

Accounts Receivable Report

For the Fiscal Year Ended June 30, 2004

Colorado Department of Personnel & Administration
Division of Finance and Procurement
Office of the State Controller

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Introduction

The State Controller is required by CRS 24-30-202.4 to "establish specific performance policies and standards for measuring the state agency performance in collecting debts due the state". This report shows the current status of accounts receivable in the State of Colorado. All of the data displayed is as of June 30, 2004 unless otherwise indicated.

Report Format

The format for the FY03-04 Accounts Receivable Report is similar to previous years' reports, continuing with the goal of making it easier for readers to understand. The report is divided into three sections. The first section, Overview, provides statewide accounts receivable information. The second section, Spotlight, highlights programs within the state that have a significant impact on collecting past due receivables. These two Spotlights are 1) the success of the vendor offset program, and 2) the efforts of the Central Collections Service to collect the majority of non-tax related past due debts owed the state. The third section, Accounts Receivable, provides detailed information regarding the state's accounts receivable balances, looking at them from the standpoint of the state agencies with the highest volume or measure. This includes the types of receivables and agencies with the largest balances. By focusing on these agencies we may better identify changes to the debt collection process that have the greatest statewide impact.

Website

The State Controller's Office has a website on which this report is posted-- http://www.colorado.gov/dpa/dfp/sco/acct_rec.htm. This website also has additional information on vendor offset and the Central Collections Service.

Overview

At June 30, 2004, the state's gross accounts increased by 8.3%, from \$3.48 billion in FY02-03 to \$3.77 billion in FY03-04 for all state agencies and funds. At the same time net taxes receivable increased by \$74.2 million.

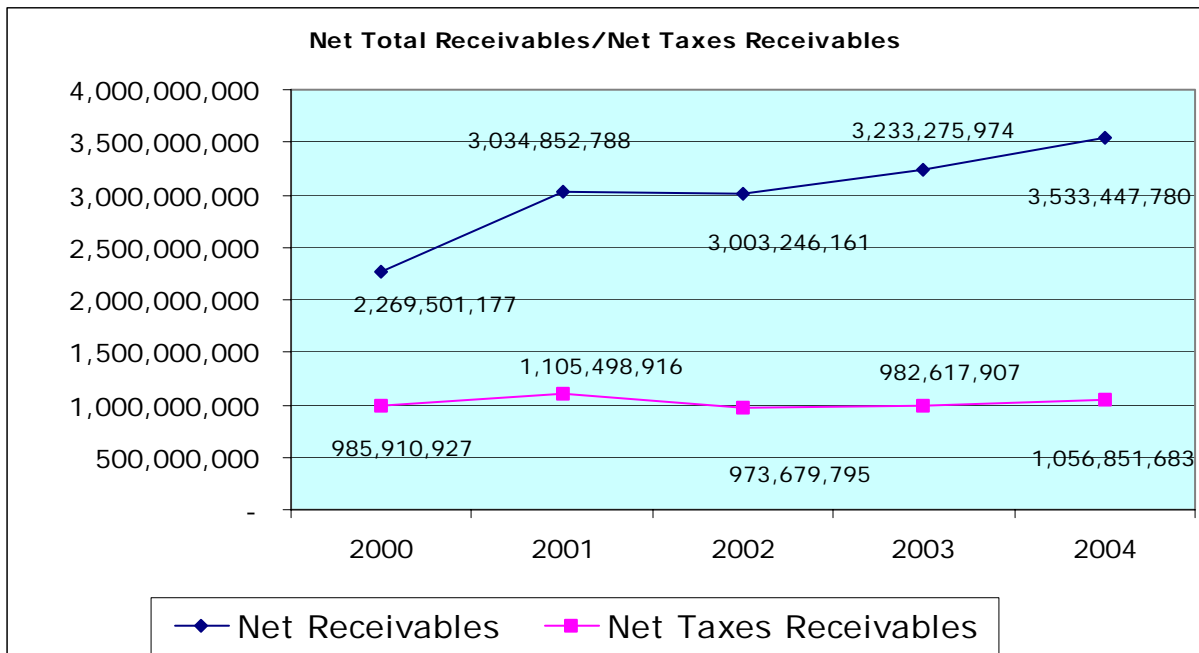
The allowance for doubtful accounts represents the dollar amount of accounts receivable that is estimated by state agencies to be uncollectible. The state's allowance for doubtful accounts for taxes receivable at June 30, 2004 was \$140.0 million which represents a decrease of \$16.6 million from the previous fiscal year.

