9 million, respectively.

All of the Water Resources and Power Development Authority's Small Water Resources Program bonds and the Series 1989A and Series 1990A Clean Water Revenue Bonds are insured as to payment of principal and interest by Financial Guaranty Insurance Company. The Clean Water Revenue Bonds, Series 1992A are insured as to payment of principal and interest by Financial Security Assurance, Inc. The Wastewater Revolving Fund Refunding Revenue Bonds, Series 1996A are insured as to payment of principal and interest by AMBAC Indemnity Corporation. The authority has provided a Debt Service Bond Reserve Fund of $8.5 million that is reported as a restricted net asset.

During Fiscal Years 2003-04 and 2002-03 the University of Colorado Hospital Authority met all the financial ratio requirements of its bond indenture. Cash paid for interest by the hospital in Fiscal Years 2003-04 and 2002-03 approximated $15.2 million and $15.4 million, respectively. Total interest cost capitalized in Fiscal Year 2003-04 amounted to $2.1 million, which is net of $0.2 million of investment income from the unexpended bond funds. The aggregate maturities of long-term debt for the University of Colorado Hospital Authority at June 30, 2004, are:

(Amounts in Thousands)

Year	Principal	Interest	Total
2005	5,175	15,606	20,781
2006	5,420	15,359	20,779
2007	5,685	15,095	20,780
2008	5,965	14,815	20,780
2009	6,260	14,517	20,777
2010 to 2014	36,230	67,663	103,893
2015 to 2019	46,490	57,402	103,892
2020 to 2024	60,150	43,742	103,892
2025 to 2029	77,995	25,903	103,898
2030 to 2032	57,440	4,892	62,332
Total Long-Term Debt Payments	306,810	$ 274,994	$ 581,804
Less: Unamortized Discount	(3,901)		
Deferred Amount on Refunding of Series 1997A Bonds	(6,494)		
Total Carrying Amount of Long-Term Debt	$ 296,415		

Bear Creek I, LLC (Bear Creek) is a Colorado limited liability corporation whose sole member is the University of Colorado Foundation. Bear Creek borrowed $69.1 million of the proceeds from the Colorado Educational and Cultural Facilities Authority (CECFA) 2002 Student Housing Revenue Bonds issuance. CECFA is a related party of the state. Bear Creek is using the borrowing proceeds to fund construction and furnishing of a student housing facility and a community center, to fund interest costs during the construction period, and to pay issuance costs. The bonds carry a true interest cost of 5.2 percent. They are payable from loan payments made by Bear Creek to CECFA, from funds held by the bond trustee, and from a Commitment of Support agreement in which Bear Creek has agreed to make up any deficiency from the first two sources. At June 30, 2004, scheduled payments on principal for the bonds at June 30 each year were $1.2 million for 2006, $1.0 million for 2007, $1.2 million for 2008, $1.5 million for 2009, and $64.2 million thereafter. At June 30, 2004, the trustee held $5.4 million of the loan proceeds as investments because those funds had not yet been expended.

In June 2004, the University of Colorado Foundation established a $20.0 million unsecured line of credit with a bank. The credit line carries variable interest based on the LIBOR or the prime rate.

NOTE 26 – CHANGES IN LONG-TERM LIABILITIES

Primary Government

The following page summarizes the changes in long-term liabilities for Fiscal Year 2003-04.

(Amount in Thousands)

	Beginning Balance July 1	Changes Additions	Changes Reductions	Ending Balance June 30	Due Within One Year
Governmental Activities					
Deposits Held In Custody For Others	$ 8	$ 5	$ (3)	$ 10	$ -
Accrued Compensated Absences	113,548	7,629	(9,073)	112,104	7,992
Claims and Judgments Payable	29,200	-	-	29,200	12,084
Capital Lease Obligations	5,054	10,385	(2,220)	13,219	2,821
Bonds Payable	1,269,896	570,770	(327,971)	1,512,695	5,870
Certificates of Participation	39,257	23	(11,922)	27,358	16,885
Other Long-Term Liabilities	501,390	82,618	(67,252)	516,756	-
Total Governmental Activities Long-Term Liabilities	1,958,353	671,430	(418,441)	2,211,342	45,652
Business-Type Activities					
Accrued Compensated Absences	124,854	13,241	(9,460)	128,635	9,719
Capital Lease Obligations	80,636	6,363	(6,005)	80,994	5,537
Bonds Payable	1,499,241	183,607	(177,404)	1,505,444	73,459
Certificates of Participation	41,476	34,480	(8,382)	67,574	6,150
Notes, Anticipation Warrants, Mortgages	6,185	-	(441)	5,744	518
Other Long-Term Liabilities	76,251	3,246	(9,323)	70,174	-
Total Business Type Activities Long-Term Liabilities	1,828,643	240,937	(211,015)	1,858,565	95,383
Fiduciary Activities					
Deposits Held In Custody For Others	46,324	4,764	(10,868)	40,220	-
Accrued Compensated Absences	21	12	(4)	29	-
Other Long-Term Liabilities	2,068	483	(345)	2,206	-
Total Fiduciary Activities Long-Term Liabilities	48,413	5,259	(11,217)	42,455	-
Total Primary Government Long-Term Liabilities	$ 3,835,409	$ 917,626	$ (640,673)	$ 4,112,362	$ 141,035

Long-term liabilities that are actuarially determined often include amounts for claims that are incurred but not yet reported. Since these liabilities are not based on individually identifiable claims, it is not practicable to report gross additions and reductions. See Note 22 for the amount of claims reported and paid and other adjustments to these actuarially determined liabilities.

At June 30, 2004, the following obligations were classified as other long-term liabilities on the government-wide *Statement of Net Assets.*

The $516.8 million shown for governmental activities primarily comprises:

- $70.7 million of Risk Management claims that are actuarially determined for general liability and workers' compensation;
- $250.6 million of actuarially determined Labor Fund claims related to medical and other benefits primarily for workers injured in private sector employment. The state expects to fund these benefits through future revenues from a special tax on workers' compensation premiums, court awards, and interest income.
- $179.6 million of tax refunds payable, which were at various levels of administrative and legal appeal. These refunds relate to tax revenues of the General Fund and Highway Users Tax Fund. Payment is not expected within one year.
- $15.2 million of arbitrage rebate liability related to Transportation Revenue Anticipation Notes issued by the Department of Transportation and payable sixty days after June 1, 2005.

The $70.2 million shown for business-type activities primarily comprises:

- $36.5 million of promises to pay future tuition costs related to the prepaid tuition program of the Colorado Student Obligation Bond Authority.
- $31.8 million of actuarially determined risk management claims, long-term deferred revenue, and a $1.7 million promise to pay the Lowry Redevelopment Authority for borrowing to finance infrastructure improvements that will not become property of the state. The risk management claims are related to the University of Colorado's self-insurance program for general liability, property, workers' compensation, medical benefits, and medical malpractice ($21.6 million), and the Colorado State University's self-insurance of medical, dental and short-term disability benefits for faculty and staff ($2.7 million). The deferred revenue is primarily related to a ground lease at the University of Northern Colorado ($2.5 million) and advance receipts from a contract entered into by the Colorado School of Mines ($4.5 million).

Component Units

Changes in long-term liabilities are summarized as follows:

(Amounts in Thousands)

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
University of Colorado Hospital Authority					
Bonds Payable	$ 300,040	$ 725	$ 4,350	$ 296,415	$ 5,175
Colorado Water Resources and Power Development Authority					
Bonds Payable	$ 581,514	$ 74,650	$ 32,995	$ 623,169	$ 33,440
Other Long-Term Liabilities	$ 183,336	$ 86,450	$ 126,939	$ 142,847	$ 123,192

The Other Long-Term Liabilities of the Colorado Water Resources and Power Development Authority are primarily related to water and pollution control construction project costs that it will pay on loans made to local governments.

The University of Colorado Foundation has beneficial interest in various split-interest agreements including gift annuities, charitable remainder trusts, unitrusts, and a pooled income fund. After termination of the agreements, the assets revert to the foundation to create an endowment to support University activities. The related assets are generally marketable equity and fixed income securities recorded as investments at fair market value. The estimated net present value of obligations to named beneficiaries is reported as an Other Long Term Liability on the *Statement of Net Assets – Component Units.* Actuarially determined life expectancies and risk-free rates of return are used to estimate the obligation to named beneficiaries. The fair value of assets in excess of the estimated liability is recorded as Gift and Donation revenue at the date of the gift. Changes in value of the investments are combined with changes in the actuarial estimate of liabilities and are reported as Gift and Donation revenue on the *Statement of Revenue, Expenditures, and Changes in Fund Net Assets – Component Units*.

At June 30, 2004, the University of Colorado Foundation held $76.6 million of endowments for other entities. On the *Statement of Net Assets – Component Units,* this liability is reported as Deposits Held in Custody.

The Colorado State University Foundation (CSUF) administers life income agreements as gift annuities where an income beneficiary is the lifetime recipient of income and the foundation is the remainder beneficiary. Upon receipt of the gift, a liability is established for the estimated net present value of the lifetime recipient's interest using applicable mortality tables and a discount rate commensurate with the risks involved. A contribution is recognized for the estimated remainder interest.

CSUF has also been named remainder beneficiary for trusts administered by third party corporate trustees. For this arrangement, a receivable and contribution are recorded at the estimated present value of the remainder interest. These life income arrangements are revalued annually to reflect changes in the remainder interest estimates.

At June 30, 2004, total life income agreement assets of CSUF were $0.9 million. Life income agreements payable at the same date totaled $1.0 million. The estimated net present value of obligations to named beneficiaries is reported as an Other Long Term Liability on the *Statement of Net Assets – Component Units.* At June 30, 2004, the foundation held $12.4 million of endowments and related expendable accounts for Colorado State University. On the *Statement of Net Assets – Component Units,* this liability is reported as Deposits Held in Custody.

At June 30, 2004, the Colorado School of Mines Foundation (CSMF), acting as trustee, held charitable trust and pooled income assets of $15.7 million; related liabilities of $7.6 million are calculated using the Internal Revenue Service discount rate for computing charitable contribution deductions. The estimated net present value of obligations to named beneficiaries is reported as an Other Long Term Liability on the *Statement of Net Assets – Component Units.*

CSMF has also entered several gift annuity contracts for which the related assets are not separately identified but for which an Other Long Term Liability of $3.3 million is reported on the *Statement of Net Assets – Component Units.* At June 30, 2004, CSMF reported $10.4 million of assets held in trust, primarily for the Colorado School of Mines, which are shown on the *Statement of Net Assets – Component Units* as Deposits Held in Custody.

NOTE 27 – DEFEASED DEBT

Primary Government

Debt is defeased by depositing in escrow accounts an amount sufficient, together with known minimum investment yields, to pay principal, interest, and any redemption premium on the debt to be defeased. During Fiscal Year 2003-04, debt was defeased in the governmental activities and in the business-type activities.

At June 30, 2004, the remaining balances of amounts previously placed in escrow accounts with paying agents are as follows:

(Amount in Thousands)

Agency	Amount
Governmental Activities:	
Department of Transportation	$ 666,485
Business-Type Activities:	
University of Northern Colorado	$ 27,330
Western State College	19,080
Auraria Higher Education Center	14,730
Colorado School of Mines	11,230
Fort Lewis College	7,171
University of Colorado	4,396
Mesa State College	4,295
Colorado State University - Pueblo	2,836
Red Rocks Community College	2,475
Pikes Peak Community College	1,110
Total	$ 761,138

Adams State College issued $9,467,785 of Facilities Enterprise Refunding and Improvement Revenue Bonds Series 2004A to defease $9,110,000 of Series A 1994 Enterprise Revenue Bonds. The defeased debt had interest rates ranging from 3.30 percent to 5.75 percent, and the new debt has interest rates ranging from 2.50 percent to 5.25 percent. The remaining term of the debt increased from 15 years to 20 years, and debt service cash flows increased by $951,996. The refunding resulted in an economic gain of $472,524 and a book loss of $602,188 that was deferred and will be amortized as interest expense over 15 years. The escrow agent retired the defeased debt on May 15, 2004.

The Department of Transportation issued $280,220,000 of Transportation Revenue Anticipation Refunding Notes, Series 2004B, to defease a $67,760,000 portion of Series 2001A Transportation Revenue Anticipation Notes, a $111,955,000 portion of Series 2002 Transportation Revenue Anticipation Notes, and the $100,000,000 balance of Series 2003A Transportation Revenue Anticipation Notes. The defeased debt had interest rates ranging from 4.25 percent to 5.50 percent, and the new debt has interest rates ranging from 2.5 percent to 5.0 percent. The remaining term of the debt decreased from 13 to 12 years, and debt service cash flows decreased by $39,790,775. The refunding resulted in an economic gain of $9,965,095 and a book loss of $22,046,650 that will be amortized as interest expense over 13 years.

The Colorado State University - Pueblo issued $3,625,000 of Auxiliary Facilities Enterprise Refunding and Improvement Bonds Series 2003, of which, $2,835,797 was used to refund $3,475,000 of University of Southern Colorado Auxiliary Revenue Bonds, Series 1992. The defeased debt had an average interest rate of 6.12 percent, and the new debt has an average interest rate of 2.57 percent. The remaining term of the debt was unchanged at 8 years, and debt service cash flows decreased by $1,227,346. The refunding resulted in an economic gain of $404,149 and a book loss of $107,385 that will be amortized as interest expense over 8 years.

Component Units

In November 1997, the University of Colorado Hospital Authority issued $123.9 million in Hospital Refunding Revenue Bonds to advance refund Series 1992A bonds. The refunding resulted in a deferred loss, which the hospital is charging to operations through Fiscal Year 2022-23. At June 30, 2004, the unamortized deferred loss on refunding is $6.5 million. The hospital completed the advance refunding to reduce its total debt service payments over the subsequent 25 years by $6.5 million and to obtain an economic gain of $3.7 million.

At December 31, 2003, the Colorado Water Resources and Power Development Authority had $7.3 million of bonds previously issued but defeased, and therefore, not reflected in bonds payable.

Total debt service, including principal and interest, remaining for the Denver Metropolitan Major League Baseball Stadium District's in-substance defeased debt was $15.7 million at December 31, 2003. The cost of the related escrow securities was $14.1 million.

NOTES 28 THROUGH 29 – DETAILS OF NET ASSETS AND FUND EQUITY

NOTE 28 – PRIOR PERIOD ADJUSTMENTS

The beginning net assets of the Governmental Activities on the government-wide *Statement of Activities* increased by $174,973,321 as follows:

- The Department of State reduced beginning net assets of the Governmental Activities and the Secretary of State Fees Fund, a nonmajor Other Special Revenue Fund, by $1,733,077 to remove the effect of duplicate payments, which had inappropriately been recorded as revenues in prior years. The adjustment also removed the effect of unearned revenues that had been inappropriately recorded as earned revenue.
- The Department of Personnel & Administration increased beginning net assets of the Governmental Activities and the Central Services Fund, an Internal Service Fund, by $16,116,448 when it reduced accumulated depreciation that had been inappropriately accelerated on vehicles in the state fleet.
- The Department of Treasury increased beginning net assets of the Governmental Activities and the Tobacco Settlement Trust Fund, a nonmajor Special Revenue Fund, by $43,040,533 when it implemented Governmental Accounting Standards Board Technical Bulletin 2004-1. The bulletin requires states to accrue revenue related to the shipment of tobacco products in the period from January 1 through June 30 even though payment is received at a later date.
- The Department of Transportation increased beginning net assets of the Governmental Activities by $101,839,917 when it recorded infrastructure that it constructed in prior years but did not record at that time.
- The Department of Labor and Employment increased beginning net assets of the Governmental Activities by $15,214,094 when it recorded as a capital asset software development costs that it expended in prior years.
- The Department of Regulatory Agencies increased beginning net assets of the Governmental Activities and the Other Special Revenue Funds, a nonmajor Special Revenue Fund, by $495,406 when it recognized revenues of the Personal Injury Protection Exam Program that had previously been deferred in error.

The beginning net assets of the Business-Type Activities on the government-wide *Statement of Activities* increased by $3,216,202 as follows:

- The University of Northern Colorado increased the beginning net assets of the Business-Type Activities and the Higher Education Institutions, a major Enterprise Fund, by $2,778,311 when it removed a fringe benefit liability recorded in error in prior years.
- The Department of Human Services increased the beginning net assets of the Business-Type Activities and the Nursing Homes Fund, a nonmajor Enterprise Fund reported on the *Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds* by $437,891 when it removed accumulated depreciation overstated in prior years.

The beginning fund balance of the General Fund on the fund-level *Statement of Revenues, Expenditures and Changes in Fund Balances* increased by $410,893 and the beginning fund balance of the Other Governmental Funds decreased by the same amount. The Department of Health Care Policy and Financing inappropriately recorded expenditures in the General Fund in Fiscal Year 2002-03 that should have been recorded by the Department of Human Services in the Supplemental Old Age Pension Health and Medical Fund, an Other Special Revenue Fund. This change also affected the beginning balance of the Other Special Revenue Funds on the *Combining Statement of Revenues, Expenditures and Changes in Fund Balances.*

The state implemented Governmental Accounting Standards Board Statement No. 39 – *Determining Whether Certain Organizations Are Component Units* in Fiscal Year 2003-04, and as a result, four discretely presented component units were added to the state's financial statements. In accordance with GASB Statement No. 39 and Accounting Principles Board Opinion No. 20 – *Accounting Changes*, the beginning net assets of these four entities have been presented as an accounting change resulting from a change in reporting entity, as follows: University of Colorado Foundation - $510,760,294, Colorado State University Foundation - $156,738,829, Colorado School of Mines Foundation - $111,333,811, and University of Northern Colorado Foundation - $80,627,930.

NOTE 29 –FUND EQUITY

On the *Balance Sheet – Governmental Funds,* the Capital Projects Fund Reserve for Statutory Purposes includes the fund equity of the Corrections Expansion Reserve and other minor funds that are allowed to retain fund balances in the Capital Projects Fund. The deficit unreserved fund balance of $40.0 million is the result of encumbrances for construction contracts authorized by multi-year budgets (see Note RSI-1B). The cash funded resources that will support these appropriations have not yet been earned in the Capital Projects Fund.

NOTE 30 – INTERFUND RECEIVABLES AND PAYABLES

Individual interfund receivable and payable balances at June 30, 2004, were:

(Amounts in Thousands)

SELLER'S/LENDER'S RECEIVABLE	BUYER'S/BORROWER'S PAYABLE									
	General Fund	Public School	Highway Users Tax	Capital Projects	Higher Education Institutions	Unemploy-ment Insurance	Student Obligation Bond Authority	State Lottery	All Other Funds	Total
GOVERNMENTAL FUNDS:										
General	$ -	$19	$ 411	$ -	$ 618	$ 428	$ -	$ -	$ 39,794	$ 41,270
Public School	-	-	-	-	-	-	-	2,396	3,122	5,518
Highway Users Tax	9,430	-	-	-	-	-	-	-	1,702	11,132
Capital Projects	-	-	-	-	45	598	-	-	25	668
State Lands	-	-	-	-	-	-	-	-	687	687
Other Permanent Trust	-	-	-	-	-	-	-	-	10	10
Water Projects	-	-	-	172	-	-	-	-	1,587	1,759
Labor	185	-	-	-	43	-	-	-	1	229
Tobacco Litigation Settlement	9	-	-	-	-	-	-	-	-	9
Other Special Revenue	642	-	37	-	8	10,000	-	12,904	33,092	56,683
PROPRIETARY FUNDS:										
Higher Education Institutions	1,922	-	23	210	1,234	-	-	-	2,655	6,044
Student Obligation Bond Authority	-	-	-	-	-	-	-	-	484	484
Wildlife	-	-	-	-	-	-	-	-	3	3
Guaranteed Student Loan	3	-	-	-	-	-	-	-	-	3
Correctional Industries	1	-	1	-	1,206	-	-	-	2	1,210
Nursing Homes	1,125	-	-	-	-	-	-	-	-	1,125
Other Enterprise	33	-	-	-	-	-	-	-	-	33
INTERNAL SERVICE FUNDS										
Central Services	25	-	5	-	47	-	-	-	-	77
FIDUCIARY FUNDS										
College Savings Plan	-	-	-	-	-	-	308	-	-	308
Treasurer's Agency Funds	-	-	-	-	-	-	-	10,506	-	10,506
Other Agency Funds	6	-	-	-	-	-	-	-	-	6
Total	$ 13,381	$19	$ 477	$ 382	$ 3,201	$ 11,026	$ 308	$ 25,806	$ 83,164	$ 137,764

The $25.8 million payable shown for the State Lottery is related to distributions to other state and agency funds that were accrued at June 30, 2004, and were paid early in Fiscal Year 2004-05. The Treasurer's Agency Funds had $10.5 million due from the Lottery that the Treasurer distributes to the Great Outdoors Colorado Program, a related party. The Conservation Trust Fund had $10.3 million and the Department of Natural Resources Lottery Distribution Fund had $2.6 million due from the Lottery Fund; both funds are Other Special Revenue Funds.

The $41.3 million receivable in the General Fund, which is shown as primarily payable from All Other Funds, is related to the Gaming Fund distribution of $40.3 million. The distribution to various funds was accrued at June 30, 2004, and was paid early in Fiscal Year 2004-05. The Gaming Fund is a nonmajor Special Revenue Fund.

The $56.7 million receivable in the Other Special Revenue Funds is primarily due from the Lottery Fund (as discussed above), the Unemployment Insurance Fund, and the Severance Tax Trust Fund. The Employment Support Fund, an Other Special Revenue Fund, had $10.0 million receivable from the Unemployment Insurance Fund related to a loan made to the Unemployment Insurance Fund. The Severance Tax Trust Fund, an Other Special Revenue Fund, held a long-term receivable of $33.1 million that was payable from the Water Projects Fund, a nonmajor Special Revenue Fund. The Water Projects Fund has statutory authority to make loans to local governments and special districts using the assets of the Severance Tax Trust Fund. The loans have terms ranging from 10 to 40 years. However, the borrowing from the Severance Tax Trust Fund is on a revolving basis and will remain in place unless the statutory authority is changed.

No other long-term interfund receivable/payable balances are material. Other balances shown in the schedule above are the result of timing differences between when expenses/expenditures and revenues must be accrued on a GAAP basis and when the payment is made.

NOTE 31 – TRANSFERS BETWEEN FUNDS

Primary Government

Transfers between funds for the fiscal year ended June 30, 2004, were as follows:

(Amounts in Thousands)

	TRANSFER-IN FUND						
TRANSFER-OUT FUND	General Fund	Public School	Highway Users Tax	Capital Projects	Higher Education Institutions	Nonmajor Funds	TOTAL
MAJOR FUNDS:							
General Fund	$ -	$ 2,245,538	$ 5,559	$ 14,317	$ 602,896	$ 62,909	$ 2,931,219
Public School	236	-	-	-	-	788	1,024
Highway Users	32,821	-	-	2,690	-	75,809	111,320
Capital Projects	-	-	-	-	-	5,637	5,637
State Education	-	5,000	-	-	1,950	5,000	11,950
Higher Education Institutions	3,025	-	-	-	-	-	3,025
Student Obligation Bond Authority	27	-	-	-	-	241	268
Lottery	331	2,396	-	-	-	52,036	54,763
NONMAJOR FUNDS							
SPECIAL REVENUE FUNDS:							
Water Projects	5,043	-	-	-	-	344	5,387
Labor	368	-	-	-	-	-	368
Gaming	47,603	-	-	239	-	-	47,842
Tobacco Litigation Settlement	2,058	-	-	-	-	18,556	20,614
Other Special Revenue	135,855	35,867	164	4,170	133	8,193	184,382
PERMANENT FUNDS:							
State Lands Trust Expendable	146	30,938	-	-	58	37	31,179
State Lands Trust Nonexpendable	-	-	-	-	181	4,098	4,279
Other Permanent Trust Nonexpendable	-	-	-	-	-	28	28
ENTERPRISE FUNDS:							
Wildlife	4,206	-	-	-	-	-	4,206
Guaranteed Student Loan	147	-	-	-	-	-	147
Correctional Industries	567	-	-	-	-	-	567
Nursing Homes	97	-	-	-	-	-	97
Prison Canteens	76	-	-	36	-	-	112
Other Enterprise Funds	-	-	-	-	-	10	10
INTERNAL SERVICE FUNDS:							
Central Services	1,364	-	-	-	-	-	1,364
General Government Computer Center	626	-	-	-	-	239	865
Telecommunications	436	-	-	-	-	-	436
Capitol Complex	1,002	-	-	-	-	54	1,056
Administrative Hearings	160	-	-	-	-	-	160
Debt Collection	187	-	-	-	-	141	328
FIDUCIARY FUNDS:							
Group Benefit Plans	426	-	-	-	-	-	426
Treasurer's Private Purpose	2,884	-	-	-	-	267	3,151
TOTAL	$ 239,691	$ 2,319,739	$ 5,723	$ 21,452	$ 605,218	$ 234,387	$ 3,426,210

In the normal course of events, the Legislature specifies a large number of transfers between funds exercising its responsibility to allocate the state's resources to programs. Due to revenue shortfalls in Fiscal Years 2001-02 and 2002-03, the state transferred $726.1 million and $555.8 million, respectively, from various funds to the General Fund. In Fiscal Year 2003-04, nonroutine transfers of $54.4 million into the General Fund were roughly equivalent to the nonroutine transfers out to repay cash funds for prior year support of the General Fund.

The following paragraphs describe the large routine transfers into the General Fund that are generally specified in the Long Appropriations Act, which is the state's primary budget document.

The $32.8 million transfer into the General Fund from the Highway Users Tax Fund, a major Special Revenue Fund, is primarily indirect cost transfers and specific funding of highway related programs reported in the General Fund.

The $47.6 million transfer into the General Fund from the Gaming Fund, a nonmajor Special Revenue Fund, is a routine transfer done because the Gaming Fund is allowed to retain only a portion of gaming taxes and fees and the remaining balance becomes general-purpose revenue of the General Fund.

The $135.9 million transfer into the General Fund from Other Special Revenue Funds is primarily related to ongoing funding of programs reported in the General Fund by cash funded programs that collect specific fees and other revenues. This amount includes indirect cost transfers from a large number of cash funds to the General Fund.

NOTE 32 – ON-BEHALF PAYMENTS AND UNUSUAL OR INFREQUENT TRANSACTIONS

The Governor's Office of Innovation and Technology received on-behalf payments in the amount of $65,000 for salaries. The Governor's Office was not legally responsible for payment of these salaries, and it recorded equivalent amounts of revenue and expenditure for these payments in the General Fund. However, these revenues and expenditures were not included in the *Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budgetary Basis Budget and Actual – General Funded.*

NOTE 33 – DONOR RESTRICTED ENDOWMENTS

The state's donor restricted endowments exist solely in Higher Education Institutions. The policies of individual boards govern the spending of net appreciation on investments; there is no state law that governs endowment spending.

The University of Colorado reported net appreciation on endowment investments of $3.7 million that was available for spending. The university reported the related net assets in Restricted for Permanent Funds and Endowments – Expendable on the *Statement of Net Assets – Proprietary Funds.* The amount of earnings and net appreciation that is available for spending is based on a spending rate set annually by the Regents of the University of Colorado. In general, only realized gains can be expended; however, unrealized gains on certain endowment funds may be expended.

Colorado State University reported $177,249 of net appreciation on its donor-restricted endowments, and the full amount was available for spending. The university reported the related net assets in Restricted for Permanent Funds and Endowments – Expendable on the *Statement of Net Assets – Proprietary Funds.* The Colorado State University Foundation investment committee manages the endowment investments and has the discretion to distribute investment income to meet current or special needs.

The Colorado School of Mines (CSM) reported $186,894 of net appreciation on donor-restricted endowments with $103,043 available for expending. The CSM reported the related net assets in Restricted for Permanent Funds and Endowments – Nonexpendable on the *Statement of Net Assets – Proprietary Funds.* CSM's spending rate policy allows 5.5 percent of endowment net assets to be expended.

NOTE 34 – SEGMENT INFORMATION

Primary Government

Segments are identifiable activities reported as or within an Enterprise Fund for which bonds or other debt is outstanding and a revenue stream has been pledged in support of that debt. In addition, to qualify as a segment, an activity must be subject to an external requirement to separately account for the revenues, expenses, gains and losses, assets, and liabilities of the activity. All of the activities reported in the following condensed financial information meet these requirements. The purpose of each of the state's segments aligns with the primary mission of the enterprise in which it is reported; therefore, none of the state's segments are separately reported on the government-wide *Statement of Activities.* The following paragraphs describe the state's segments.

The Colorado Student Obligation Bond Authority issues revenue bonds to originate and purchase student loans. The authority also operates a prepaid tuition program designed to keep pace with average tuition inflation in Colorado. Condensed financial information for CSOBA is not presented because it is a major Enterprise Fund, and full financial statements are included in the Basic Financial Statements.

Other Enterprise Funds' Segments:

The State Fair Authority operates the Colorado State Fair, and other events, at the state fairgrounds in Pueblo, Colorado.

Higher Education Institutions' Segments:

The University of Colorado research activities segment charges for research services.

University Physicians Incorporated (UPI) is a not-for-profit entity that performs the billing, collection, and disbursement function for professional services provided by the University of Colorado Health Sciences Center. UPI is also a component unit of the state that is blended into the Higher Education Institutions Enterprise Fund. UPI also contracts with the University of Colorado Hospital Authority (UCHA), a discretely presented component unit of the state. UCHA paid UPI approximately $31.5 million and $23.1 million in Fiscal Years 2003-04 and 2002-03, respectively.

The Colorado State University - Pueblo student activities segment charges students fees for programs and facilities provided at the campus.

The Colorado School of Mines auxiliary housing segment charges students for housing. The School of Mines' general research facilities segment charges rent to research programs.

The Auraria Higher Education Center's parking segment charges students, faculty, and staff fees for the use of parking lots and structures. The center's student facilities segment charges fees to students for use of its facilities.

The following two pages present condensed financial information for the state's segments that are not presented as major funds.

CONDENSED STATEMENT OF NET ASSETS

(DOLLARS IN THOUSANDS)	STATE FAIR AUTHORITY	UNIVERSITY OF COLORADO: RESEARCH ACTIVITIES	UNIVERSITY OF COLORADO: UNIVERSITY PHYSICIANS INCORPORATED
ASSETS:			
Current Assets	$ 763	$ -	$ 59,538
Other Assets	286	27,649	36,345
Capital Assets	10,853	49,542	19,850
Total Assets	11,902	77,191	115,733
LIABILITIES:			
Current Liabilities	1,779	3,351	14,005
Due To Other Funds	-	-	-
Noncurrent Liabilities	1,619	15,203	20,303
Total Liabilities	3,398	18,554	34,308
NET ASSETS:			
Invested in Capital Assets , Net of Related Debt	9,088	32,196	497
Other Restricted Net Assets	-	-	-
Unrestricted	(584)	26,441	80,928
Total Net Assets	$ 8,504	$ 58,637	$ 81,425

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

OPERATING REVENUES :			
Tuition and Fees	$ -	$ -	$ -
Sales of Goods and Services	6,774	3,029	194,761
Other	1,308	8,609	-
Total Operating Revenues	8,082	11,638	194,761
OPERATING EXPENSES:			
Depreciation	615	3,509	1,196
Other	7,954	5,465	187,636
Total Operating Expenses	8,569	8,974	188,832
OPERATING INCOME (LOSS)	(487)	2,664	5,929
NONOPERATING REVENUES AND (EXPENSES):			
Investment Income	(15)	1,145	279
Gifts and Donations	229	-	-
Other Nonoperating Revenues	-	-	-
Debt Service	(155)	-	(143)
Other Nonoperating Expenses	-	(935)	(634)
Total Nonoperating Revenues(Expenses)	59	210	(498)
CONTRIBUTIONS, TRANSFERS, AND OTHER ITEMS:			
Capital Contributions and Additions to Endowments	110	-	-
Transfers-In	-	214	-
Transfers-Out	-	-	-
Total Contributions, Transfers, and Other	110	214	-
CHANGE IN NET ASSETS	(318)	3,088	5,431
TOTAL NET ASSETS - FISCAL YEAR BEGINNING	8,822	55,549	75,994
TOTAL NET ASSETS - FISCAL YEAR ENDING	$ 8,504	$ 58,637	$ 81,425

CONDENSED STATEMENT OF CASH FLOWS

NET CASH PROVIDED (USED) BY:			
Operating activities	$ (179)	$ 6,475	$ 9,704
Noncapital Financing Activities	-	214	(646)
Capital and Related Financing Activities	80	(6,089)	(13,251)
Investing Activities	(16)	(600)	4,087
NET INCREASE (DECR.) IN CASH AND POOLED CASH	(115)	-	(106)
CASH AND POOLED CASH , FISCAL YEAR BEGINNING	661	-	12,049
CASH AND POOLED CASH, FISCAL YEAR ENDING	$ 546	$ -	$ 11,943

COLORADO STATE UNIVERSITY - PUEBLO	COLORADO SCHOOL OF MINES		AURARIA HIGHER EDUCATION CENTER	
STUDENT ACTIVITIES	AUXILIARY HOUSING	GENERAL RESEARCH FACILITIES	PARKING FACILITIES	STUDENT FACILITIES
$ 1,548	$ 11,529	$ 141	$ 5,794	$ 6,677
669	-	-	25,263	17,978
3,142	37,779	11,542	25,249	26,610
5,359	49,308	11,683	56,306	51,265
412	2,342	399	2,077	4,142
88	-	-	-	-
3,781	47,198	10,860	37,814	37,598
4,281	49,540	11,259	39,891	41,740
-	-	682	7,738	5,210
-	-	-	2,810	938
1,078	(232)	(258)	5,867	3,377
$ 1,078	$ (232)	$ 424	$ 16,415	$ 9,525
$ 2,204	$ 949	$ -	$ 1,729	$ 4,688
5,236	6,281	-	5,843	19,838
127	-	220	-	-
7,567	7,230	220	7,572	24,526
269	950	294	856	1,359
5,203	5,626	28	4,672	22,939
5,472	6,576	322	5,528	24,298
2,095	654	(102)	2,044	228
52	106	-	207	76
23	-	-	-	-
401	-	-	-	-
(3,606)	(867)	(220)	(829)	(990)
(28)	(22)	(5)	-	-
(3,158)	(783)	(225)	(622)	(914)
-	-	-	-	168
3,836	-	-	-	-
(1,695)	(42)	-	-	-
2,141	(42)	-	-	168
1,078	(171)	(327)	1,422	(518)
-	(61)	751	14,993	10,043
$ 1,078	$ (232)	$ 424	$ 16,415	$ 9,525
$ (748)	$ 1,605	$ 194	$ 2,387	$ 3,406
-	(932)	-	-	-
-	(17,034)	(438)	13,655	(13,381)
-	106	-	(20,651)	5,962
(748)	(16,255)	(244)	(4,609)	(4,013)
1,846	27,369	385	10,522	8,297
$ 1,098	$ 11,114	$ 141	$ 5,913	$ 4,284

NOTE 35 – COMPONENT UNITS

The state reports eight component units under the requirements of Governmental Accounting Standards Board (GASB) Statements No. 14 – *The Financial Reporting Entity* and No. 39 – *Determining Whether Certain Organizations Are Component Units*. The state implemented GASB Statement No. 39 in Fiscal Year 2003-04, and four discretely presented component units were added to the state's financial statements. All of the component units are considered major except Cover-Colorado, which is presented as the sole nonmajor component unit. Financial statements for the component units are presented in the Basic Financial Statements.

University Hospital is a nonsectarian, general acute and psychiatric care regional hospital licensed for 450 beds, with six outpatient clinics and a home therapy unit, operated by the University of Colorado Hospital Authority (UCHA). It also includes the Anschutz Centers for Advanced Medicine, and is the teaching hospital of the University of Colorado Health Sciences Center (UCHSC), a state institution of higher education. The hospital's mission is to provide education, research and a full spectrum of primary, secondary and tertiary health care services to the Denver metropolitan area and the Rocky Mountain Region. UCHA is exempt from federal income tax under Internal Revenue Code Section 115 (as a governmental entity) and under Section 501(a) as a not-for-profit entity. The hospital is in the process of relocating its main campus from east central Denver to the Fitzsimons Campus in the Denver suburb of Aurora.

During Fiscal Year 2003-04, University Hospital paid the UCHSC $30.0 million, and UCHSC paid University Hospital $7.2 million. UCHSC also reported on-behalf payments of $2.2 million from University Hospital as revenue and expense of the Higher Education Institutions on the government-wide *Statement of Activities* and the fund-level *Statement of Revenues, Expenses and Changes in Net Assets.* At June 30, 2004, University Hospital owed the UCHSC $1.4 million; UCHSC owed University Hospital $0.08 million.

The Colorado Water Resources and Power Development Authority's purpose is to initiate, acquire, construct, maintain, repair and operate, or cause to be operated, projects for the protection, preservation, conservation, upgrading, development and utilization of the water resources of the state. The authority is authorized to issue bonds, notes, or other obligations which constitute its debt and not the debt of the State of Colorado. The authority's primary revenue sources are investment income on bond proceeds, interest on loans made to local governments from bond proceeds, administrative charges on the loans, and federal capitalization grants.

The Denver Metropolitan Major League Baseball Stadium District includes all or part of the six counties in the Denver metro area. The district was created for the purpose of acquiring, constructing and operating a major league baseball stadium. To accomplish this purpose, the district levied a sales tax of one-tenth of one percent throughout the district for a period not to exceed 20 years. However, the district discontinued the sales tax levy on January 1, 2001, after it defeased all outstanding debt. In June 2003, 2002, and 2001, the district refunded $1.6 million, $1.6 million, and $11.3 million, respectively, of the sales tax levy to the six counties because the funds were deemed unnecessary for the expenses and reserves of the district.

The University of Colorado Foundation was incorporated in 1967 and is authorized by the Board of Regents of the University of Colorado to solicit, receive, hold, invest, and transfer funds for the benefit of the University of Colorado (a state institution of higher education) and the University of Colorado Hospital Authority (a component unit of the state). The foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Service Code and is exempt from income tax on related income. It receives revenue from the University of Colorado under an annually renewable Agreement for Development Services. For the fiscal year ended June 30, 2004, the foundation distributed $62.0 million to the University of Colorado and $13.9 million to the University of Colorado Hospital Authority.