Total Receivables by State Fiscal Year:

	2000	2001	2002	2003	2004
Gross receivables	\$2,504,908,359	\$3,267,726,000	\$3,251,580,423	\$3,480,822,655	\$3,770,220,904
Less: Allowance	(\$235,407,182)	(\$232,873,212)	(\$248,334,262)	(\$247,546,681)	(\$236,773,124)
Net receivables	\$2,269,501,177	\$3,034,852,788	\$3,003,246,161	\$3,233,275,974	\$3,533,447,780

Taxes Receivable by State Fiscal Year:

	2000	2001	2002	2003	2004
Taxes receivable	\$1,141,671,621	\$1,243,565,205	\$1,134,637,614	\$1,139,174,724	\$1,196,863,470
Less: Allowance	(\$155,760,694)	(\$138,066,289)	(\$160,957,819)	(\$156,556,817)	(\$140,011,787)
Net taxes receivable	\$985,910,927	\$1,105,498,916	\$973,679,795	\$982,617,907	\$1,056,851,683



Of the state's total accounts receivable, a large portion results from year end revenue accrual estimates. Historically, in past years these accrual estimates accounted for about 85% of the accounts receivable balance at year end. Revenue accruals are made at the end of each fiscal year in accordance with Generally Accepted Accounting Principles and represent revenue earned in FY03-04 for which collection is expected in the following fiscal year. The Department of Revenue's (DOR) year end tax accrual calculation constitutes the largest part of the state's total year end revenue accrual estimate. This estimate is based upon historical revenue data and an analysis of selected tax returns filed with DOR during July 2004. This amount will ultimately be paid to the state by taxpayers in the normal course of filing their tax returns during FY04-05.

At the end of FY03-04, the state had a total amount owed to it from various sources of over \$3.8 billion. Collections of receivables from other governments and from other agencies of the state are all collectible. Long-term receivables are not expected to be collected during the next fiscal year. Of the total amount of net receivables, 80% are due from five major sources:

- \$944 million is due from taxes through the Department of Revenue and Department of Labor and Employment.
- \$935 million is due from student loans through the Department of Higher Education.
- \$649 million is due from other governments, mainly the federal government. This is a \$36 million increase over FY02-03.
- \$200 million is due from Colorado local governments. These receivables relate to loans made by the Water Conservation Board to Colorado local governments for various types of water related projects.
- \$103 million is owed between agencies of the state. This is a decrease of \$122 million from FY02-03.

The estimated uncollectible amount indicates how much an organization believes it may not be able to collect of the amounts owed to it. For the state, the allowance for uncollectible accounts represents only 6.3% of the total amount due, .9% less than last fiscal year. The state uses a variety of methods to collect amounts owed to it. The efforts of the individual state agencies, institutions of higher education and authorities, Central Collections Services, vendor offset and tax offset programs result in the state's expected collection of approximately 93.7% of the total amount due at June 30, 2004.

The state has two major automated programs to collect past due debts—the vendor offset program and the tax offset program. Both of these programs are successful. This report includes spotlights and more details on both programs. The amount collected during FY03-04 remained at the same level of FY02-03.

Spotlight On the Vendor Offset Program

Program Information

The State of Colorado actively pursues delinquent receivables for a variety of debts. They include such items as outstanding taxes, student loans, and various fees and fines. The state has implemented several programs to collect these delinquent amounts. One of the state's successful collection programs is vendor offset. This program has increased the collection of delinquent debts for several agencies by offsetting payments to vendors who owe the state money. The state has over 160,000 vendors for which it conducts business. Collection of delinquent debts through an offset of payments to those vendors is an efficient method of collecting debts. The vendor offset process applies only to those individuals and companies paid from the Colorado Financial Reporting System (COFRS), the state's accounting system. Payments required by statute or enforceable by entitlement are exempted from the offset program.

The vendor offset subsystem within the state's accounting system is a tool used to collect debts owed to the state. State statutes currently allow five state agencies to input their state debts into the vendor offset program. Because the Central Collections Service is one of those agencies, the vendor offset program is available to the majority of state agencies. The program compares outstanding debts to payments made to vendors. If a match is found, the vendor is notified by mail that any payments from the state to the vendor will be applied towards the debt owed by the vendor to the state. Disputes are directed to the claiming agency. If the vendor does not respond, or, in responding, is unable to successfully dispute the debt, future payments to that vendor will be offset until the debt is satisfied.

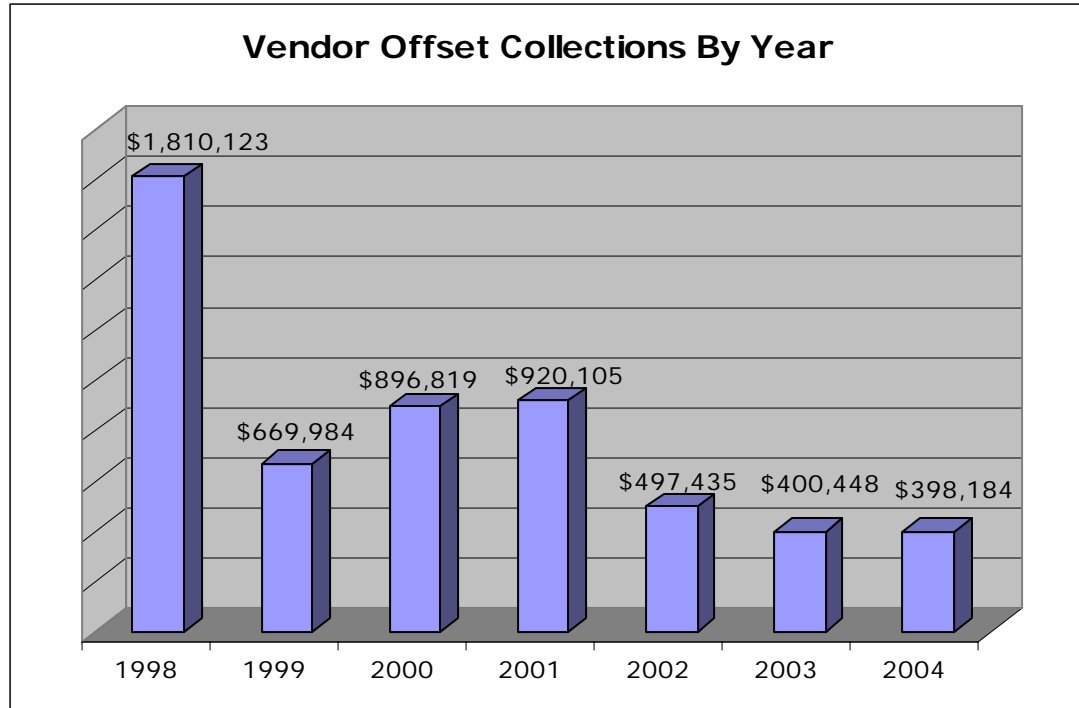
For more information on the vendor offset program, see the State Controller's Office website, <http://www.colorado.gov/dpa/dfp/sco/vendor.htm>.

Quarterly Financial Report

Debt collection through the vendor offset system is available to most state agencies through one of the following departments or programs:

- Department of Revenue
- Colorado Student Loan Program
- Department of Personnel, Central Collections Services
- Department of Human Services, Child Support Enforcement

Through the fourth quarter of calendar year 2004, the total amount collected statewide, since inception of the vendor offset system, is \$5,593,098, an increase of \$398,184 since last year. This is about equal to \$400,448 collected during calendar year 2003. The following chart shows collections by calendar year.



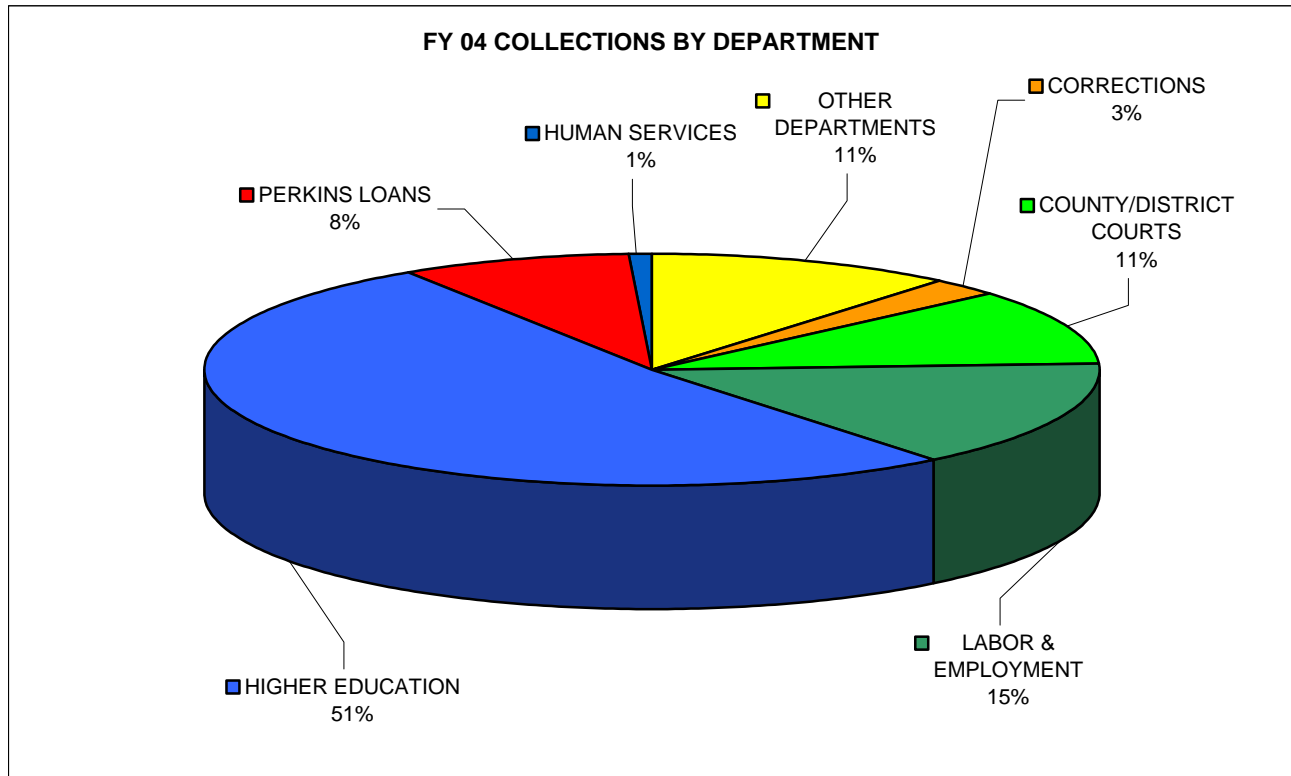
As indicated in the following table, the majority of collections are received through the Department of Revenue.