The Colorado State University Foundation is a not-for-profit tax-exempt organization incorporated in 1970 to assist in the promotion, development and enhancement of the facilities and educational programs and opportunities of the faculty, students and alumni of Colorado State University. This is accomplished through receiving, managing, and investing contributions, gifts, and bequests. Principal or income from these gifts and contributions is used for charitable, scientific, literary, or educational purposes, which will directly or indirectly aid and benefit Colorado State University. During Fiscal Years 2003-04 and 2002-03, the foundation transferred $22.9 million and $24.6 million, respectively, to the university.

The Colorado School of Mines Foundation is a not-for-profit tax-exempt corporation providing financial resource development and support to the Colorado School of Mines. The majority of the foundation's revenue is derived from contributions and investment income.

The University of Northern Colorado Foundation is a tax-exempt organization incorporated in 1966 to promote the general welfare, development, growth, and well being of the University of Northern Colorado. The foundation accomplishes this mission through solicitation and acquisition of gifts, investing and managing property, and furnishing funds, facilities, equipment, and services.

CoverColorado is a not-for-profit public entity created to provide access to health insurance for those Colorado residents who are unable to obtain health insurance, or are unable to obtain health insurance except at prohibitive

rates or with restrictive exclusions. Legislation enacted in 2001 authorized the CoverColorado board of directors to assess a special fee against insurers for the financial solvency of the program.

NOTE 36 – RELATED PARTIES AND ORGANIZATIONS

Primary Government

The Colorado Historical Foundation was established in part to hold and forward funds for the benefit of the Colorado Historical Society, a state agency. In Fiscal Year 2003-04 the foundation provided grants and reimbursements totaling $186,298 to the Colorado Historical Society. The foundation owed the society $96,279 at June 30, 2004.

The Colorado State University - Pueblo Foundation was established to benefit the Colorado State University - Pueblo. The foundation transferred $1.4 million to the university during Fiscal Year 2003-04, and it owed the university $97,596 at June 30, 2004.

The Fort Lewis College Foundation was established to assist in promoting, developing, and enhancing the facilities and programs of the college. During Fiscal Years 2003-04 and 2002-03, the foundation transferred $1,382,076 and $694,839, respectively, to the college. At June 30, 2004, the foundation owed the college $54,406.

The Adams State College Foundation provides scholarships and work-study grants to students, as well as, providing program development grants to Adams State College. The foundation provided $757,804 and $530,780 in scholarships and grants during Fiscal Year 2003-04 and 2002-03, respectively.

The Mesa State College Foundation provides financial assistance to Mesa State College students and assists the college in serving educational needs. In Fiscal Year 2003-04, the college drew $258,013 from the foundation primarily for athletic scholarships, the foundation expended $278,608 on construction costs for a new performing arts complex at the college, and the foundation funded regular operations of the college through cash and in-kind contributions of $333,736. The foundation also donated real property to the college valued at $2.8 million and awarded $344,334 of scholarships directly to students of the college.

Metropolitan State College of Denver Foundation, Inc. was organized and is operated to promote the general welfare of Metropolitan State College of Denver. The foundation provided $2.6 million and $2.4 million of funding to the college in Fiscal Year 2003-04 and 2002-03, respectively. The foundation also reimbursed the college $190,766 for services provided by college employees. At June 30, 2004, the foundation owed the college $159,570.

Western State College Foundation was established to aid Western State College in fulfilling its educational mission. The foundation transferred $1.4 million to the college in both Fiscal Years 2003-04 and 2002-03.

Most of the state's community colleges have established foundations to assist in their educational missions. However, none of those foundations made annual transfers to their related colleges in excess of $500,000.

The Colorado School of Mines Building Corporation was established in 1976 to build a facility to house the United States Geological Survey. The Geological Survey leases the facility from the corporation. The net assets of the corporation at June 30, 2004, and June 30, 2003, were $2.6 million and $3.6 million, respectively. At June 30, 2004, the Building Corporation has a receivable of $399,481 that was due from the Colorado School of Mines Development Corporation discussed below.

The Colorado School of Mines Development Corporation was established in September 2001 as a separate corporation for the purpose of financing and building a general research building on the School of Mines campus. The Development Corporation issued $10.86 million of bonds in October 2002 and the construction funded by the bonds was completed in Fiscal Year 2002-03. The net assets of the Development Corporation were $424,030 and $750,764 at June 30, 2004 and 2003, respectively.

The Great Outdoors Colorado Board (GOCO) is a constitutionally created entity whose purpose is to administer the Great Outdoors Colorado Program and Trust Fund. The purpose of the program is to promote the wildlife and outdoor recreation resources of the state using funds it receives from the Colorado Lottery. During Fiscal Years 2003-04 and 2002-03, the board funded $20.6 million and $14.5 million, respectively, of wildlife and parks programs at the Department of Natural Resources. At June 30, 2004, GOCO owed the Department of Natural Resources $6.1 million.

Component Units

The University of Colorado Hospital Authority provided charity care primarily to individuals meeting federal poverty guidelines valued at $87.7 million and $70.3 million for the years ended June 30, 2004 and 2003, respectively. Since, these amounts are not collectible they are not reported as net patient revenue. The hospital has a contract with the state Department of Health Care Policy and Financing to provide medical services to medically indigent patients under the Colorado Indigent Care Program (CICP). This program was formerly known as the Colorado Disproportionate Share Hospital Program. The hospital received reimbursements (net of related payments) under CICP of $28.6 million and $24.8 million for the years ended June 30, 2004 and 2003, respectively.

The Hospital Authority and the University of Colorado Health Sciences Center have developed and received approval for an Institutional Master Plan to create a new academic health sciences center over the next 20 to 50

years. The U.S. Department of Education approved the transfer of 186 acres of land (plus 41 additional acres) and buildings at the Fitzsimons Army Medical Center to the University of Colorado. Various quitclaim deeds convey the property in an "as is" condition, without warranty, and include conditions subsequent that, if not met, provide for reverting the property to the Department of Education. In July 2004, the authority entered into a 98-year Amended and Restated Ground Lease agreement with a one-dollar annual fee. The original lease, entered into in 1999 for a period of 30 years, provided for approximately 18.4 acres of the property. The amended agreement increases the leased property to 45.5 acres, with an option for the authority to include an additional 7.5 acres, and provides for two renewals, up to 99 years each, for $100 per year. With certain exceptions, the Ground Lease states that the authority shall own all buildings or improvements, which it constructs on the property.

Under the Operating Agreement between the University of Colorado Regents and the University of Colorado Hospital Authority dated July 1, 1990, the Regents have entered into contracts with the hospital for the provision of services in support of programs and operations of the University of Colorado Health Sciences Center. Amounts of approximately $30.0 million and $29.0 million were paid for these services in Fiscal Years 2003-04 and 2002-03, respectively. Other contracts with the Regents for services that include educational support, clinic services, and research projects, resulted in reimbursements of approximately $2.9 million and $4.6 million in Fiscal Years 2003-04 and 2002-03, respectively.

The hospital leases certain employees to the Adult Clinical Research Center (CRC), a related party, at full cost and provides overhead and ancillary services for CRC patients. Charges of approximately $1.7 million and $1.6 million were billed to CRC for the cost of these services during Fiscal Years 2003-04 and 2002-03, respectively. Amounts due from the Health Sciences Center, including CRC, amounted to $0.9 million and $1.0 million at June 30, 2004 and 2003, respectively.

The hospital entered certain provider and network management agreements with TriWest. TriWest was formed to deliver health care services to eligible beneficiaries of TriCare, formerly known as CHAMPUS – the Civilian Health and Medical Program of the Uniformed Services. On June 27, 1996, the U.S. Department of Defense awarded TriWest the TriCare contract for a five-year period that began April 1997. The contract was renewed for 2003 and 2004. As part of the agreements, the hospital purchased a minority interest in TriWest for approximately $3.3 million. This investment is accounted for under the cost method.

The hospital created University Hospital Home Therapies (UHHT) in February 1996. Chartwell Rocky Mountain Region is a Colorado general partnership between UHHT and Chartwell Home Therapies Limited Partnership, a Massachusetts limited partnership. Chartwell Rocky Mountain Region was formed to provide home infusion and respiratory services to alternate-site patients. The partnership began in April 1996. UHHT and Chartwell Home Therapies Limited Partnership each have a 50 percent ownership in Chartwell Rocky Mountain Region.

The hospital and three other entities participate in Colorado Access, a Colorado nonprofit corporation that the hospital and four other entities formed in 1995. Colorado Access owns and operates a statewide HMO that serves Medicaid patients. In August 2001, the hospital entered into an agreement to loan Colorado Access $625,000. The principal and interest, which was 4.0 percent at June 30, is due on or before August 24, 2004. In January 2003, the hospital entered an agreement to loan Colorado Access an additional $512,500 with a variable interest rate currently set at 4.0 percent and a due date of January 31, 2008.

By agreement with the University of Colorado, the hospital coordinates fund-raising initiatives through the University of Colorado Foundation.

NOTE 37 – CONTINGENCIES

Primary Government

The Colorado Governmental Immunity Act sets upper limits on state liability at $150,000 per individual and $600,000 for two or more persons in a single occurrence. Judgments in excess of these amounts may be rendered, but the claimant must petition the General Assembly for an appropriation to pay any amount greater than the immunity limits. Judgments awarded against the state for which there is no insurance coverage or that are not payable from the Risk Management Fund ordinarily require a legislative appropriation before they may be paid.

Numerous court cases are pending in which the plaintiffs allege that the state has deprived persons of their constitutional rights, civil rights, inadequately compensated them for their property, or breached contracts. In the aggregate, the monetary damages (actual, punitive, and attorney's fees) claimed in the constitutional and civil rights cases would exceed the insurance coverage available by a material amount. The property compensation and breach of contract suits are generally limited to the appraised value of the property or the contract amount. In the breach of contract suits, the state often files counterclaims. The state believes it is highly unlikely that there will be actual awards of judgments in material amounts.

The state is the defendant in numerous lawsuits involving claims of inadequate, negligent, or unconstitutional treatment of prisoners, mental patients, or the developmentally

disabled. In some of these suits, plaintiffs are seeking or have obtained certification as a class for a class action suit. Most of these cases seek actual damages that are not material but include requests for punitive damages that may be material. There is also the potential that the courts may rule that the current conditions of confinement, Medicaid coverage, or residential services are unconstitutional, which could result in significant future construction, medical, or residential services costs that are not subject to reasonable estimation.

The state is the defendant in lawsuits by employees accusing the state of various infractions of law or contract. These include claims related to age and sex discrimination, sexual harassment, wrongful termination, contractual agreements for paying of salaries based on parity and equity, and overtime compensation under the Federal Fair Labor Standards Act. The state does not believe that any of these cases are material to its financial operations.

Many state agencies have grant and contract agreements with the federal government and other parties. These agreements generally provide for audits of the transactions pertaining to the agreements, with the state being liable to those parties for any disallowed expenditure. The state is contesting the disallowance related to such audits, and the outcome is uncertain at this time.

The Colorado Student Loan Program, in the event of adverse loss experience, could be liable for approximately 25 percent ($705.2 million) of the outstanding balance ($2,820.0 million) of loans in repayment status. However, the probability of a material loss is remote.

The State Veterans' Nursing Homes stopped offsetting Veterans' Administration patient per diem against Medicaid billings to the federal government in November 2001. The federal Department of Health and Human Services determined that the payments should have been offset, and that the practice resulted in duplicate billing of approximately $5.9 million. The nursing homes may have to repay the federal government this amount if expected federal legislation is passed.

At June 30, 2004, the Lottery Division of the Department of Revenue had outstanding annuity contracts of approximately $620.8 million in the names of lottery or lotto prizewinners. The probability is remote that any of the sellers of these contracts will default, and thus, require the state to pay the annuity.

The Colorado Department of Revenue routinely has claims for refunds in various stages of administrative and legal review that individually could result in refunds up to $1.0 million.

Various notes and bonds have been issued by state school districts that may impact the state. Colorado statutes provide that if a district indicates that it will not make the payment to bondholders by the date on which it is due, the State Treasurer shall forward the amount necessary to make the payment to the paying agent. The state shall then withhold state equalization payments to the defaulting school district for a period up to 12 months to cover the state's loss. Currently, notes or bonds valued at over $5.96 billion are outstanding. Of this amount, $4.93 billion is covered by private insurance.

The state believes it has a good chance of prevailing in these cases, but the ultimate outcome cannot presently be determined. With the exception of $29.2 million recorded for the Arkansas River Compact suit, no provision for a liability has been made in the financial statements related to the contingencies discussed in this note.

Component Units

The Denver Metropolitan Major League Baseball Stadium District received Notices of Claim from 27 persons arising from an incident involving an escalator at Coors Field (the district's stadium) on July 2, 2003. The notices generally allege that the escalator failed by rapidly accelerating without warning, causing claimants to be hurled down the escalator resulting in injuries to the claimants. The amount of damages has not been established, but the district's lease with its tenant requires the lessee to indemnify the district in this matter. The escalator manufacturer has tentatively agreed to indemnify the tenant. Because the amount of damages is not determinable, the district has made no provision for any loss or expense related to this incident.

The Colorado School of Mines Foundation has guaranteed the debt of the Colorado School of Mines Development Corporation, an affiliate of the Colorado School of Mines formed for the purpose of purchasing, constructing, otherwise acquiring, extending or improving an educational facility for the benefit of the Colorado School of Mines. Under the terms of the guarantee, the foundation may be called upon to repay principal, not to exceed $10.86 million in the event of default of the Development Corporation.

CoverColorado, the Colorado Division of Insurance, and the Commissioner of Insurance are currently involved in litigation with a stop-loss insurance carrier. The claimant asserts that the CoverColorado assessments charged to insurance carriers are in violation of the TABOR provisions of the State Constitution because the assessment is a tax levied without a vote of the people. The carrier seeks a reduction or exemption from the assessment.

NOTE 38 – SUBSEQUENT EVENTS

A. BOND AND NOTE ISSUANCE

Primary Government

On July 1, 2004, the State Treasurer issued $650.0 million of General Fund Tax Revenue Anticipation Notes, Series 2004A. The notes are due and payable on June 27, 2005,

at an average coupon rate of 2.99 percent. The total interest related to this issuance will be $19.2 million. The notes are issued for cash management purposes.

On July 1, 2004, the State Treasurer issued $225.0 million of Education Loan Program Tax and Revenue Anticipation Notes, Series 2004A. The notes carry an interest rate of 3.5 percent, which will result in $8.5 million of interest due at maturity. The notes mature on August 9, 2005, but the State Treasury has established a Series 2004A Note Repayment Account that it will fund by June 28, 2005, in an amount adequate to fully defease the outstanding notes.

On July 1, 2004, the Colorado Student Obligation Bond Authority's legal name changed to CollegeInvest. On July 22, 2004, CollegeInvest issued its Tax-Exempt Bonds Series 2004IX-A1 and 2004IX-A2 of $38.5 million and $38.5 million, respectively, and its Taxable Notes Series 2004IX-A3 of $96.0 million. The proceeds from this issuance will be used to acquire student loans. CollegeInvest also issued $6.0 million of Tax-Exempt Bonds Series 2004IXB-4 to currently refund and redeem the Tax-Exempt Bonds Series 1993I-B.

On August 31, 2004, the Department of Transportation issued $19,985,000 of Certificates of Participation, Series 2004. The certificates were issued to fund acquisition, construction, and improvement of certain capital projects at the Department of Transportation. The certificates are calculated to yield interest of 4.95 percent, and they have a weighted average maturity of 22.5 years and a final maturity of June 15, 2034.

On November 30, 2004, the University of Colorado issued $24.36 million of Enterprise System Revenue Bonds, Series 2004. The proceeds of the bonds will be used to finance capital improvments and acquisitions for student housing at the Boulder and Colorado Springs campuses. The revenue bonds carry interest rates ranging from 2.5 percent to 4.625 percent with final maturity in 2035.

On December 15, 2004, the State Treasurer issued $295.0 million of Education Loan Program Tax and Revenue Anticipation Notes, Series 2004B. The notes carry an interest rate of 3.0 percent, which will result in $5.75 million of interest due at maturity. The notes mature on August 9, 2005, but the State Treasury has established a Series 2004B Note Repayment Account that it will fund by June 27, 2005, in an amount adequate to fully defease the outstanding notes.

B. LAWSUIT

Primary Government

On August 12, 2004, plaintiffs filed suit in state court challenging the constitutionality of $442.7 million of transfers from cash funds to the General Fund made in Fiscal Years 2001-02, 2002-03, 2003-04 to mitigate general-purpose revenue shortfalls. The suit seeks class action status and alleges that the transfers caused the increase or continuation of cash fund fees that it contends are tax increases not approved by voters. Plaintiffs seek to prevent similar future transfers, to terminate existing fees replenishing the cash funds, to prevent fee increases intended to replenish the cash funds, and to require the General Fund to replenish the cash funds.

On December 7, 2004, the U.S. Supreme Court accepted the Special Masters assessment of damages that the State of Colorado is required to pay the State of Kansas related to violations of the Arkansas River Compact. The suit was originally filed in 1985. A liability of $29.2 million is reported on the government-wide *Statement of Net Assets* related to the suit.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGETARY BASIS BUDGET AND ACTUAL - GENERAL FUNDED FOR THE YEAR ENDED JUNE 30, 2004

(DOLLARS IN THOUSANDS)	ORIGINAL APPROPRIATION	FINAL SPENDING AUTHORITY	ACTUAL	(OVER)/UNDER SPENDING AUTHORITY
REVENUES AND TRANSFERS-IN:				
Sales and Other Excise Taxes			$ 2,004,997	
Income Taxes			3,406,469	
Other Taxes			243,381	
Federal Grants and Contracts			1,591	
Sales and Services			690	
Interest Earnings			21,077	
Other Revenues			47,391	
Transfers-In			109,074	
TOTAL REVENUES AND TRANSFERS-IN			5,834,670	
EXPENDITURES AND TRANSFERS-OUT:				
Operating Budgets:				
Agriculture	$ 4,153	$ 4,113	3,944	$ 169
Corrections	469,772	468,896	468,091	805
Education	2,417,664	2,417,671	2,417,510	161
Governor	13,165	13,387	13,290	97
Health Care Policy and Financing	1,177,675	1,163,556	1,165,499	(1,943)
Higher Education	591,428	591,728	591,635	93
Human Services	460,284	459,866	458,976	890
Judicial Branch	207,297	208,628	207,982	646
Law	6,721	6,890	6,443	447
Legislative Branch	26,970	27,063	26,876	187
Local Affairs	4,779	4,756	4,750	6
Military Affairs	3,839	3,897	3,756	141
Natural Resources	19,555	19,585	19,491	94
Personnel & Administration	7,888	7,990	7,835	155
Public Health and Environment	12,535	12,500	12,493	7
Public Safety	54,177	54,171	53,844	327
Regulatory Agencies	1,059	1,051	1,045	6
Revenue	172,097	171,052	165,171	5,881
Treasury	60,757	60,546	60,538	8
SUB-TOTAL OPERATING BUDGETS	5,711,815	5,697,346	5,689,169	8,177
Capital and Multi-Year Budgets:				
Departmental:				
Agriculture	-	126	126	-
Corrections	33	4,426	2,416	2,010
Governor	-	390	76	314
Health Care Policy and Financing	-	4,957	2,770	2,187
Higher Education	4,200	25,428	15,376	10,052
Human Services	-	4,737	3,203	1,534
Judicial Branch	-	47	47	-
Law	-	5	5	-
Military Affairs	-	27	6	21
Personnel & Administration	5,074	14,292	8,373	5,919
Public Health and Environment	-	1,758	746	1,012
Public Safety	-	1,669	1,267	402
Revenue	-	598	44	554
Transportation	-	8	8	-
Budgets/Transfers Not Booked by Department	17,899	17,899	17,899	-
SUB-TOTAL CAPITAL AND MULTI-YEAR BUDGETS	27,206	76,367	52,362	24,005
TOTAL EXPENDITURES AND TRANSFERS-OUT	$5,739,021	$5,773,713	5,741,531	$ 32,182
EXCESS OF REVENUES AND TRANSFERS-IN OVER (UNDER) EXPENDITURES AND TRANSFERS-OUT			$ 93,139	

The notes to the required supplementary information are an integral part of this schedule.

SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES, AND CHANGES IN FUND BALANCES/NET ASSETS - BUDGETARY BASIS BUDGET AND ACTUAL - CASH FUNDED FOR THE YEAR ENDED JUNE 30, 2004

(DOLLARS IN THOUSANDS)	ORIGINAL APPROPRIATION	FINAL SPENDING AUTHORITY	ACTUAL	(OVER)/UNDER SPENDING AUTHORITY
REVENUES AND TRANSFERS-IN:				
Sales and Other Excise Taxes			$ 568,553	
Income Taxes			278,700	
Other Taxes			701,102	
Tuition and Fees			668,474	
Sales and Services			873,131	
Interest Earnings			204,253	
Other Revenues			2,206,510	
Transfers-In			4,097,184	
TOTAL REVENUES AND TRANSFERS-IN			9,597,907	
EXPENDITURES/EXPENSES AND TRANSFERS-OUT:				
Operating Budgets:				
Departmental:				
Agriculture	$ 24,538	$ 24,550	21,777	$ 2,773
Corrections	62,193	59,680	40,555	19,125
Education	2,705,107	2,707,982	2,704,537	3,445
Governor	32,307	39,315	20,299	19,016
Health Care Policy and Financing	270,342	225,927	209,327	16,600
Higher Education	1,755,133	1,727,411	1,441,718	285,693
Human Services	804,260	272,572	251,129	21,443
Judicial Branch	81,745	79,773	73,880	5,893
Labor and Employment	523,330	523,380	513,559	9,821
Law	27,717	28,851	25,912	2,939
Legislative Branch	2,745	2,607	1,871	736
Local Affairs	173,620	179,549	109,665	69,884
Military Affairs	1,864	1,772	1,274	498
Natural Resources	423,628	402,981	235,550	167,431
Personnel & Administration	416,490	416,543	348,089	68,454
Public Health and Environment	87,212	92,404	80,280	12,124
Public Safety	99,367	98,669	93,745	4,924
Regulatory Agencies	75,797	76,330	72,548	3,782
Revenue	622,965	619,443	559,530	59,913
State	15,711	15,140	12,834	2,306
Transportation	499,089	503,005	421,016	81,989
Treasury	998,046	998,193	941,177	57,016
SUB-TOTAL OPERATING BUDGETS	9,703,206	9,096,077	8,180,272	915,805
Capital and Multi-Year Budgets:				
Departmental:				
Corrections	524	1,164	107	1,057
Governor	-	618	597	21
Health Care Policy and Financing	-	16	16	-
Higher Education	68,439	317,010	44,827	272,183
Human Services	1,639	8,726	7,848	878
Labor and Employment	18,200	61,814	35,833	25,981
Law	-	17	17	-
Military Affairs	276	276	1	275
Natural Resources	41,724	54,648	16,810	37,838
Personnel & Administration	9,917	12,853	6,657	6,196
Public Health and Environment	250	13,827	2,947	10,880
Public Safety	28	1,778	295	1,483
Regulatory Agencies	-	1,066	753	313
Revenue	2,227	8,640	654	7,986
Transportation	1,438,911	1,437,246	697,716	739,530
SUB-TOTAL CAPITAL AND MULTI-YEAR BUDGETS	1,582,135	1,919,699	815,078	1,104,621
TOTAL EXPENDITURES/EXPENSES AND TRANSFERS-OUT	$11,285,341	$11,015,776	8,995,350	$2,020,426
EXCESS OF REVENUES AND TRANSFERS-IN OVER/(UNDER) EXPENDITURES/EXPENSES AND TRANSFERS-OUT			$ 602,557	

The notes to the required supplementary information are an integral part of this schedule.

SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES, AND CHANGES IN FUND BALANCES/NET ASSET - BUDGETARY BASIS BUDGET AND ACTUAL - FEDERALLY FUNDED FOR THE YEAR ENDED JUNE 30, 2004

(DOLLARS IN THOUSANDS)	ORIGINAL APPROPRIATION	FINAL SPENDING AUTHORITY	ACTUAL	(OVER)/UNDER SPENDING AUTHORITY
REVENUES AND TRANSFERS-IN:				
Federal Grants and Contracts			$4,188,998	
TOTAL REVENUES AND TRANSFERS-IN			4,188,998	
Capital and Multi-Year Budgets:				
Departmental:				
Agriculture	$ 1,171	$ 9,411	4,541	$ 4,870
Corrections	5,123	15,839	6,751	9,088
Education	380,987	591,366	410,454	180,912
Governor	18,718	170,529	52,905	117,624
Health Care Policy and Financing	1,422,726	1,557,661	1,536,836	20,825
Higher Education	20,953	117,059	73,456	43,603
Human Services	500,013	983,891	834,266	149,625
Judicial Branch	1,839	5,388	2,841	2,547
Labor and Employment	86,917	307,031	229,177	77,854
Law	800	942	760	182
Local Affairs	48,751	119,132	49,310	69,822
Military Affairs	122,902	14,605	8,460	6,145
Natural Resources	22,959	57,559	30,531	27,028
Personnel & Administration	72	2,688	1,165	1,523
Public Health and Environment	159,703	317,632	219,619	98,013
Public Safety	43,112	179,145	53,562	125,583
Regulatory Agencies	1,090	6,846	6,333	513
Revenue	1,926	3,399	1,744	1,655
State	7,037	7,215	801	6,414
Transportation	312,111	810,345	494,444	315,901
Treasury	-	83,753	83,100	653
SUB-TOTAL CAPITAL AND MULTI-YEAR BUDGETS	3,158,910	5,361,436	4,101,056	1,260,380
TOTAL EXPENDITURES/EXPENSES AND TRANSFERS-OUT	$3,158,910	$5,361,436	4,101,056	$1,260,380
EXCESS OF REVENUES AND TRANSFERS-IN OVER/(UNDER) EXPENDITURES/EXPENSES AND TRANSFERS-OUT			$ 87,942	

The notes to the required supplementary information are an integral part of this schedule.

RECONCILING SCHEDULE
ALL BUDGET FUND TYPES
TO ALL GAAP FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2004

(DOLLARS IN THOUSANDS)

	GOVERNMENTAL FUND TYPES					
	GENERAL	PUBLIC SCHOOL	HIGHWAY USERS TAX	CAPITAL PROJECTS	STATE EDUCATION	OTHER GOVERNMENTAL FUNDS
BUDGETARY BASIS:						
Revenues and Transfers-In:						
General	$ 5,820,846	$ -	$ -	$ 13,824	$ -	$ -
Cash	662,834	2,323,016	1,626,733	67,670	292,604	1,472,104
Federal	3,140,028	-	494,124	22,446	-	293,869
Sub-Total Revenues and Transfers-In	9,623,708	2,323,016	2,120,857	103,940	292,604	1,765,973
Expenditures/Expenses and Transfers-Out						
General Funded	5,706,999	-	-	34,532	-	-
Cash Funded	664,782	2,318,615	1,577,841	62,233	351,742	1,278,643
Federally Funded	3,139,115	-	494,124	22,212	-	216,632
Expenditures/Expenses and Transfers-Out	9,510,896	2,318,615	2,071,965	118,977	351,742	1,495,275
Excess of Revenues and Transfers-In Over (Under) Expenditures and Transfers-Out - Budget Basis	112,812	4,401	48,892	(15,037)	(59,138)	270,698
BUDGETARY BASIS ADJUSTMENTS:						
Increase/(Decrease) for Unrealized Gains/Losses	(26,385)	-	(12,097)	157	(12,121)	(37,600)
Increase for Budgeted Non-GAAP Expenditures	-	-	2	1	-	27,445
Increase/(Decrease) for GAAP Expenditures Not Budgeted	166,499	-	(6,789)	47,956	-	(759)
Increase/(Decrease) for GAAP Revenue Adjustments	(141,070)	-	6,789	(47,956)	-	(105)
Increase/(Decrease) for Non-Budgeted Funds	-	-	-	-	-	45
Excess of Revenues and Transfers-In Over (Under) Expenditures and Transfers-Out - GAAP Basis	111,856	4,401	36,797	(14,879)	(71,259)	259,724
GAAP BASIS FUND BALANCES/NET ASSETS:						
FUND BALANCE/NET ASSETS, JULY 1	134,715	13,926	1,075,551	50,859	218,545	1,333,605
Prior Period Adjustments (See Note 28)	411	-	-	-	-	41,392
FUND BALANCE/NET ASSETS, JUNE 30	$ 246,982	$ 18,327	$ 1,112,348	$ 35,980	$ 147,286	$ 1,634,721

The notes to the required supplementary information are an integral part of this schedule.

PROPRIETARY FUND TYPES							
HIGHER EDUCATION INSTITUTIONS	UNEMPLOYMENT INSURANCE	STUDENT OBLIGATION BOND AUTHORITY	STATE LOTTERY	OTHER ENTERPRISE FUNDS	INTERNAL SERVICE	**FIDUCIARY FUND TYPES**	**TOTAL PRIMARY GOVERNMENT**
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 5,834,670
1,310,603	347,539	37,780	408,186	182,831	88,992	777,015	9,597,907
-	126,546	14,623	-	93,516	3,846	-	4,188,998
1,310,603	474,085	52,403	408,186	276,347	92,838	777,015	19,621,575
-	-	-	-	-	-	-	5,741,531
1,292,503	457,047	37,409	408,432	169,074	86,939	290,090	8,995,350
-	131,658	-	-	93,469	3,846	-	4,101,056
1,292,503	588,705	37,409	408,432	262,543	90,785	290,090	18,837,937
18,100	(114,620)	14,994	(246)	13,804	2,053	486,925	783,638
4,416	-	2,265	(861)	(3,101)	(76)	120,615	35,212
-	-	-	113	13,754	3,858	-	45,173
162	(7,492)	-	(264)	(15,114)	(4,026)	(8)	180,165
(162)	-	-	-	252	-	-	(182,252)
182,866	-	-	-	(45)	-	106,155	289,021
205,382	(122,112)	17,259	(1,258)	9,550	1,809	713,687	1,150,957
2,800,609	322,423	111,783	2,974	266,915	19,709	2,666,150	9,017,764
2,778	-	-	-	438	16,116	-	61,135
$ 3,008,769	$ 200,311	$ 129,042	$ 1,716	$ 276,903	$ 37,634	$ 3,379,837	$ 10,229,856

GENERAL FUND

The General Fund is the principal operating fund of the state. It is used to account for all governmental financial resources and transactions not accounted for in another fund. The General Fund Surplus is a statutorily defined amount that varies from the Unreserved – Undesignated Fund Balance on the Balance Sheet by revenues and expenditures that have been deferred into the following year for the budgetary basis (see Note RSI-1A). The schedule on the following page is presented to document compliance with the constitutional requirement for a positive General Fund Surplus on the budgetary basis. The schedule differs from the General Fund presentation in the *Statement of Revenues, Expenditures, and Changes in Fund Balances* and the *Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budgetary Basis – Budget-to-Actual – General Funded* in several ways as discussed below.

For the purpose of reporting in accordance with Generally Accepted Accounting Principles (GAAP), risk management activities are reported as part of the General Fund and represented on the *Balance Sheet – Governmental Funds* as "Reserved for Risk Management". For budgetary reporting purposes (including the following schedule), risk management activities are considered a cash fund (see Note RSI-1) and are not included in the General Fund.

After all legal and GAAP reserves are taken into consideration, the balance of net assets in the General Fund is represented on the *Balance Sheet – Governmental Funds* as "Fund Balances: Unreserved, Reported in: General Fund". When it is positive, the unreserved undesignated fund balance represents cumulative excess general purpose and related augmenting revenues of the state. General-purpose revenues are revenues that are not designated for specific purposes. The following schedule shows the general-purpose revenues and the expenditures, by department, funded from those general-purpose revenues. The excess augmenting revenues shown represent earned revenues that were greater than the related appropriation for specific expenditures. These revenues in excess of the related expenditures become part of unreserved undesignated fund balance.

Another purpose of this schedule is to identify the General Fund fund balance available for appropriation. In order to identify that amount, encumbrances of the prior year are subtracted from the revised budget and the actual expenditure columns because they were considered expended in the prior year. In addition, encumbrances at the end of the current year are considered expenditures and are added to the actual column.

In order to properly state the amounts reverted, restrictions on the revised budget are not reflected in the amounts shown. The $71.3 million difference between the departmental revised budgets and the total estimated budget is primarily the result of a decision to restrict rather than reduce the Department of Health Care Policy and Financing's budget. The Legislature restricted the departments' budget by $68.7 million because federal participation in the Medicaid program temporarily increased from 50 percent to 52.95 percent. Unspent restricted appropriations are reported as reversions on the schedule.

The $97.1 million deficit in Ending General Fund Surplus anticipated at the beginning of the fiscal year was the result of declining revenue estimates between December 2002 and June 2003. The original appropriation was based on the December 2002 revenue estimate.

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN GENERAL FUND SURPLUS BUDGET AND ACTUAL - BUDGETARY BASIS FOR THE YEAR ENDED JUNE 30, 2004

(DOLLARS IN THOUSANDS)	ORIGINAL ESTIMATE/ BUDGET	REVISED ESTIMATE/ BUDGET	ACTUAL	REVERSIONS OF GENERAL FUND APPROPRIATION	EXCESS AUGMENTING REVENUE EARNED
REVENUES:					
Sales and Use Tax	$1,926,100	$1,907,000	$1,908,355		
Other Excise Taxes	95,300	96,200	96,642		
Individual Income Tax, net	3,108,672	3,178,700	3,188,766		
Corporate Income Tax, net	126,028	212,900	217,703		
Estate Tax	41,200	50,100	47,197		
Insurance Tax	168,400	172,400	175,903		
Parimutuel, Courts, and Other	52,200	85,900	72,180		
Investment Income	11,000	22,400	19,522		
Gaming	41,200	39,600	40,195		
TOTAL GENERAL PURPOSE REVENUES	5,570,100	5,765,200	5,766,463		
ACTUAL BUDGET RECORDED AND EXPENDITURES:					
Agriculture	4,153	4,112	3,944	$ 168	$ 101
Corrections	469,772	468,896	468,091	805	859
Education	2,417,663	2,417,666	2,417,506	160	51
Governor	13,165	13,380	13,283	97	18
Health Care Policy and Financing	1,103,176	1,229,954	1,163,608	66,346	-
Higher Education	591,428	591,409	591,396	13	90
Human Services	460,282	459,867	458,653	1,214	1,283
Judicial Branch	207,297	208,618	207,970	648	1,075
Law	6,721	6,771	6,348	423	54
Legislative Branch	26,970	27,063	26,892	171	65
Local Affairs	4,780	4,756	4,750	6	-
Military Affairs	3,839	3,897	3,756	141	(71)
Natural Resources	19,556	19,710	19,615	95	46
Personnel & Administration	7,889	7,987	7,836	151	1
Public Health and Environment	12,535	12,500	12,493	7	159
Public Safety	54,179	54,171	53,854	317	257
Regulatory Agencies	1,058	1,051	1,045	6	-
Revenue	172,096	170,994	165,113	5,881	25
State	-	-	-	-	166
Treasury	5,758	4,359	4,350	9	-
Appropriation to the Capital Projects Fund	9,490	9,490	9,490	-	-
TOTAL ACTUAL BUDGET AND EXPENDITURES	5,591,807	5,716,651	5,639,993	$ 76,658	$ 4,179
Variance Between Actual and Estimated Budgets	(7,807)	(71,339)	-		
TOTAL ESTIMATED BUDGET	5,584,000	5,645,312	5,639,993		
EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES	(13,900)	119,888	126,470		
EXCESS AUGMENTING REVENUES	-	-	4,179		
TRANSFERS:					
Transfers-In from Various Cash Funds	44,800	55,300	54,384		
Transfers-Out to Various Cash Funds	(55,000)	(56,188)	(56,188)		
Excess Beginning Reserve Transferred to the Highway and Capital Projects Funds	-	(8,400)	(8,339)		
TOTAL TRANSFERS	(10,200)	(9,288)	(10,143)		
EXCESS REVENUES AND TRANSFERS OVER(UNDER) BUDGET BASIS EXPENDITURES			120,506		
BEGINNING GENERAL FUND SURPLUS	13,400	93,700	93,659		
GAAP Revenues/(Expenditures) Not Budgeted	-	-	98		
(Increase)/Decrease in Long-Term Asset Reserve	-	-	(69)		
Budgeted Decrease (Increase) in Statutory 4 Percent Reserve Requirement	(86,400)	(92,300)	(92,376)		
ENDING GENERAL FUND SURPLUS	$ (97,100)	$ 112,000	$ 121,818		
RECONCILIATION TO GAAP UNRESERVED FUND BALANCE:					
GAAP Medicaid Expenditures Moved to Fiscal Year 2004-05 for Budget			(167,651)		
GAAP Payroll Expenditures Moved to Fiscal Year 2004-05 for Budget			(60,505)		
GAAP Revenues Related to Deferred Payroll and Medicaid Expenditures			89,705		
Shortfall in Statutory Reserve			16,633		
ENDING GAAP UNRESERVED FUND BALANCE			$ -		

The notes to the required supplementary information are an integral part of this schedule.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-1. BUDGETARY INFORMATION

A. BUDGETARY BASIS

The three budget-to-actual schedules show revenues and expenditures that are legislatively appropriated or otherwise legally authorized (see pages 118 to 120). These schedules are presented in the budgetary fund structure discussed below. Higher Education Institution Funds, with the exception of the state-appropriated amounts are excluded from these schedules.

The budgetary fund types used by the state differ from the generally accepted accounting fund types. The budgetary fund types are general, cash, and federal funds. For budgetary purposes, cash funds are all financial resources received by the state that have been designated to support specific expenditures. Federal funds are revenues received from the Federal government. All other financial resources received are general-purpose revenues, and are not designated for specific expenditures.

Eliminations of transfers and intrafund transactions are not made in the budgetary funds if those transactions are under budgetary control. Thus, revenues and expenditures in these funds are shown at their gross amounts. This results in significant duplicate recording of revenues and expenditures. An expenditure of one budgetary fund may be shown as a transfer-in or revenue in another budgetary fund and then be shown again as an expenditure in the second fund.

For budget purposes, depending on the accounting fund type involved, expenditures/expenses are determined using the modified accrual or accrual basis of accounting with the following exceptions:

- Payments to employees for time worked in June of each fiscal year are made on the first working day of the following month; for general funded appropriations those payments are reported as expenditures in the following fiscal year.
- Medicaid services claims are reported as expenditures only when the Department of Health Care Policy and Financing requests payment by the State Controller.
- Unrealized gains and losses on investments are not recognized as changes in revenue on the budgetary basis.