Vendor Offset Collections

Calendar Year	Revenue	Student Loan	Central Collections	Human Services	Statewide Total
1998	\$ 1,807,066	\$ 3,057			\$1,810,123
1999	608,302	9,913	\$ 51,769		669,984
2000	863,783	18,848	14,188		896,819
2001	878,580	4,693	21,696	\$ 15,136	920,105
2002	478,732	6,098	1,599	11,006	497,435
2003	352,878	18,681	16,411	12,478	400,448
2004	376,739	10,795	1,871	8,779	398,184
TOTAL	\$5,366,080	\$72,085	\$107,534	\$47,399	\$5,593,098

Spotlight On Central Collections Service

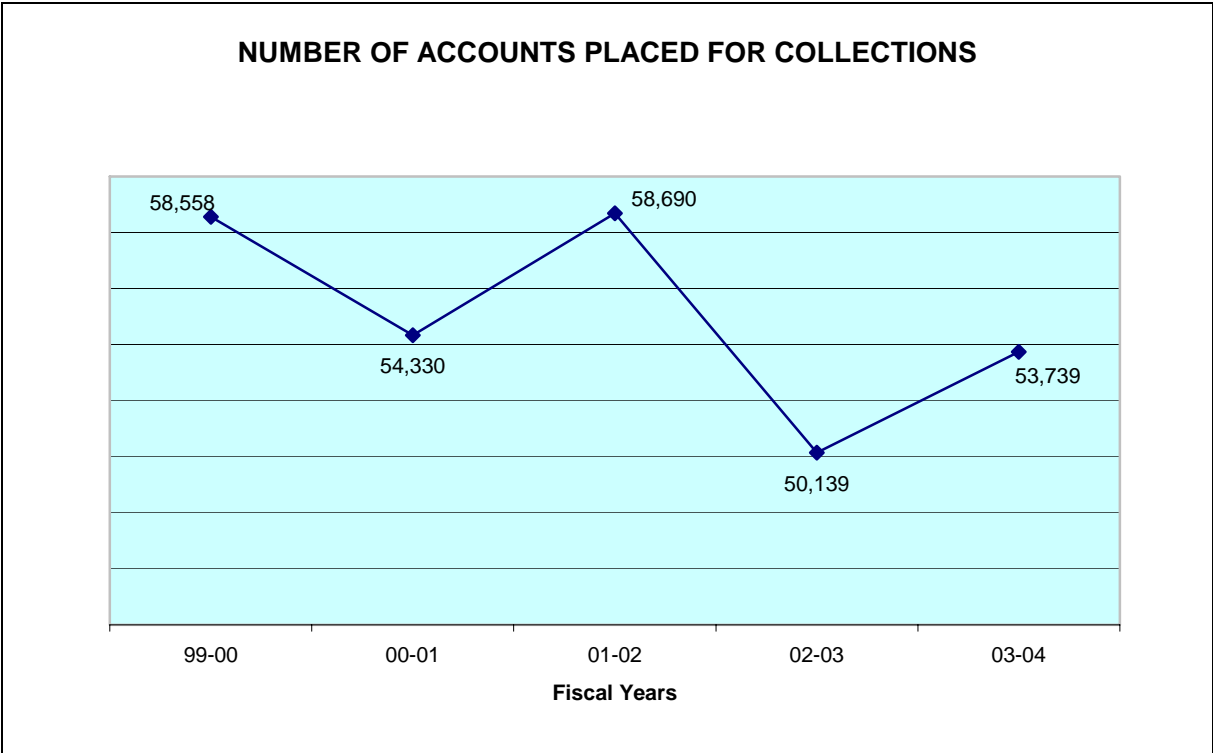
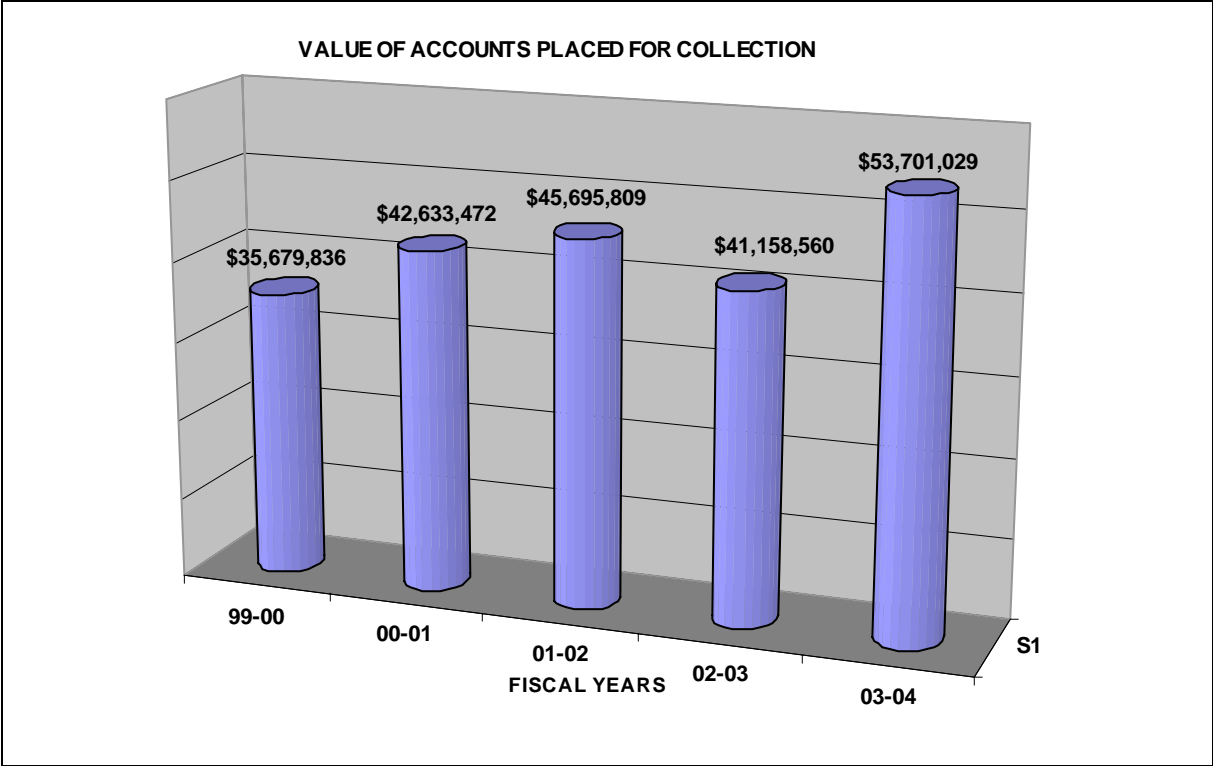
The Central Collections Service (CCS) provides debt collection services for state agencies that are required by CRS 24-30-202.4 to place past due accounts with the service. This includes all departments and agencies of the executive branch except the Departments of Revenue and Labor and Employment. However, both of these departments use CCS to collect a portion of past due receivables. In addition, CCS provides collection services for the Judicial Department, district and county courts, and county departments of social services.



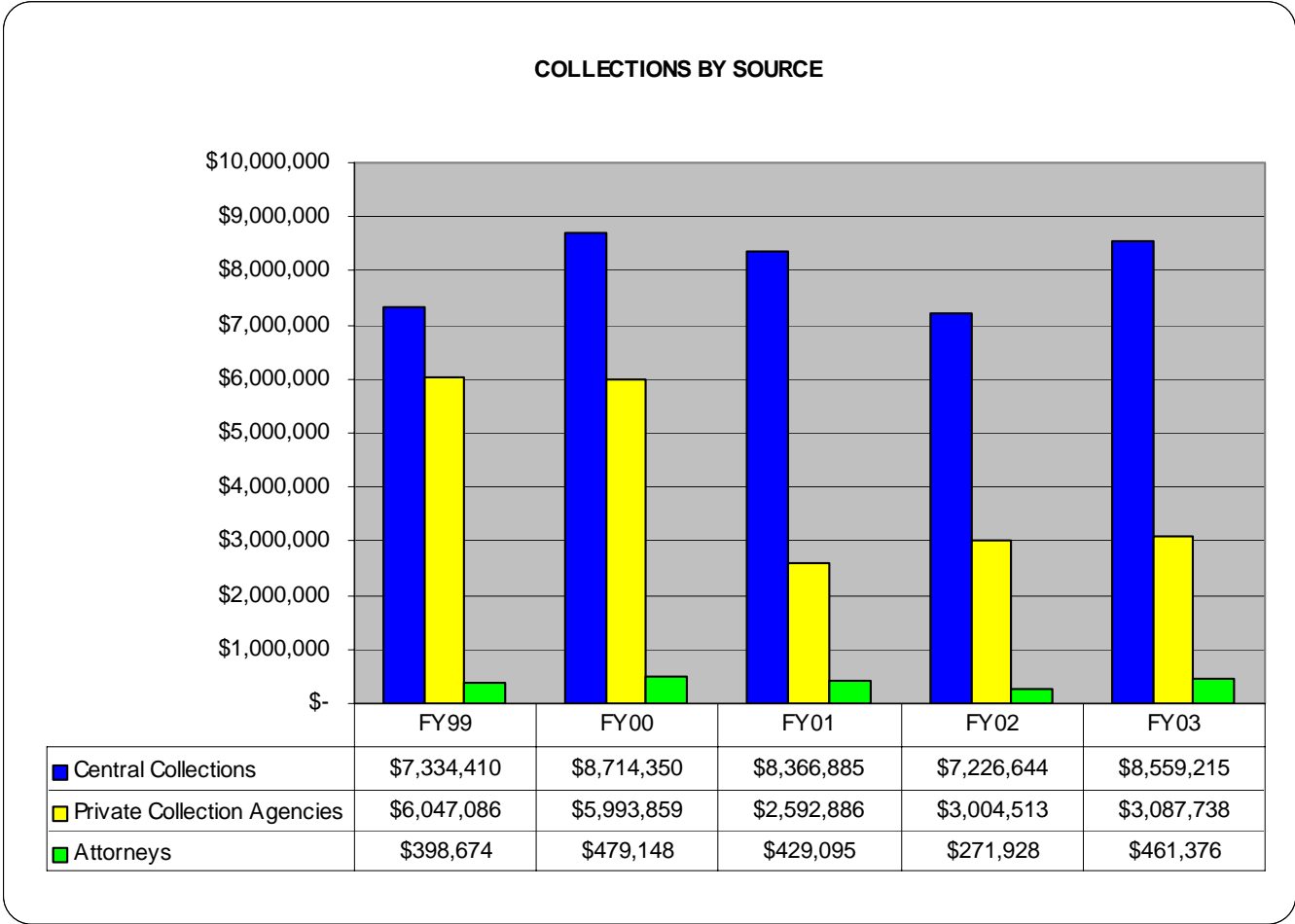
By statute, state agencies must place a past due receivable with CCS once the receivable is 31 days past due. CCS then has 90 days to obtain payment or secure a repayment arrangement with a debtor before the account must be assigned to a private collection agency. The procedures used by CCS to collect debts owed the state include telephone calls, dunning letters, credit reporting, skip tracing, tax offset and vendor off-set programs and legal action. Upon the approval of the State Controller, state agencies can request an extension of time before accounts must be placed with CCS