B. BUDGETARY PROCESS

The financial operations of the legislative, judicial, and executive branches of state government, with the exception of custodial funds and federal moneys not requiring matching state funds, are controlled by annual appropriation made by the General Assembly. The Department of Transportation's portion of the Highway Fund is appropriated to the State Transportation Commission. Within the legislative appropriation, the Commission may appropriate the specific projects and other operations of the department. In addition, the Commission may appropriate available fund balance from its portion of the Highway Fund.

The total legislative appropriation is constitutionally limited to the unrestricted funds held at the beginning of the year plus revenues estimated to be received during the year as determined by the budgetary basis of accounting. The original appropriation by the General Assembly in the Long Appropriations Act segregates the budget of the state into its operating and capital components. The majority of the capital budgets are accounted for in the Capital Projects Fund, with the primary exception being budgeted capital funds used for infrastructure.

The Governor has line item veto authority over the Long Appropriations Bill, but the General Assembly may override each individual line item veto by a two-thirds majority vote in each house.

General and cash funded appropriations, with the exception of capital projects, lapse at year end unless executive action is taken to rollforward all or part of the remaining unspent budget authority. General funded appropriations that meet the strict criteria for rollforward are reported in the *Balance Sheet – Governmental Funds* as "Reserved for Encumbrances". Since capital projects appropriations are generally available for three years after appropriation, significant amounts of the capital budgets remain unexpended at fiscal year end.

The appropriation controls the combined expenditures and encumbrances of the state, in the majority of the cases, to the level of line item within the state agency. Line items are individual lines in the official budget document and vary from specific payments for specific programs to single appropriations at the agency level. The institutions of higher education are appropriated at the governing board level. Statutes allow the Judicial and Executive Branches, at year end, to transfer legislative appropriations within departments for expenditures of like purpose. The appropriation may be adjusted in the following session of the General Assembly by a supplemental appropriation.

On the three budget-to-actual schedules, the column titled Original Appropriation consists of the Long Appropriations Act including anticipated federal funds, special bills, and any statutorily authorized appropriations. The column titled Final Spending Authority includes the original appropriation, federal funds actually awarded, supplemental appropriations of the Legislature, statutorily authorized appropriations equal to the related expenditures, and other miscellaneous budgetary items.

C. OVEREXPENDITURES

Depending on the accounting fund type involved, expenditures/expenses are determined using the modified accrual or accrual basis of accounting even if the accrual will result in an overexpenditure. The modified and full accrual basis of accounting is converted to the budgetary basis of accounting as explained in Note RSI-1A. If earned cash revenues plus available fund balance and earned federal revenues are less than cash and federal expenditures, then those excess expenditures are considered general funded expenditures. If general funded expenditures exceed the general funded appropriation then an overexpenditure occurs even if the expenditures did not exceed the total legislative line item appropriation. Individual overexpenditures are listed in Note 8A.

A separately issued report comparing line item expenditures to authorized budget is available upon request from the State Controller's Office.

D. BUDGET TO GAAP RECONCILIATION

The *Reconciling Schedule – All Budget Fund Types to All GAAP Fund Types* (see page 122) shows how revenues, expenditures/expenses, and transfers under the budgetary basis in the budgetary fund structure (see pages 118 to 120) relate to the change in fund balances/net assets for the funds presented in the fund level statements (see pages 44 to 61).

Certain expenditures on a generally accepted accounting principle (GAAP) basis, such as bad debt expense and depreciation, are not budgeted by the General Assembly. In addition, payroll disbursements for employee time worked in June and Medicaid payments accrued but not paid by June 30 are excluded from the budget and from budget basis expenses/expenditures. These expenses/expenditures are not shown on the budget-to-actual schedules but are included in the budget-to-actual reconciliation as “GAAP Expenditures Not Budgeted”. Some transactions considered expenditures for budgetary purposes, such as capital purchases in proprietary fund types, are not expenditures on a GAAP basis. These expenditures are shown as "Budgeted Non-GAAP Expenditures."

Some transactions considered revenues for budgetary purposes, such as intrafund sales, are not considered GAAP revenues. Some events, such as the recognition of unrealized gains/losses on investments, affect revenues on a GAAP basis but not on the budgetary basis. Federal Medicaid revenues related to accrued Medicaid expenditures result in revenues on the GAAP statements but not on the budgetary statements. These events and transactions are shown in the reconciliation as “Unrealized Gains/Losses” and/or “GAAP Revenue Adjustments”.

The inclusion of these revenues and expenditures and the change in nonbudgeted funds along with the balances from the budget-to-actual statements is necessary to reconcile to the GAAP fund balance.

E. OUTSTANDING ENCUMBRANCES

The state uses encumbrance accounting as an extension of formal budgetary integration in most funds except certain Fiduciary Funds, and certain Higher Education Institutions Funds. Under this procedure, purchase orders and contracts for expenditures of money are recorded to reserve an equivalent amount of the related appropriation. Encumbrances do not constitute expenditures or liabilities. They lapse at year end unless specifically brought forward to the subsequent year, thus, committing the subsequent year’s available appropriation.

NOTE RSI-2. INFRASTRUCTURE ASSETS REPORTED UNDER THE MODIFIED APPROACH

As allowed by GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the state has adopted an alternative method for reporting costs associated with certain infrastructure assets. Under this alternative method, referred to as the modified approach, the state expenses most maintenance and preservation costs and does not report depreciation expense. The state capitalizes costs related to new construction, major replacements, and improvements that increase the capacity and/or efficiency of infrastructure assets reported under the modified approach. Colorado applies the modified approach only to infrastructure owned and/or maintained by the Colorado Department of Transportation. Assets accounted for under the modified approach include approximately 22,600 lane miles of roads and 3,699 bridges for which the state has maintenance responsibilities.

To use the modified approach, the state is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount necessary to maintain and preserve the assets at the condition level established and disclosed by the state.
- Document that the assets are being preserved approximately at or above the established condition level.

ROADWAY

Measurement Scale

The Colorado Department of Transportation (CDOT) uses Remaining Service Life (RSL) to determine the condition of roadway pavements. In use since 1998, the RSL is a representation, in years, of functional and structural performance of the roadway pavement. CDOT has defined RSL into three conditions as follows:

Condition	Bituminous Surface	Concrete Surface
11 or more years = Good	No distress or some indication of initial distress, but no appreciable maintenance is required. Distress items include low or a small amount of moderate severity cracking such as transverse, longitudinal, or fatigue. Slight rutting in the wheel paths.	No distress or some indication of initial distress, but no appreciable maintenance is required. Distress items include low or a small amount of moderate severity cracking such as transverse or longitudinal or slight corner breaks.
6 to 10 years = Fair	Initial distresses are apparent requiring routine maintenance. Distress items include moderate and some high severity cracking such as transverse, longitudinal, or fatigue. Moderate rutting in the wheel paths.	Initial distresses are apparent requiring sealing. Distress items include moderate and some high severity cracking such as transverse or longitudinal or moderate corner breaks.
0 to 5 years = Poor	Excessive distresses requiring high maintenance or major rehabilitation treatments. Distress items include a large amount of moderate to high severity cracking such as transverse, longitudinal, or fatigue. Moderate to severe rutting in the wheel paths.	Excessive distresses requiring high maintenance or slab replacement. Distress items include a large amount of moderate to high severity transverse or longitudinal cracking or moderate to severe corner breaks.

Established Condition Level

The expected condition level for roadway is that 54 percent of roadways will be in the good and fair categories.

Assessed Conditions

Condition levels are assessed on a fiscal year basis. The following table reports the percentage of pavements meeting the "Good/Fair" condition for the past six years.

Rating	2003	2002	2001	2000	1999	1998
Good/Fair	58%	58%	54%	54%	51%	58%
Poor	42%	42%	46%	46%	49%	42%

BRIDGES

Measurement Scale

CDOT utilizes PONTIS and the National Bridge Inventory to monitor the condition of the 3699 bridges under its jurisdiction.

The inventory rates bridges including the deck, superstructure, and substructure, using a 10-point scale as follows:

Rating	Description
9	Excellent
8	Very Good
7	Good. Some minor problems.
6	Satisfactory. Structural elements show some minor deterioration.
5	Fair. All primary structural elements are sound but may have minor section loss, cracking, spalling or scour.
4	Poor. Advanced section loss, deterioration, spalling, or scour.
3	Serious. Loss of section, deterioration, spalling, or scour have seriously affected primary structural components. Local failures are possible. Fatigue cracks in steel or shear cracks in concrete may be present.
2	Critical. Advanced deterioration of primary structural elements. Fatigue cracks in steel or shear cracks in concrete may be present or scour may have removed substructure support. Unless closely monitored it may be necessary to close bridge until corrective action is taken.
1	Imminent failure. Major deterioration or section loss present in critical structural components or obvious vertical or horizontal movement affecting structure stability. Bridge is closed to traffic, but corrective action may put it back in light service.
0	Failure. Out of service – beyond corrective action.

Established Condition Level

No more than 25 percent of the bridges shall be rated as "structurally deficient". "Structurally deficient" results when a condition of 4 or worse is assessed to at least one of the major structural elements, that is, deck, superstructure, or substructure.

Assessed Conditions

The following table reports the percentage of bridges whose condition was assessed as "structurally deficient".

Year	Percent
2004	6.5%
2003	6.3%
2002	6.6%
2001	6.7%
2000	6.3%
1999	6.5%
1998	5.6%
1997	5.4%

Budgeted and Estimated Costs to Maintain

The Department of Transportation has not developed a process for reporting the estimated cost to maintain infrastructure assets at the established condition level. Until the department develops that system, it has chosen to use budgeted amounts as a surrogate for the cost to maintain. The following table presents the estimated cost to maintain the infrastructure and the related actual expenditures:

(Amounts in Millions)

Fiscal Year	Estimated Spending	Actual Spending
2003-04	$ 554.1	$ 529.9
2002-03	631.0	1,457.1
2001-02	968.5	1,051.8
2000-01	1,842.2	929.2
1999-00	688.6	774.3
1998-99	693.4	696.5
1997-98	533.0	552.4
1996-97	495.6	414.5
Total	$ 6,406.4	$ 6,405.7

The Department reported $389.9 million of construction in progress additions in Fiscal Year 2003-04 that will be capitalized as infrastructure in future years.

Infrastructure maintenance projects by their nature span multiple years, and the related budgets do not lapse at year end. As a result, the Department of Transportation's spending in any fiscal year may be from amounts that were budgeted in the current and/or previous years. Therefore, this timing difference does not allow a true comparison of amounts budgeted and spent within a given year.

SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
JUNE 30, 2004

(DOLLARS IN THOUSANDS)	SPECIAL REVENUE	DEBT SERVICE	PERMANENT	TOTAL
ASSETS:				
Cash and Pooled Cash	$ 752,699	$ -	$ -	$ 752,699
Taxes Receivable, net	49,276	-	-	49,276
Other Receivables, net	72,875	-	8,401	81,276
Due From Other Governments	3,653	341	2	3,996
Due From Other Funds	58,680	-	697	59,377
Inventories	299	-	-	299
Prepaids, Advances, and Deferred Charges	2,257	1,915	-	4,172
Restricted Cash and Pooled Cash	270,612	5,709	27,672	303,993
Restricted Investments	-	-	350,918	350,918
Restricted Receivables	2,305	-	-	2,305
Investments	10,025	-	-	10,025
Other Long-Term Assets	209,604	-	12,796	222,400
Land and Nondepreciable Infrastructure	-	-	12,689	12,689
TOTAL ASSETS	$ 1,432,285	$ 7,965	$ 413,175	$ 1,853,425
LIABILITIES:				
Tax Refunds Payable	$ 3,489	$ -	$ -	$ 3,489
Accounts Payable and Accrued Liabilities	34,431	-	60	34,491
Due To Other Governments	50,834	-	-	50,834
Due To Other Funds	76,184	-	3,809	79,993
Deferred Revenue	31,568	-	2,778	34,346
Claims and Judgments Payable	11,726	-	-	11,726
Other Current Liabilities	3,820	-	-	3,820
Deposits Held In Custody For Others	5	-	-	5
TOTAL LIABILITIES	212,057	-	6,647	218,704
FUND BALANCES:				
Reserved for:				
Noncurrent Assets	244,388	-	25,485	269,873
Debt Service	-	7,965	-	7,965
Emergencies	172,202	-	-	172,202
Funds Reported as Restricted	133,889	-	375,034	508,923
Unreserved, Reported in:				
Nonmajor Special Revenue Funds	664,258	-	-	664,258
Nonmajor Permanent Funds	-	-	1,291	1,291
Unreserved:				
Designated for Unrealized Investment Gains:				
Reported in Nonmajor Special Revenue Funds	5,491	-	-	5,491
Reported in Nonmajor Permanent Funds	-	-	4,718	4,718
TOTAL FUND BALANCES	1,220,228	7,965	406,528	1,634,721
TOTAL LIABILITIES AND FUND BALANCES	$ 1,432,285	$ 7,965	$ 413,175	$ 1,853,425

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OTHER GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2004

(DOLLARS IN THOUSANDS)	SPECIAL REVENUE	DEBT SERVICE	PERMANENT	TOTALS
REVENUES:				
Taxes:				
Sales and Use	$ 10,730	$ -	$ -	$ 10,730
Excise	1,515	-	-	1,515
Other Taxes	291,388	-	-	291,388
Licenses, Permits, and Fines	278,037	-	-	278,037
Charges for Goods and Services	45,763	-	192	45,955
Investment Income (Loss)	18,714	32	(826)	17,920
Federal Grants and Contracts	293,703	-	2	293,705
Other	25,714	-	40,032	65,746
TOTAL REVENUES	965,564	32	39,400	1,004,996
EXPENDITURES:				
Current:				
General Government	43,360	-	-	43,360
Business, Community and Consumer Affairs	160,758	-	-	160,758
Education	23,913	-	-	23,913
Health and Rehabilitation	45,827	-	-	45,827
Justice	19,040	-	-	19,040
Natural Resources	29,459	-	81	29,540
Social Assistance	69,998	-	-	69,998
Transportation	1,100	-	-	1,100
Capital Outlay	20,355	-	41	20,396
Intergovernmental:				
Cities	80,638	-	-	80,638
Counties	61,569	-	18	61,587
School Districts	25,592	-	-	25,592
Special Districts	13,692	-	-	13,692
Federal	716	-	7	723
Other	20,441	-	6	20,447
Debt Service	31	80,459	-	80,490
TOTAL EXPENDITURES	616,489	80,459	153	697,101
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	349,075	(80,427)	39,247	307,895
OTHER FINANCING SOURCES (USES):				
Transfers-In	151,593	81,123	117	232,833
Transfers-Out	(258,593)	-	(35,486)	(294,079)
Bond Premium/Discount	-	32,606	-	32,606
Capital Lease Debt Issuance	71	-	-	71
Sale of Capital Assets	256	-	10,720	10,976
Debt Refunding Issuance	-	280,220	-	280,220
Debt Refunding Payments	-	(310,798)	-	(310,798)
TOTAL OTHER FINANCING SOURCES (USES)	(106,673)	83,151	(24,649)	(48,171)
NET CHANGE IN FUND BALANCES	242,402	2,724	14,598	259,724
FUND BALANCE, FISCAL YEAR BEGINNING	936,434	5,241	391,930	1,333,605
Prior Period Adjustment (See Note 28)	41,392	-	-	41,392
FUND BALANCE, FISCAL YEAR END	$ 1,220,228	$ 7,965	$ 406,528	$ 1,634,721

SPECIAL REVENUE FUNDS

WATER PROJECTS	This fund accounts for construction loans made to local governments and special districts to enhance the water resources of the state.
LABOR	This fund accounts for injured workers' medical benefits provided by statutes that are not covered by workers' compensation benefits.
GAMING	This fund accounts for operations of the Colorado Gaming Commission and its oversight of gaming operations in the state. It also accounts for the preservation activities of the Colorado Historical Society related to the revenues it receives from gaming.
TOBACCO LITIGATION SETTLEMENT	This fund accounts for receipts directly from the tobacco litigation settlement, earnings on those funds, and the expenditures of programs funded by the tobacco master settlement agreement.
OTHER SPECIAL REVENUE FUNDS	This fund category accounts for over three hundred individual statutory funds that have a wide variety of purposes. A combining schedule of total assets, total liabilities, and total nets assets for the larger of these individual funds is presented beginning on page 175.

COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
JUNE 30, 2004

(DOLLARS IN THOUSANDS)	WATER PROJECTS	LABOR
ASSETS:		
Cash and Pooled Cash	$ 58,902	$ 49,858
Taxes Receivable, net	-	21,027
Other Receivables, net	11,816	172
Due From Other Governments	-	-
Due From Other Funds	1,759	229
Inventories	-	-
Prepaids, Advances, and Deferred Charges	-	-
Restricted Cash and Pooled Cash	16,319	-
Restricted Receivables	-	-
Investments	-	-
Other Long-Term Assets	198,700	-
TOTAL ASSETS	$ 287,496	$ 71,286
LIABILITIES:		
Tax Refunds Payable	$ -	$ -
Accounts Payable and Accrued Liabilities	1,357	369
Due To Other Governments	-	-
Due To Other Funds	33,091	-
Deferred Revenue	-	-
Claims and Judgments Payable	-	11,505
Other Current Liabilities	-	-
Deposits Held In Custody For Others	-	-
TOTAL LIABILITIES	34,448	11,874
FUND BALANCES:		
Reserved for:		
Noncurrent Assets	200,394	-
Emergencies	16,310	-
Funds Reported as Restricted	-	-
Unreserved, Reported in:		
Nonmajor Special Revenue Funds	-	-
Unreserved:		
Designated for Unrealized Investment Gains:		
Reported in Nonmajor Special Revenue Funds	429	293
Undesignated	35,915	59,119
TOTAL FUND BALANCES	253,048	59,412
TOTAL LIABILITIES AND FUND BALANCES	$ 287,496	$ 71,286

GAMING	TOBACCO LITIGATION SETTLEMENT	OTHER SPECIAL REVENUE	TOTALS
$ 122,785	$ 68,219	$ 452,935	$ 752,699
10,595	-	17,654	49,276
4	44,439	16,444	72,875
-	-	3,653	3,653
-	9	56,683	58,680
-	-	299	299
32	-	2,225	2,257
-	26,232	228,061	270,612
-	-	2,305	2,305
-	-	10,025	10,025
-	-	10,904	209,604
$ 133,416	$ 138,899	$ 801,188	$ 1,432,285
$ -	$ -	$ 3,489	$ 3,489
947	3,130	28,628	34,431
20,328	-	30,506	50,834
40,321	61	2,711	76,184
202	-	31,366	31,568
-	-	221	11,726
20	-	3,800	3,820
5	-	-	5
61,823	3,191	100,721	212,057
-	-	43,994	244,388
-	26,232	129,660	172,202
1,367	-	132,522	133,889
-	-	390,757	390,757
684	551	3,534	5,491
69,542	108,925	-	273,501
71,593	135,708	700,467	1,220,228
$ 133,416	$ 138,899	$ 801,188	$ 1,432,285

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES SPECIAL REVENUE FUNDS FOR THE YEAR ENDED JUNE 30, 2004

(DOLLARS IN THOUSANDS)	WATER PROJECTS	LABOR
REVENUES:		
Taxes:		
Sales and Use	$ -	$ -
Excise	-	-
Other Taxes	-	42,462
Licenses, Permits, and Fines	-	153
Charges for Goods and Services	38	-
Investment Income (Loss)	6,611	1,063
Federal Grants and Contracts	-	-
Other	40	228
TOTAL REVENUES	6,689	43,906
EXPENDITURES:		
Current:		
General Government	-	-
Business, Community and Consumer Affairs	-	9,389
Education	-	-
Health and Rehabilitation	-	-
Justice	-	-
Natural Resources	4,567	-
Social Assistance	-	-
Transportation	-	-
Capital Outlay	118	-
Intergovernmental:		
Cities	68	-
Counties	171	-
School Districts	-	-
Special Districts	46	-
Federal	310	-
Other	80	-
Debt Service	-	-
TOTAL EXPENDITURES	5,360	9,389
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,329	34,517
OTHER FINANCING SOURCES (USES):		
Transfers-In	8,035	10,000
Transfers-Out	(5,387)	(368)
Capital Lease Debt Issuance	-	-
Sale of Capital Assets	-	-
TOTAL OTHER FINANCING SOURCES (USES)	2,648	9,632
NET CHANGE IN FUND BALANCES	3,977	44,149
FUND BALANCE, FISCAL YEAR BEGINNING	249,071	15,263
Prior Period Adjustment (See Note 28)	-	-
FUND BALANCE, FISCAL YEAR END	$ 253,048	$ 59,412

GAMING	TOBACCO LITIGATION SETTLEMENT	OTHER SPECIAL REVENUE	TOTALS
$ -	$ -	$ 10,730	$ 10,730
-	-	1,515	1,515
98,563	-	150,363	291,388
651	87,483	189,750	278,037
588	-	45,137	45,763
(568)	(1,137)	12,745	18,714
633	3,000	290,070	293,703
474	173	24,799	25,714
100,341	89,519	725,109	965,564
-	-	43,360	43,360
7,388	-	143,981	160,758
20,004	140	3,769	23,913
-	3,407	42,420	45,827
-	-	19,040	19,040
-	-	24,892	29,459
-	5,606	64,392	69,998
-	-	1,100	1,100
37	-	20,200	20,355
17,429	1	63,140	80,638
16,005	6,673	38,720	61,569
229	13,286	12,077	25,592
578	1,087	11,981	13,692
-	-	406	716
42	298	20,021	20,441
-	-	31	31
61,712	30,498	509,530	616,489
38,629	59,021	215,579	349,075
6,188	-	127,370	151,593
(47,842)	(20,614)	(184,382)	(258,593)
-	-	71	71
-	-	256	256
(41,654)	(20,614)	(56,685)	(106,673)
(3,025)	38,407	158,894	242,402
74,618	54,260	543,222	936,434
-	43,041	(1,649)	41,392
$ 71,593	$ 135,708	$ 700,467	$ 1,220,228

PERMANENT FUNDS

STATE LANDS	This fund consists of the assets, liabilities, and related operations of lands granted to the state by the federal government for educational purposes.
OTHER PERMANENT TRUST	This fund category represents several minor permanent funds including the Land and Water Management Fund, the Hall Historical Marker Fund, the Wildlife for Future Generations Fund, and the Veterans Monument Preservation Fund.

COMBINING BALANCE SHEET
PERMANENT FUNDS
JUNE 30, 2004

(DOLLARS IN THOUSANDS)	STATE LANDS	OTHER	TOTALS
ASSETS:			
Current Assets:			
Other Receivables, net	$ 8,401	$ -	$ 8,401
Due From Other Governments	-	2	2
Due From Other Funds	687	10	697
Restricted Cash and Pooled Cash	20,521	7,151	27,672
Restricted Investments	350,918	-	350,918
Other Long-Term Assets	12,796	-	12,796
Land and Nondepreciable Infrastructure	12,413	276	12,689
TOTAL ASSETS	$ 405,736	$ 7,439	$ 413,175
LIABILITIES:			
Current Liabilities:			
Accounts Payable and Accrued Liabilities	$ 11	$ 49	$ 60
Due To Other Funds	3,809	-	3,809
Deferred Revenue	2,778	-	2,778
TOTAL LIABILITIES	6,598	49	6,647
FUND BALANCES:			
Reserved for:			
Noncurrent Assets	25,209	276	25,485
Funds Reported as Restricted	368,716	6,318	375,034
Unreserved, Reported in:			
Nonmajor Permanent Funds	537	754	1,291
Unreserved:			
Designated for Unrealized Investment Gains:			
Reported in Nonmajor Permanent Funds	4,676	42	4,718
TOTAL FUND BALANCES	399,138	7,390	406,528
TOTAL LIABILITIES AND FUND BALANCES	$ 405,736	$ 7,439	$ 413,175

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES PERMANENT FUNDS FOR THE YEAR ENDED JUNE 30, 2004

(DOLLARS IN THOUSANDS)	STATE LANDS	OTHER	TOTALS
REVENUES:			
Charges for Goods and Services	$ 91	$ 101	$ 192
Investment Income (Loss)	(832)	6	(826)
Federal Grants and Contracts	-	2	2
Other	40,023	9	40,032
TOTAL REVENUES	39,282	118	39,400
EXPENDITURES:			
Current:			
Natural Resources	-	81	81
Capital Outlay	-	41	41
Intergovernmental:			
Counties	6	12	18
Federal	-	7	7
Other	-	6	6
TOTAL EXPENDITURES	6	147	153
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	39,276	(29)	39,247
OTHER FINANCING SOURCES (USES):			
Transfers-In	117	-	117
Transfers-Out	(35,458)	(28)	(35,486)
Sale of Capital Assets	10,720	-	10,720
TOTAL OTHER FINANCING SOURCES (USES)	(24,621)	(28)	(24,649)
NET CHANGE IN FUND BALANCES	14,655	(57)	14,598
FUND BALANCE, FISCAL YEAR BEGINNING	384,483	7,447	391,930
FUND BALANCE, FISCAL YEAR END	$ 399,138	$ 7,390	$ 406,528

OTHER ENTERPRISE FUNDS

These funds account for operations of state agencies that provide a majority of their services to the public on a user charge basis; most of them have been designated by statute as enterprises. The major activities in these funds are:

WILDLIFE	Expenses of this fund are to preserve the state's wildlife and promote outdoor recreational activities, while revenues are from hunting and fishing license fees as well as various fines.
GUARANTEED STUDENT LOAN	This fund records the activities of the Colorado Student Loan Program which guarantees loans made by private lending institutions, in compliance with operating agreements with the U.S. Department of Education, to students attending postsecondary schools. It also includes loan programs for Colorado residents that are not reinsured by the federal government.
STATE FAIR AUTHORITY	The State Fair Authority operates the Colorado State Fair, and other events, at the state fairgrounds in Pueblo.
CORRECTIONAL INDUSTRIES	This activity reports the production and sale of manufactured goods and farm products that are produced by convicted criminals who are incarcerated in the state prison system.
STATE NURSING HOMES	This activity is for nursing home and retirement care provided to the elderly at the state facilities at Aurora, Homelake, Walsenburg, Florence, Rifle, and Trinidad.
PRISON CANTEENS	This activity accounts for the various canteen operations in the state's prison system.
OTHER ENTERPRISE ACTIVITIES	The other enterprise activities of the state include the Business Enterprise Program, which is staffed by the visually impaired and manages food vending operations in state buildings; the Enterprise Services Fund of the Colorado Historical Society, which sells goods at state museums; and various smaller enterprise operations.

COMBINING STATEMENT OF NET ASSETS
OTHER ENTERPRISE FUNDS
JUNE 30, 2004

(DOLLARS IN THOUSANDS)	WILDLIFE	GUARANTEED STUDENT LOAN	STATE FAIR AUTHORITY
ASSETS:			
Current Assets:			
Cash and Pooled Cash	$ -	$ 21,769	$ 546
Taxes Receivable, net	4	-	-
Student and Other Receivables, net	4,174	837	46
Due From Other Governments	2,490	1,245	-
Due From Other Funds	3	3	-
Inventories	665	76	19
Prepaids, Advances, and Deferred Charges	1,150	41	152
Total Current Assets	8,486	23,971	763
Noncurrent Assets:			
Restricted Cash and Pooled Cash	72,741	4,310	-
Restricted Receivables	-	3,380	-
Investments	-	-	246
Other Long-Term Assets	-	-	40
Depreciable Capital Assets and Infrastructure, net	46,582	562	10,193
Land and Nondepreciable Infrastructure	99,926	-	660
Total Noncurrent Assets	219,249	8,252	11,139
TOTAL ASSETS	227,735	32,223	11,902
LIABILITIES:			
Current Liabilities:			
Accounts Payable and Accrued Liabilities	8,088	1,658	389
Due To Other Governments	2	7,324	-
Due To Other Funds	-	351	-
Deferred Revenue	28,613	123	1,149
Compensated Absences Payable	527	-	-
Leases Payable	81	152	108
Notes, Bonds, COP's Payable	-	-	130
Other Current Liabilities	-	291	3
Total Current Liabilities	37,311	9,899	1,779
Noncurrent Liabilities:			
Accrued Compensated Absences	4,720	873	94
Capital Lease Payable	61	214	119
Notes, Bonds, COP's Payable	-	-	1,406
Total Noncurrent Liabilities	4,781	1,087	1,619
TOTAL LIABILITIES	42,092	10,986	3,398
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	146,366	196	9,088
Restricted for:			
Emergencies	39,277	-	-
Court Awards and Other Purposes	-	1,435	-
Unrestricted	-	19,606	(584)
TOTAL NET ASSETS	$ 185,643	$ 21,237	$ 8,504

CORRECTIONAL INDUSTRIES	STATE NURSING HOMES	PRISON CANTEENS	OTHER ENTERPRISE ACTIVITIES	TOTALS
$ 4,622	$ 2,280	$ 4,699	$ 2,230	$ 36,146
-	-	-	-	4
893	449	315	249	6,963
329	1,053	-	73	5,190
1,210	1,125	-	33	2,374
8,291	269	286	173	9,779
55	68	-	246	1,712
15,400	5,244	5,300	3,004	62,168
-	-	-	-	77,051
-	-	-	-	3,380
-	-	-	-	246
753	527	-	-	1,320
5,214	28,291	1,255	1,702	93,799
1,113	4,584	-	3,948	110,231
7,080	33,402	1,255	5,650	286,027
22,480	38,646	6,555	8,654	348,195
1,643	3,352	457	347	15,934
-	132	-	-	7,458
-	871	74	5	1,301
-	3	-	13	29,901
-	218	-	5	750
-	6	-	2	349
-	320	-	-	450
9	-	7	14	324
1,652	4,902	538	386	56,467
759	986	91	108	7,631
-	12	-	-	406
-	5,382	-	-	6,788
759	6,380	91	108	14,825
2,411	11,282	629	494	71,292
6,327	27,092	1,255	5,648	195,972
-	-	-	-	39,277
-	-	-	-	1,435
13,742	272	4,671	2,512	40,219
$ 20,069	$ 27,364	$ 5,926	$ 8,160	$ 276,903

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS OTHER ENTERPRISE FUNDS FOR THE YEAR ENDED JUNE 30, 2004

(DOLLARS IN THOUSANDS)	WILDLIFE	GUARANTEED STUDENT LOAN	STATE FAIR AUTHORITY
OPERATING REVENUES:			
License and Permits	$ 66,136	$ -	$ -
Tuition and Fees	9	-	-
Sales of Goods and Services	1,878	5,386	6,774
Investment Income (Loss)	-	488	-
Rental Income	-	-	520
Federal Grants and Contracts	15,977	66,384	785
Intergovernmental Revenue	12,491	-	-
Other	807	24	3
TOTAL OPERATING REVENUES	97,298	72,282	8,082
OPERATING EXPENSES:			
Salaries and Fringe Benefits	48,659	12,723	4,054
Operating and Travel	30,061	50,140	3,254
Cost of Goods Sold	-	-	-
Depreciation and Amortization	3,245	414	615
Intergovernmental Distributions	3,045	-	-
Debt Service	-	10,036	-
Prizes and Awards	22	-	646
TOTAL OPERATING EXPENSES	85,032	73,313	8,569
OPERATING INCOME (LOSS)	12,266	(1,031)	(487)
NONOPERATING REVENUES AND (EXPENSES):			
Fines and Settlements	457	-	-
Investment Income (Loss)	(550)	-	(15)
Rental Income	226	-	-
Gifts and Donations	414	14	229
Gain/(Loss) on Sale of Capital Assets	333	-	-
Debt Service	(337)	-	(155)
Other Expenses	-	-	-
TOTAL NONOPERATING REVENUES (EXPENSES)	543	14	59
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	12,809	(1,017)	(428)
CONTRIBUTIONS, TRANSFERS, AND OTHER ITEMS:			
Capital Contributions	-	-	110
Additions to Permanent Endowments	-	-	-
Transfers-In	3	-	-
Transfers-Out	(4,206)	(147)	-
TOTAL CONTRIBUTIONS AND TRANSFERS	(4,203)	(147)	110
CHANGE IN NET ASSETS	8,606	(1,164)	(318)
TOTAL NET ASSETS - FISCAL YEAR BEGINNING	177,037	22,401	8,822
Prior Period/Other Adjustments (See Note 28)	-	-	-
TOTAL NET ASSETS - FISCAL YEAR ENDING	$ 185,643	$ 21,237	$ 8,504

CORRECTIONAL INDUSTRIES	STATE NURSING HOMES	PRISON CANTEENS	OTHER ENTERPRISE ACTIVITIES	TOTALS
$ -	$ -	$ -	$ -	$ 66,136
-	-	-	387	396
27,234	25,227	9,796	1,175	77,470
-	-	-	-	488
-	-	-	897	1,417
58	9,564	-	749	93,517
-	105	-	-	12,596
170	254	328	1	1,587
27,462	35,150	10,124	3,209	253,607
7,657	27,579	2,711	1,663	105,046
5,357	7,500	1,341	1,779	99,432
13,059	-	5,960	201	19,220
979	1,503	72	209	7,037
-	1,601	-	-	4,646
-	-	-	-	10,036
-	2	2	-	672
27,052	38,185	10,086	3,852	246,089
410	(3,035)	38	(643)	7,518
-	-	-	14	471
(47)	(41)	178	30	(445)
128	6	-	-	360
-	15	-	450	1,122
-	52	-	-	385
-	(296)	-	(1)	(789)
-	(3)	-	-	(3)
81	(267)	178	493	1,101
491	(3,302)	216	(150)	8,619
20	20	-	5,391	5,541
-	-	-	19	19
11	244	-	252	510
(567)	(97)	(112)	(10)	(5,139)
(536)	167	(112)	5,652	931
(45)	(3,135)	104	5,502	9,550
20,114	30,061	5,822	2,658	266,915
-	438	-	-	438
$ 20,069	$ 27,364	$ 5,926	$ 8,160	$ 276,903

COMBINING STATEMENT OF CASH FLOWS
OTHER ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

(DOLLARS IN THOUSANDS)	WILDLIFE	GUARANTEED STUDENT LOAN	STATE FAIR AUTHORITY
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from:			
Tuition, Fees, and Student Loans	$ 9	$ 120	$ -
Fees for Service	65,033	5,093	5,678
Sales of Products	569	-	84
Gifts, Grants, and Contracts	14,798	69,110	788
Other Sources	13,405	146	1,265
Cash Payments to or for:			
Employees	(42,689)	(11,846)	(1,746)
Suppliers	(31,797)	(6,221)	(5,499)
Sales Commissions and Lottery Prizes	(3,623)	(2,548)	-
Others for Student Loans and Loan Losses	-	(52,186)	-
Other Governments	(3,045)	-	-
Other	(1,407)	-	(749)
NET CASH PROVIDED BY OPERATING ACTIVITIES	11,253	1,668	(179)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers-In	3	-	-
Transfers-Out	(4,206)	(147)	-
Receipt of Deposits Held in Custody	-	-	3
Release of Deposits Held in Custody	-	-	(3)
Gifts for Other Than Capital Purposes	414	14	-
NonCapital Debt Service Payments	-	-	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES	(3,789)	(133)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of Capital Assets	(11,397)	(176)	(64)
Proceeds from Sale of Capital Assets	-	-	-
Income from Property	226	-	520
Capital Debt Proceeds	-	-	7
Capital Debt Service Payments	(326)	-	(253)
Capital Lease Payments	(138)	(17)	(130)
NET CASH FROM CAPITAL RELATED FINANCING ACTIVITIES	(11,635)	(193)	80

(Continued)

CORRECTIONAL INDUSTRIES	STATE NURSING HOMES	PRISON CANTEENS	OTHER ENTERPRISE ACTIVITIES	TOTALS
$ -	$ 432	$ -	$ 386	$ 947
4,330	24,555	-	334	105,023
21,707	18	10,290	831	33,499
58	10,169	-	756	95,679
170	23	35	10	15,054
(7,400)	(25,471)	(1,689)	(1,439)	(92,280)
(18,708)	(7,468)	(8,175)	(1,973)	(79,841)
-	-	-	-	(6,171)
-	-	-	-	(52,186)
-	(1,587)	-	-	(4,632)
(38)	(41)	(6)	(127)	(2,368)
119	630	455	(1,222)	12,724
11	244	-	252	510
(567)	(97)	(112)	(10)	(5,139)
3	-	-	-	6
(2)	(81)	(17)	-	(103)
-	15	-	469	912
-	(280)	-	-	(280)
(555)	(199)	(129)	711	(4,094)
(1,116)	(1,038)	(58)	(246)	(14,095)
-	49	-	12	61
128	6	-	738	1,618
-	39	-	-	46
-	(290)	-	-	(869)
-	(6)	-	(1)	(292)
(988)	(1,240)	(58)	503	(13,531)

COMBINING STATEMENT OF CASH FLOWS
OTHER ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2004 (Continued)

(DOLLARS IN THOUSANDS)	WILDLIFE	GUARANTEED STUDENT LOAN	STATE FAIR AUTHORITY
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest and Dividends on Investments	1,593	1,213	-
Increase(Decrease) from Unrealized Gain(Loss) on Invesments	(2,142)	(725)	(16)
NET CASH FROM INVESTING ACTIVITIES	(549)	488	(16)
NET INCREASE (DECREASE) IN CASH AND POOLED CASH	(4,720)	1,830	(115)
CASH AND POOLED CASH , FISCAL YEAR BEGINNING	77,461	24,249	661
CASH AND POOLED CASH, FISCAL YEAR END	$ 72,741	$ 26,079	$ 546
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	$ 12,266	$ (1,031)	$ (487)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation	3,245	414	615
Investment/Rental Income and Other Revenue in Operating Income	-	(488)	(520)
Fines, Donations, and Grants and Contracts in NonOperating	457	-	229
Loss on Disposal of Capital Assets	-	-	4
Compensated Absences	(302)	(2)	11
Interest and Other Expense in Operating Income	18	-	1
(Increase) Decrease in Operating Receivables	(3,641)	2,705	38
(Increase) Decrease in Inventories	(15)	25	27
(Increase) Decrease in Other Operating Assets	561	300	1
Increase (Decrease) in Accounts Payable	(1,037)	(431)	(45)
Increase (Decrease) in Other Operating Liabilities	(299)	176	(53)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 11,253	$ 1,668	$ (179)
SUPPLEMENTARY INFORMATION - NONCASH TRANSACTIONS:			
Capital Assets Funded by the Capital Projects Fund	-	-	110
Capital Assets Acquired by Grants or Donations and Payable Increases	-	-	-
Unrealized Gain/(Loss) on Investments and Interest Receivable Accruals	-	-	(10)
Assumption of Capital Lease Obligation	127	17	114

CORRECTIONAL INDUSTRIES	STATE NURSING HOMES	PRISON CANTEENS	OTHER ENTERPRISE ACTIVITIES	TOTALS
119	20	152	36	3,133
(166)	(61)	26	(6)	(3,090)
(47)	(41)	178	30	43
(1,471)	(850)	446	22	(4,858)
6,093	3,130	4,253	2,208	118,055
$ 4,622	$ 2,280	$ 4,699	$ 2,230	$ 113,197
$ 410	$ (3,035)	$ 38	$ (643)	$ 7,518
979	1,503	72	209	7,037
-	-	-	(897)	(1,905)
-	(3)	-	14	697
9	15	-	-	28
17	(3)	8	(30)	(301)
-	21	40	128	208
(1,192)	750	201	(8)	(1,147)
(202)	25	17	7	(116)
(49)	(52)	-	6	767
147	1,411	79	(2)	122
-	(2)	-	(6)	(184)
$ 119	$ 630	$ 455	$ (1,222)	$ 12,724
-	20	-	1,174	1,304
30	-	-	-	30
-	-	-	-	(10)
-	5	-	-	263

INTERNAL SERVICE FUNDS

These funds account for operations of state agencies that provide a majority of their services to other state agencies on a user charge basis. The major activities in these funds are:

CENTRAL SERVICES	This fund accounts for the sales of goods and services to other state agencies. The sales items include mail services, printing, quick copy, graphic design, microfilming and motor pool.
GENERAL GOVERNMENT COMPUTER CENTER	This fund accounts for computer services sold to other state agencies.
TELECOMMUNICATIONS	This fund accounts for telecommunications services sold to other state agencies.
CAPITOL COMPLEX	This fund accounts for the cost and income related to maintaining state office space in the Capitol area.
HIGHWAYS	This fund is used to account for the operations of the Department of Transportation print shop.
PUBLIC SAFETY	This fund accounts for aircraft rental to state agencies by the Department of Public Safety.
ADMINISTRATIVE HEARINGS	This fund accounts for the operations of the Administrative Hearings Division in the Department of Personnel & Administration.
DEBT COLLECTION	This fund accounts for the activities of the Central Collections Unit within the Department of Personnel & Administration. The unit collects receivables due to state agencies on a straight commission basis.