During FY03-04, state agencies assigned 53,739 accounts totaling \$53.7 million in past due receivables with CCS for collections. This compares to 50,139 accounts totaling \$41.2 million in FY02-03. These amounts do not include accounts placed with CCS for tax offset only. Tax offset information is presented later in the report. The following two charts show the dollar amount of placements and the number of accounts placed with CCS for the past five fiscal years.

The number of accounts placed for collection in FY03-04 are 7.2% higher than FY02-03, however the value of accounts placed for collection increased by 33.5%. The majority of the increase is due primarily to the assignment of one account for the Attorney General's Office Business Regulatory Unit in the amount of \$8,139,765.

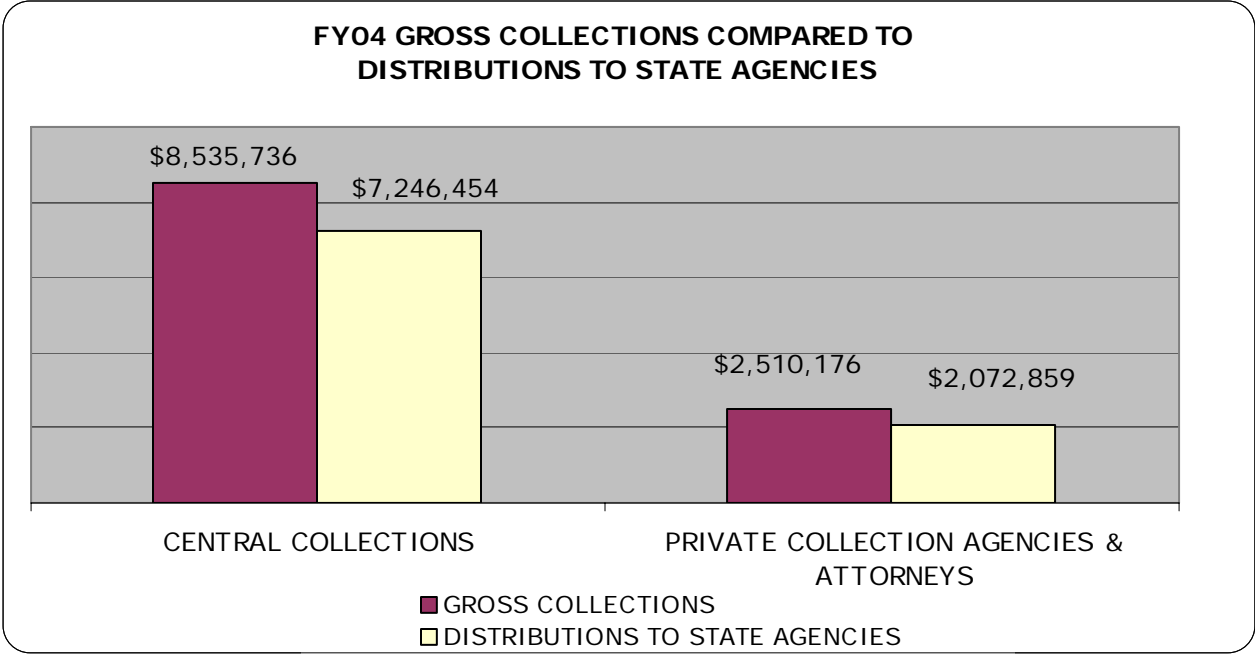


During FY03-04, CCS and the private collection agencies contracting with CCS collected \$11.2 million of past due receivables. That compares to collections for FY02-03 of \$12.1 million. This is 7.6% decrease compared to the previous year. CCS attributes much of the revenue collected in FY02-03 to the fact that, due to statute change, higher education debt was included in the tax offset. The following graph shows a breakdown of the source of collections for the past five fiscal years.

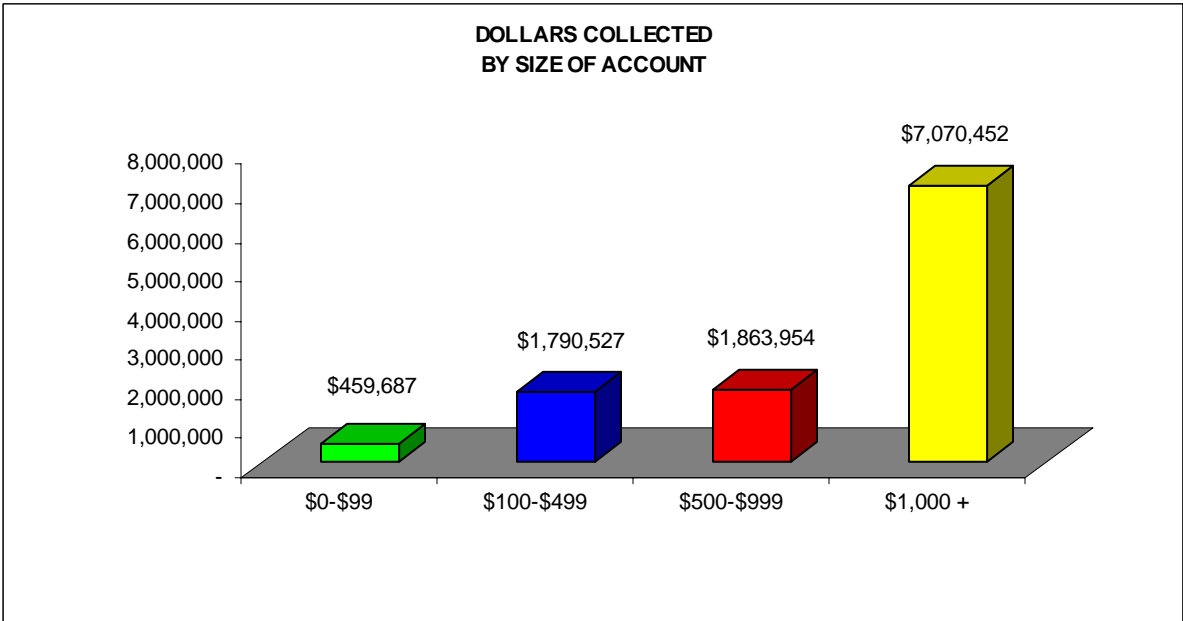


The collections from private collection agencies and attorneys decreased considerably from the previous fiscal year. However, collections from CCS remained at the same level of the previous fiscal year. As of the end of FY03-04, Central Collection awarded nine private collection agencies contracts to collect delinquent debt for the State.

From the total dollars collected, 85% is returned to the agency submitting the debt for collection and an average of 15% is retained as the CCS commission. If private collection agencies or attorneys collect the debt, the agencies net 83% and an average of 17% is retained as commission fees by the private collection agencies or attorneys. This is shown on the following table.



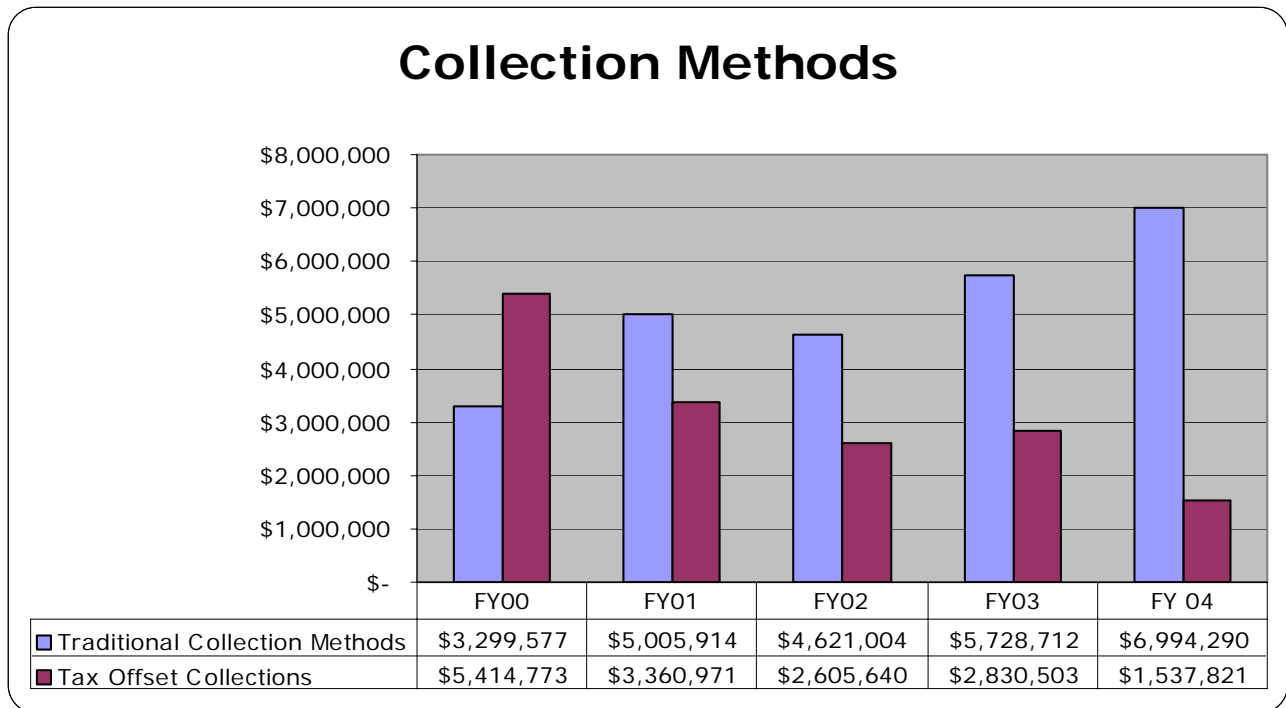
During FY99-00, CCS began to monitor the collection of past due receivables based on the balance of the receivable at the time of placement. The following chart shows a breakdown of collections in four account-size ranges. Accounts over \$1,000 represent 63% of the amount collected.