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2004

(DOLLARS IN THOUSANDS)	CENTRAL SERVICES	GENERAL GOVERNMENT COMPUTER CENTER	TELECOM-MUNICATIONS
ASSETS:			
Current Assets:			
Cash and Pooled Cash	$ 13,872	$ 2,162	$ 818
Taxes Receivable, net	239	-	-
Other Receivables, net	94	1	-
Due From Other Governments	-	-	230
Due From Other Funds	77	-	-
Inventories	424	-	-
Prepaids, Advances, and Deferred Charges	54	149	265
Total Current Assets	14,760	2,312	1,313
Noncurrent Assets:			
Other Long-Term Assets	430	-	-
Depreciable Capital Assets and Infrastructure, net	41,290	310	9,973
Total Noncurrent Assets	41,720	310	9,973
TOTAL ASSETS	56,480	2,622	11,286
LIABILITIES:			
Current Liabilities:			
Accounts Payable and Accrued Liabilities	2,942	615	2,402
Due To Other Funds	-	-	17
Deferred Revenue	806	-	6
Compensated Absences Payable	19	21	-
Leases Payable	1	-	-
Notes, Bonds, COP's Payable	11,635	-	-
Total Current Liabilities	15,403	636	2,425
Noncurrent Liabilities:			
Accrued Compensated Absences	367	408	184
Capital Lease Payable	-	-	-
Notes, Bonds, COP's Payable	22,023	-	-
Total Noncurrent Liabilities	22,390	408	184
TOTAL LIABILITIES	37,793	1,044	2,609
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	7,631	310	9,973
Unrestricted	11,056	1,268	(1,296)
TOTAL NET ASSETS	$ 18,687	$ 1,578	$ 8,677

CAPITOL COMPLEX	HIGHWAYS	PUBLIC SAFETY	ADMINISTRATIVE HEARINGS	DEBT COLLECTION	TOTALS
$ 827	$ 2,920	$ 155	$ 1,044	$ 304	$ 22,102
-	-	-	-	-	239
3	-	93	1	5	197
-	-	-	-	-	230
-	-	-	-	-	77
154	342	-	-	-	920
-	-	-	1	1	470
984	3,262	248	1,046	310	24,235
-	-	-	-	-	430
9,674	193	4,137	51	68	65,696
9,674	193	4,137	51	68	66,126
10,658	3,455	4,385	1,097	378	90,361
844	195	40	248	66	7,352
42	-	-	-	-	59
11	-	-	-	-	823
-	-	-	-	-	40
183	-	-	-	-	184
-	-	-	-	-	11,635
1,080	195	40	248	66	20,093
206	-	-	226	69	1,460
9,151	-	-	-	-	9,151
-	-	-	-	-	22,023
9,357	-	-	226	69	32,634
10,437	195	40	474	135	52,727
340	193	4,137	51	68	22,703
(119)	3,067	208	572	175	14,931
$ 221	$ 3,260	$ 4,345	$ 623	$ 243	$ 37,634

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS INTERNAL SERVICE FUNDS FOR THE YEAR ENDED JUNE 30, 2004

(DOLLARS IN THOUSANDS)	CENTRAL SERVICES	GENERAL GOVERNMENT COMPUTER CENTER	TELECOM-MUNICATIONS
OPERATING REVENUES:			
Sales of Goods and Services	$ 40,049	$ 11,092	$ 18,534
Rental Income	-	-	-
Other	209	8	11
TOTAL OPERATING REVENUES	40,258	11,100	18,545
OPERATING EXPENSES:			
Salaries and Fringe Benefits	5,723	3,839	2,287
Operating and Travel	16,676	6,535	14,322
Cost of Goods Sold	4,075	-	-
Depreciation and Amortization	12,739	220	3,367
Intergovernmental Distributions	-	-	-
Prizes and Awards	1	-	-
TOTAL OPERATING EXPENSES	39,214	10,594	19,976
OPERATING INCOME (LOSS)	1,044	506	(1,431)
NONOPERATING REVENUES AND (EXPENSES):			
Fines and Settlements	2	-	-
Investment Income (Loss)	199	-	-
Gain/(Loss) on Sale of Capital Assets	668	(18)	-
Debt Service	(942)	-	(33)
Other Expenses	(122)	-	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(195)	(18)	(33)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	849	488	(1,464)
CONTRIBUTIONS, TRANSFERS, AND OTHER ITEMS:			
Capital Contributions	5	-	232
Transfers-In	504	-	-
Transfers-Out	(1,364)	(865)	(436)
TOTAL CONTRIBUTIONS AND TRANSFERS	(855)	(865)	(204)
CHANGE IN NET ASSETS	(6)	(377)	(1,668)
TOTAL NET ASSETS - FISCAL YEAR BEGINNING	2,577	1,955	10,345
Prior Period/Other Adjustments (See Note 28)	16,116	-	-
TOTAL NET ASSETS - FISCAL YEAR ENDING	$ 18,687	$ 1,578	$ 8,677

CAPITOL COMPLEX	HIGHWAYS	PUBLIC SAFETY	ADMINISTRATIVE HEARINGS	DEBT COLLECTION	TOTALS
$ 2	$ 2,418	$ 209	$ 3,692	$ 1,165	$ 77,161
8,798	-	-	-	-	8,798
-	-	7	3	125	363
8,800	2,418	216	3,695	1,290	86,322
2,706	989	317	2,717	781	19,359
5,221	1,273	306	542	391	45,266
-	-	-	-	3	4,078
27	52	256	3	29	16,693
3	-	-	-	-	3
1	-	-	-	-	2
7,958	2,314	879	3,262	1,204	85,401
842	104	(663)	433	86	921
132	-	-	-	-	134
3	(76)	-	-	-	126
(2)	-	400	-	-	1,048
-	-	-	-	-	(975)
-	-	-	-	-	(122)
133	(76)	400	-	-	211
975	28	(263)	433	86	1,132
-	-	3,846	-	-	4,083
-	-	299	-	-	803
(1,056)	-	-	(160)	(328)	(4,209)
(1,056)	-	4,145	(160)	(328)	677
(81)	28	3,882	273	(242)	1,809
302	3,232	463	350	485	19,709
-	-	-	-	-	16,116
$ 221	$ 3,260	$ 4,345	$ 623	$ 243	$ 37,634

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

(DOLLARS IN THOUSANDS)	CENTRAL SERVICES	GENERAL GOVERNMENT COMPUTER CENTER	TELECOM-MUNICATIONS
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from:			
Tuition, Fees, and Student Loans	$ 1	$ -	$ -
Fees for Service	39,587	11,153	18,425
Sales of Products	713	-	-
Other Sources	120	8	5
Cash Payments to or for:			
Employees	(5,174)	(3,766)	(1,818)
Suppliers	(20,699)	(6,505)	(15,315)
Other Governments	-	-	-
Other	(1)	-	(4)
NET CASH PROVIDED BY OPERATING ACTIVITIES	14,547	890	1,293
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers-In	504	-	-
Transfers-Out	(1,364)	(865)	(436)
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES	(860)	(865)	(436)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of Capital Assets	(12,433)	(181)	(6)
Capital Gifts, Grants, and Contracts	-	-	-
Proceeds from Sale of Capital Assets	8,207	75	-
Income from Property	-	-	-
Capital Debt Proceeds	29,433	-	-
Capital Debt Service Payments	(38,449)	-	(33)
Capital Lease Payments	(1)	-	-
NET CASH FROM CAPITAL RELATED FINANCING ACTIVITIES	(13,243)	(106)	(39)

(Continued)

CAPITOL COMPLEX	HIGHWAYS	PUBLIC SAFETY	ADMINISTRATIVE HEARINGS	DEBT COLLECTION	TOTALS
$ -	$ -	$ 2	$ -	$ -	$ 3
2	1,359	123	3,691	1,163	75,503
-	1,067	2	-	-	1,782
-	-	7	3	125	268
(2,633)	(982)	(317)	(2,584)	(717)	(17,991)
(5,165)	(1,372)	(304)	(642)	(418)	(50,420)
(3)	-	-	-	-	(3)
(4)	-	-	-	(30)	(39)
(7,803)	72	(487)	468	123	9,103
-	-	299	-	-	803
(1,056)	-	-	(160)	(328)	(4,209)
(1,056)	-	299	(160)	(328)	(3,406)
(376)	(1)	(3,722)	(47)	-	(16,766)
-	-	3,846	-	-	3,846
6	-	-	-	-	8,288
8,801	-	-	-	-	8,801
-	-	-	-	-	29,433
225	-	-	-	-	(38,257)
-	-	-	-	-	(1)
8,656	(1)	124	(47)	-	(4,656)

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2004 (Continued)

(DOLLARS IN THOUSANDS)	CENTRAL SERVICES	GENERAL GOVERNMENT COMPUTER CENTER	TELECOM-MUNICATIONS
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest and Dividends on Investments	199	-	-
Increase(Decrease) from Unrealized Gain(Loss) on Invesments	-	-	-
NET CASH FROM INVESTING ACTIVITIES	199	-	-
NET INCREASE (DECREASE) IN CASH AND POOLED CASH	643	(81)	818
CASH AND POOLED CASH , FISCAL YEAR BEGINNING	13,229	2,243	-
CASH AND POOLED CASH, FISCAL YEAR END	$ 13,872	$ 2,162	$ 818
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	$ 1,044	$ 506	$ (1,431)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation	12,739	220	3,367
Investment/Rental Income and Other Revenue in Operating Income	-	-	-
Fines, Donations, and Grants and Contracts in NonOperating	2	-	-
Compensated Absences	53	56	51
Interest and Other Expense in Operating Income	-	-	-
(Increase) Decrease in Operating Receivables	(137)	59	(106)
(Increase) Decrease in Inventories	(36)	-	-
(Increase) Decrease in Other Operating Assets	(46)	83	(255)
Increase (Decrease) in Accounts Payable	629	(34)	(327)
Increase (Decrease) in Other Operating Liabilities	299	-	(6)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 14,547	$ 890	$ 1,293
SUPPLEMENTARY INFORMATION - NONCASH TRANSACTIONS:			
Capital Assets Funded by the Capital Projects Fund	-	-	232
Capital Assets Acquired by Grants or Donations and Payable Increases	5	-	-

CAPITOL COMPLEX	HIGHWAYS	PUBLIC SAFETY	ADMINISTRATIVE HEARINGS	DEBT COLLECTION	TOTALS
3	-	-	-	-	202
-	(76)	-	-	-	(76)
3	(76)	-	-	-	126
(200)	(5)	(64)	261	(205)	1,167
1,027	2,925	219	783	509	20,935
$ 827	$ 2,920	$ 155	$ 1,044	$ 304	$ 22,102
$ 842	$ 104	$ (663)	$ 433	$ 86	$ 921
27	52	256	3	29	16,693
(8,802)	-	-	-	-	(8,802)
132	-	-	-	-	134
13	-	-	5	28	206
111	-	-	22	-	133
-	-	(82)	(1)	(3)	(270)
(26)	(175)	-	-	1	(236)
-	-	-	4	1	(213)
31	91	2	2	(19)	375
(131)	-	-	-	-	162
$ (7,803)	$ 72	$ (487)	$ 468	$ 123	$ 9,103
-	-	-	-	-	232
-	-	-	-	-	5

FIDUCIARY FUNDS

Fiduciary Funds are used to account for assets held by the state in a fiduciary capacity. Pension and Other Employee Benefits Trust Funds are included in this category. However, financial statements for the state's Pension and Other Employee Benefits Trust Funds are presented in the notes to the financial statements and are not repeated here. Investment Trust Funds are also included in this category, but since the state has only one such fund, it is presented in the Basic Financial Statement section of this report. The major components of the remaining fiduciary funds are:

PRIVATE PURPOSE TRUST FUNDS

TREASURER'S	This fund primarily comprises the escheats fund managed by the State Treasurer. The receipts of the fund are from bank accounts, investment accounts, and insurance proceeds that are placed with the state when the owners of the assets cannot be located. The owner's rights to the asset are protected in perpetuity. The fund records a liability for the expected payout from the fund based on historical percentages of payouts in relation to total receipts.
SCHOLARS CHOICE FUND	The College Savings Plan (commonly referred to as the Scholars Choice Fund) authorized in statute is used to record the deposits, withdrawals, and investment returns of participants in the college savings program. The moneys in the fund are neither insured nor guaranteed by the state.
OTHER	This fund primarily accounts for receipts collected from racetracks and simulcast facilities for distribution to horse breeders and associations who participate in state-regulated parimutuel horse race betting.

AGENCY FUNDS

These funds are held in custody for others. Major items include litigation settlement escrow accounts, contractor's performance escrow accounts, sales taxes collected for cities and counties, deposits held to ensure land restoration by mining and oil exploration companies, and assets held for the Colorado Water Resources and Power Development Authority (a discretely presented component unit).

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS
JUNE 30, 2004

(DOLLARS IN THOUSANDS)	TREASURER'S	COLLEGE SAVINGS PLAN	OTHER	TOTALS
ASSETS:				
Current Assets:				
Cash and Pooled Cash	$ 62,069	$ 634	$ 144	$ 62,847
Investments	-	-	579	579
Other Receivables, net	-	6,202	-	6,202
Due From Other Funds	-	308	-	308
Noncurrent Assets:				
Investments:				
Mutual Funds	-	1,517,101	-	1,517,101
Guaranteed Investment Contracts	-	17,653	-	17,653
TOTAL ASSETS	62,069	1,541,898	723	1,604,690
LIABILITIES:				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	$ 32,304	$ 5,293	$ 4	37,601
Due To Other Funds	2	144	-	146
Other Long-Term Liabilities	2,040	-	-	2,040
TOTAL LIABILITIES	34,346	5,437	4	39,787
NET ASSETS:				
Restricted for:				
Individuals, Organizations, and Other Entities	27,723	1,536,461	719	1,564,903
TOTAL NET ASSETS	$ 27,723	$ 1,536,461	$ 719	$ 1,564,903

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

(DOLLARS IN THOUSANDS)	TREASURER'S	COLLEGE SAVINGS PLAN	OTHER	TOTALS
ADDITIONS:				
Additions By Participants	$ -	$ 489,699	$ -	$ 489,699
Investment Income/(Loss)	(370)	145,763	9	145,402
Unclaimed Property Receipts	40,917	-	-	40,917
Other Additions	274	8	1,321	1,603
Transfers-In	-	241	-	241
TOTAL ADDITIONS	40,821	635,711	1,330	677,862
DEDUCTIONS:				
Payments in Accordance with Trust Agreements	14,655	73,081	1,354	89,090
Transfers-Out	3,151	-	-	3,151
TOTAL DEDUCTIONS	17,806	73,081	1,354	92,241
CHANGE IN NET ASSETS	23,015	562,630	(24)	585,621
NET ASSETS AVAILABLE:				
FISCAL YEAR BEGINNING	4,708	973,831	743	979,282
FISCAL YEAR ENDING	$ 27,723	$ 1,536,461	$ 719	$ 1,564,903

COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES AGENCY FUNDS JUNE 30, 2004

DEPARTMENT OF REVENUE AGENCY FUNDS

(DOLLARS IN THOUSANDS)	BALANCE JULY 1	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30
ASSETS:				
Cash and Pooled Cash	$ 61,642	$ 1,524,780	$ 1,520,940	$ 65,482
Taxes Receivable, net	77,999	4,175	4,440	77,734
TOTAL ASSETS	$ 139,641	$ 1,528,955	$ 1,525,380	$ 143,216
LIABILITIES:				
Tax Refunds Payable	$ 1,026	$ 286	532	$ 780
Due To Other Governments	137,362	2,274,098	2,271,269	140,191
Due To Other Funds	-	1,647	-	1,647
Claims and Judgments Payable	239	3,620	3,566	293
Other Current Liabilities	789	-	648	141
Other Long-Term Liabilities	225	319	380	164
TOTAL LIABILITIES	$ 139,641	$ 2,279,970	$ 2,276,395	$ 143,216

OTHER AGENCY FUNDS

(DOLLARS IN THOUSANDS)	BALANCE JULY 1	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30
ASSETS:				
Cash and Pooled Cash	$ 168,157	$ 266,704	$ 281,119	$ 153,742
Investments	7,775	-	2,132	5,643
Taxes Receivable, net	3,818	222	219	3,821
Other Receivables, net	66	424	76	414
Due From Other Funds	-	6	-	6
Inventories	3	114	113	4
Investments	3	-	3	-
Other Long-Term Assets	10,252	194	1,983	8,463
TOTAL ASSETS	$ 190,074	$ 267,664	$ 285,645	$ 172,093
LIABILITIES:				
Tax Refunds Payable	$ 34	$ 1	25	$ 10
Accounts Payable and Accrued Liabilities	531	9,211	9,381	361
Due To Other Governments	6,785	107,837	107,797	6,825
Due To Other Funds	28	9,148	9,158	18
Claims and Judgments Payable	265	117	130	252
Other Current Liabilities	174,506	183,144	199,081	158,569
Deposits Held In Custody For Others	7,905	1,027	2,876	6,056
Other Long-Term Liabilities	20	-	18	2
TOTAL LIABILITIES	$ 190,074	$ 310,485	$ 328,466	$ 172,093

DEPARTMENT OF TREASURY AGENCY FUNDS

(DOLLARS IN THOUSANDS)	BALANCE JULY 1	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30
ASSETS:				
Cash and Pooled Cash	$ 108,664	$ 68,482	$ 67,311	$ 109,835
Other Receivables, net	467	-	467	-
Due From Other Funds	9,016	10,506	9,016	10,506
TOTAL ASSETS	$ 118,147	$ 78,988	$ 76,794	$ 120,341
LIABILITIES:				
Accounts Payable and Accrued Liabilities	$ -	$ 115	115	$ -
Other Current Liabilities	79,728	80,841	74,392	86,177
Deposits Held In Custody For Others	38,419	6,613	10,868	34,164
TOTAL LIABILITIES	$ 118,147	$ 87,569	$ 85,375	$ 120,341

TOTALS - ALL AGENCY FUNDS

(DOLLARS IN THOUSANDS)	BALANCE JULY 1	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30
ASSETS:				
Current Assets:				
Cash and Pooled Cash	$ 338,463	$ 1,859,966	$ 1,869,370	$ 329,059
Investments	7,775	-	2,132	5,643
Taxes Receivable, net	81,817	4,397	4,659	81,555
Other Receivables, net	533	424	543	414
Due From Other Funds	9,016	10,512	9,016	10,512
Inventories	3	114	113	4
Investments	3	-	3	-
Other Long-Term Assets	10,252	194	1,983	8,463
TOTAL ASSETS	$ 447,862	$ 1,875,607	$ 1,887,819	$ 435,650
LIABILITIES:				
Current Liabilities:				
Tax Refunds Payable	$ 1,060	$ 287	$ 557	$ 790
Accounts Payable and Accrued Liabilities	531	9,326	9,496	361
Due To Other Governments	144,147	2,381,935	2,379,066	147,016
Due To Other Funds	28	10,795	9,158	1,665
Claims and Judgments Payable	504	3,737	3,696	545
Other Current Liabilities	255,023	263,985	274,121	244,887
Deposits Held In Custody For Others	46,324	7,640	13,744	40,220
Other Long-Term Liabilities	245	319	398	166
TOTAL LIABILITIES	$ 447,862	$ 2,678,024	$ 2,690,236	$ 435,650

CAPITAL ASSETS

The following schedule presents the capital assets used in governmental activities by function and by department. The schedule includes the capital assets of the Internal Service Funds because those funds primarily sell to governmental activities. This treatment matches the presentation of the capital assets on the government-wide *Statement of Net Assets.* Except for the Internal Service Fund capital assets, the assets on this schedule are not reported on the fund-level financial statements.

SCHEDULE OF CAPITAL ASSETS USED IN GOVERNMENTAL ACTIVITIES INCLUDING INTERNAL SERVICE FUNDS BY FUNCTION AND DEPARTMENT JUNE 30, 2004

(DOLLARS IN THOUSANDS)	LAND	LAND AND LEASEHOLD IMPROVEMENTS	BUILDINGS	LIBRARY BOOKS AND COLLECTIONS
GENERAL GOVERNMENT				
Governor's Office	$ -	$ -	$ -	$ -
Legislature	-	-	-	-
Military Affairs	863	259	21,130	-
Personnel & Administration	2,946	12,048	33,795	-
Revenue	2,966	3,140	11,763	-
Subtotal	6,775	15,447	66,688	-
BUSINESS, COMMUNITY & CONSUMER AFFAIRS:				
Agriculture	103	-	2,181	-
[1]GOV, OEC, OED	-	-	-	-
Labor and Employment	612	41	124	-
Local Affairs	-	-	-	-
Regulatory Agencies	-	-	-	-
Revenue	421	-	309	-
State	-	-	-	-
Subtotal	1,136	41	2,614	-
EDUCATION				
Education	78	128	8,988	1,130
Higher Education	1,305	-	3,465	8,197
Subtotal	1,383	128	12,453	9,327
HEALTH AND REHABILITATION				
Public Health and Environment	188	-	8,557	-
Human Services	3,105	4,881	34,807	-
Subtotal	3,293	4,881	43,364	-
JUSTICE				
Corrections	3,872	4,724	557,286	-
DHS, Division of Youth Services	75	1,857	111,670	-
Judicial	1,605	-	5,425	288
Law	-	-	-	-
Public Safety	659	91	7,908	-
Regulatory Agencies	-	-	-	-
Subtotal	6,211	6,672	682,289	288
NATURAL RESOURCES				
Natural Resources	46,185	23,865	28,771	-
SOCIAL ASSISTANCE				
Human Services	-	213	-	-
Military Affairs	-	2,806	2,594	-
Health Care Policy and Finance	-	-	-	-
Subtotal	-	3,019	2,594	-
TRANSPORTATION				
Transportation	13,784	-	55,165	-
TOTAL GENERAL FIXED ASSETS	$ 78,767	$ 54,053	$ 893,938	$ 9,615

[1]Governor's Office, Office of Energy Management and Conservation, and the Office of Economic Development and International Trade

VEHICLES AND EQUIPMENT	OTHER CAPITAL ASSETS	CONSTRUCTION IN PROGRESS	INFRASTRUCTURE	TOTALS
$ 4	$ -	$ -	$ -	$ 4
394	-	-	-	394
386	-	3,824	-	26,462
92,421	-	8,162	-	149,372
2,299	-	237	-	20,405
95,504	-	12,223	-	196,637
1,269	-	-	-	3,553
16	-	-	-	16
14,805	35	13,922	-	29,539
204	-	-	-	204
293	-	-	-	293
274	-	-	-	1,004
1,902	-	-	-	1,902
18,763	35	13,922	-	36,511
1,637	-	-	-	11,961
223	-	3,891	-	17,081
1,860	-	3,891	-	29,042
3,538	-	769	-	13,052
1,979	61	358	-	45,191
5,517	61	1,127	-	58,243
9,510	53	401	-	575,846
362	-	-	-	113,964
4,118	-	-	-	11,436
94	-	-	-	94
14,303	-	293	-	23,254
7	-	-	-	7
28,394	53	694	-	724,601
3,458	4,091	14,607	13,687	134,664
4,674	-	19,642	-	24,529
85	-	-	-	5,485
39	-	-	-	39
4,798	-	19,642	-	30,053
85,180	-	1,268,508	10,159,004	11,581,641
$ 243,474	$ 4,240	$ 1,334,614	$ 10,172,691	$ 12,791,392

OTHER FUNDS DETAIL

In the preceding combining statements several fund categories show a column titled "Other". The schedule on the following pages provides a summary of assets, liabilities, and net assets of the individual funds that comprise the columns titled "Other". Most of the funds shown in the schedule are Special Revenue Funds that are statutorily authorized.

COMBINING SCHEDULE OF INDIVIDUAL FUND ASSETS, LIABILITIES, AND NET ASSETS FOR OTHER PERMANENT, PRIVATE PURPOSE, ENTERPRISE, AND SPECIAL REVENUE FUNDS JUNE 30, 2004

(Dollars in Thousands)

FUND NAME	Statutory Cite	Assets	Liabilities	Net Assets
OTHER PERMANENT FUNDS				
Wildlife For Future Generation (Nonexpendable)	33-1-112(7)	$ 5,655	$ -	$ 5,655
Wildlife For Future Generation (Expendable)	33-1-112	1,084	49	1,035
Other Permanent-Nonexpendable	Various	557	-	557
Land & Water Management-Nonexpendable	36-1-148	107	-	107
Hall Historical Marker-Nonexpendable	24-80-209	27	-	27
Veterans' Monument Preservation	24-80-1401	9	-	9
Total Other Permanent Funds		$ 7,439	$ 49	$ 7,390
OTHER PRIVATE PURPOSE TRUST FUNDS				
Supplemental Purse & Breeders Awards	12-60-704	579	-	579
Americans with Disabilities Act Contractor Settlement	24-34-301 A D A	144	4	140
Total Other Private Purpose Funds		$ 723	$ 4	$ 719
OTHER ENTERPRISE FUNDS				
Capitol Parking Fund	None	4,465	47	4,418
Buildings and Grounds Rentals	None	1,691	81	1,610
Statewide Tolling Operating	43-4-805	923	-	923
Business Enterprise Program	None	987	189	798
Enterprise Services	24-80-209	449	160	289
Work Therapy	None	102	16	86
Conference & Training	None	30	1	29
Other Enterprise Funds	Various	7	-	7
Total Other Enterprise Funds		$ 8,654	$ 494	$ 8,160
OTHER SPECIAL REVENUE FUNDS				
Severance Tax Trust - Base Account	39-29-109	118,950	843	118,107
Federal Tax Relief Act - 2003	Restricted	112,141	25	112,116
Severance Tax	39-29-110(1)	104,071	12,064	92,007
Help America Vote	H A V A 2002	42,840	125	42,715
Mineral Leasing	34-63-102	39,925	6,981	32,944
Workers' Compensation Cash	8-44-112(7)	20,175	748	19,427
Severance Tax Trust -Operating Account	39-29-109	19,125	843	18,282
Hazardous Substance Settlement	Restricted	12,740	111	12,629
Dept. of Natural Resources Lottery Distribution	33-60-103(1)	13,835	2,128	11,707
Economic Development	24-46-105	11,336	140	11,196
Employment Support	8-77-109	14,298	3,238	11,060
Natural Resources Damage Recovery	25-16-104.7	10,430	463	9,967
Aviation	43-10-109	11,288	2,463	8,825
Hazardous Substances Response	25-16-104.6	8,987	307	8,680
Species Conservation-Capital Acct	24-33-111(2)	8,536	-	8,536
Supreme Court Committee	Crt Rule 227	8,066	517	7,549
Secretary of State Fees	24-21-104	10,520	3,327	7,193
Gear Up Scholarship Trust	Restricted	7,017	-	7,017
Inactive Mines	34-24-103(5)	5,969	-	5,969
Excess Title IV-E Reimbursement	26-1-111(2)D	5,836	-	5,836
Petroleum Storage Tank	8-20.5-103	5,690	141	5,549
Children's Basic Health Plan	26-19-105	9,928	4,496	5,432
Victims' Assistance	24-4.2-104	5,420	70	5,350
Mined Land Subsidence	Pl95-87 401C	5,125	-	5,125
Breast & Cervical Cancer Prevention	26-4-532(7)	5,003	-	5,003
Old Age Pension Stabilization	26-2-116	5,000	-	5,000
Texaco Oil Overcharge	None	4,932	12	4,920
Victims' Compensation	24-4.1-124	4,815	9	4,806
Disaster Emergency	24-32-2106	5,297	600	4,697
Division of Registrations Cash	24-34-105	15,097	11,210	3,887
Oil & Gas Conservation	34-60-122	3,939	239	3,700

COMBINING SCHEDULE OF INDIVIDUAL FUND ASSETS, LIABILITIES, AND NET ASSETS FOR OTHER PERMANENT, PRIVATE PURPOSE, ENTERPRISE, AND SPECIAL REVENUE FUNDS JUNE 30, 2004

(Dollars in Thousands)

FUND NAME	Statutory Cite	Assets	Liabilities	Net Assets
Unemployment Revenue	8-77-106	3,554	2	3,552
Stripper Well Settlement	None	3,659	148	3,511
Species Conservation-Oper. & Maint. Account	24-33-111(2)	3,255	5	3,250
Other Expendable Trusts	Various	10,420	7,293	3,127
Housing Rehabilitation Revolving Loans	29-4-728	3,483	481	3,002
Offender Services	16-11-214	3,294	343	2,951
Public Employees Social Security System	24-53-105	2,789	-	2,789
Antitrust Custodial	6-2-111	2,398	-	2,398
Exxon Oil Overcharge	None	2,313	-	2,313
Operating Vouchers	None	2,344	67	2,277
Off Highway Vehicles	33-14.5-106	2,234	30	2,204
Patient Benefit	None	2,207	17	2,190
Brand Inspection	35-41-102	3,744	1,658	2,086
Clerk & Recorder Electronic Filing	30-10-422	2,083	15	2,068
Environmental Response	34-60-124	1,945	31	1,914
CoverColorado Cash	10-8-530	1,850	-	1,850
Stationary Sources	25-7-114.7(2	1,978	543	1,435
Natural Resources Foundation	24-33-108	1,344	26	1,318
Drug Offender Surcharge	18-19-103(4)	1,460	158	1,302
Disabled Telephone Users	40-17-104	1,733	477	1,256
Ballot Info Publication & Distribution	1-40-124.5	1,253	-	1,253
Fixed Utilities	40-2-114	1,706	485	1,221
Real Estate Cash	12-61-111.5	5,527	4,313	1,214
Library Trust	24-90-105	1,163	4	1,159
Boiler Inspection	9-4-109(4)	1,145	-	1,145
Historical Society Unrestricted	24-80-209	1,120	1	1,119
Waste Tire Recycling	25-17-202(3)	1,050	80	970
CF&I Settlement	Restricted	968	-	968
Colorado Comprehensive Health Education	22-25-109	933	4	929
Newborn Genetics	25-4-1006	1,073	151	922
Parks' Cash	33-10-111	1,390	499	891
Deaf and Hard of Hearing	26-21-107(1)	970	81	889
Alcohol Driver Safety	42-4-1202(5)	1,225	339	886
Donations	25-1-107(U)	1,359	477	882
Howard Fund	26-8-104(1)C	881	1	880
Victims' Assistance	24-33.5-506	942	82	860
Travel and Tourism Additional	24-49.7-106	888	30	858
Geological Survey Cash	34-1-105	1,159	315	844
Law Examiner Board Balance	Crt Rule 201	823	23	800
Continuing Legal Education Balance	Crt Rule 260	804	15	789
Cumulative Surplus-HUD Sec 8 Voucher	29-4-708(K)	829	86	743
Motor Carrier	40-2-110.5	1,697	961	736
Auto Theft Prevention Cash	42-5-112(4A)	708	-	708
Nursing Home Penalty Cash	26-4-505(3)A	703	-	703
Workers' Compensation Guarantee	8-44-206(4)	699	11	688
State Patrol Contraband	24-33.5-225	683	12	671
Division of Insurance Cash	10-1-103	1,477	894	583
Persistent Drunk Driver	42-3-130.5	677	95	582
Consumer Protection -Custodial	6-1-103	576	6	570
Public Deposit Administration	11-10.5-112	776	213	563
Real Estate Proceeds	28-3-106	573	18	555
State Rail Bank	43-1-1309	544	-	544
Inspection & Consumer Service Cash	35-1-106.5	1,588	1,054	534
Workers' Compensation Immediate Payment	8-44-206(3)	530	-	530
Notary Administration Cash	12-55-102.5	533	7	526
Highway Crossing	43-4-201	845	321	524
Dealer License Board	12-6-123	624	104	520
Traumatic Brain Injury	26-1-210(1)	507	5	502
Mined Land Reclamation	34-32-127	663	180	483

COMBINING SCHEDULE OF INDIVIDUAL FUND ASSETS, LIABILITIES, AND NET ASSETS FOR OTHER PERMANENT, PRIVATE PURPOSE, ENTERPRISE, AND SPECIAL REVENUE FUNDS JUNE 30, 2004

(Dollars in Thousands)

FUND NAME	Statutory Cite	Assets	Liabilities	Net Assets
Legislative Legal Expenses	2-3-1002(1)	483	-	483
Water Quality	25-8-502(I I)	2,465	1,983	482
Personal Care Boarding	25-27-107.5	524	61	463
Reclamation Warranty Forfeiture	34-32-122	1,046	584	462
Organ & Tissue Donation Awareness	42-2-107(4)	457	-	457
Ground Water Management	37-80-111.5	625	172	453
Family Support Loan	27-10.5-502	394	-	394
Western Slope Military Veterans' Cemetery	28-5-708	388	3	385
Advance Technology	23-1-106.5(9	372	-	372
Division of Securities Cash	11-51-707	1,437	1,073	364
Records and Reports	19-1-307(2.5	372	25	347
Alternative Fuels Rebate	39-33-105	312	-	312
Workers' Compensation Cost Containment	8-14.5-108	311	-	311
Building Regulation	24-32-3309	467	158	309
Colorado Children's Trust	19-3.5-106	305	-	305
Judicial Stabilization Cash	13-32-101	381	86	295
Crude Oil Refund	Ex Ord 56-87	291	-	291
Uniform Commercial Code Custodial	Restricted	288	-	288
Racing Cash	12-60-205	429	146	283
Liquor Law Enforcement	24-35-401	398	118	280
Hazardous Waste Fees	25-15-304	415	139	276
Police Officer Standards & Training Custodial	Restricted	284	10	274
Radiation Control	25-11-104(6)	398	137	261
Controlled Maintenance Trust - Nonexpendable	24-75-302.5	258	-	258
Judicial Performance Cash	13-5.5-107	249	10	239
Brand Estray	35-41-102	236	-	236
Domestic Abuse Program	39-22-802	241	25	216
Family-Friendly Court Program	13-3-113(6)	266	52	214
Police Officer Standards & Training Board Cash	24-31-303(2)	212	-	212
Home Grant Revolving Loan	None	206	-	206
Division of Parks Stores Revolving	33-10-111.5	203	2	201
Older Coloradans Cash	26-11-205.5	198	-	198
Search & Rescue	33-1-112.5	202	6	196
Colorado Heritage Communities	24-32-3207	220	25	195
Diamond Shamrock Settlement	None	193	-	193
Travel And Tourism Promotion	24-49.7-106	229	41	188
Agriculture Value-Added	35-75-205	187	4	183
Vital Records	25-2-121(2)B	292	117	175
Vickers Oil Overcharge	Ex Ord 56-87	175	-	175
Supplemental Old Age Pension Health & Medical	26-2-117(3)	163	-	163
Family Support Registry	26-13-115.5	162	-	162
Colorado Bureau of Investigation Contraband	24-33.5-415	155	-	155
Solid Waste Management Reserve	30-20-188	210	61	149
Displaced Homemakers	8-15.5-108	145	-	145
Cervidae Disease	35-50-114.5	190	50	140
Colorado National Guard Tuition	23-5-111.4	179	43	136
Satellite Monitoring	37-80-111.5	144	10	134
Low Income Telephone Assistance	40-3.4-108(2	167	33	134
Financial Services Cash	11-40-106(2)	614	487	127
Food Protection Cash	25-4-1605	317	190	127
Patient Benefit	26-12-106(2)	126	-	126
Colorado Bureau of Investigation Revolving	24-33.5-415	125	-	125
Educator Licensure Cash	22-60.5-112	208	87	121
Private Occupational Schools	12-59-116	167	46	121
Colorado High Cost Administration	40-15-208	124	9	115
School Construction and Renovation	22-43.7-103	3,979	3,870	109
Sex Offender Surcharge	18-21-103	109	7	102
144 Funds with Net Assets Below $100,000		21,466	17,590	3,876
Total Other Special Revenue Funds		$ 801,188	$ 100,721	$ 700,467