Tax Offset Program

One of the most successful tools used by CCS to collect past due accounts is the tax offset program run by the Department of Revenue. Through this program, CCS attempts to match debtors with taxpayers receiving an income tax refund. Where a match is made, state regulations allow CCS to intercept the taxpayer’s refund and apply it towards past due debts owed the state. The tax offset program is run on a calendar year basis.

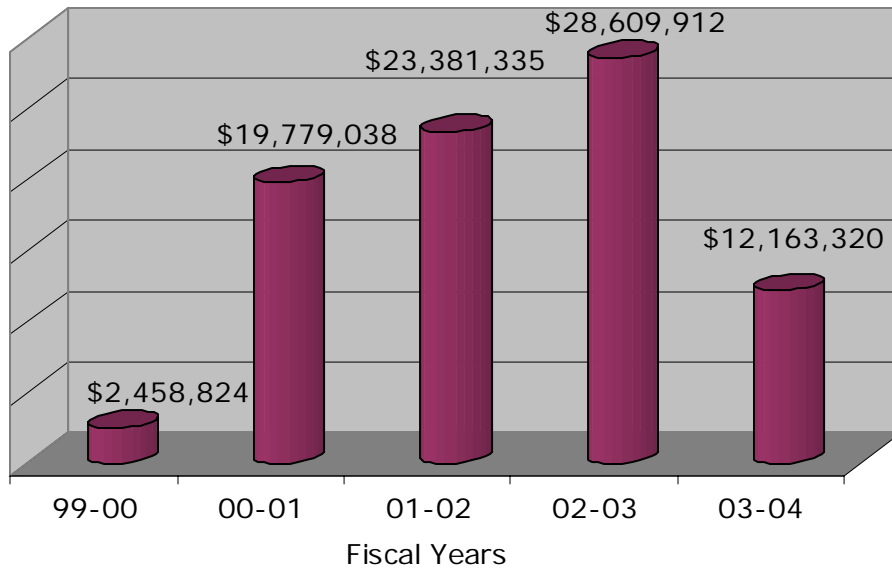
The following chart compares the dollars collected from traditional collections methods versus the dollars collected through the tax offset program.



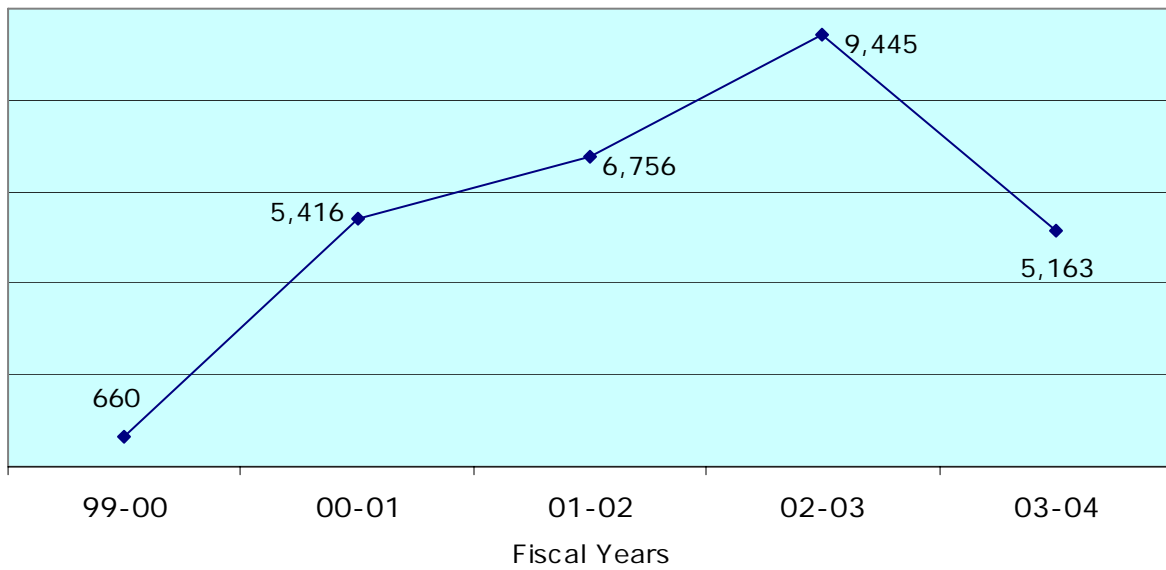
In addition to placing accounts where CCS uses both traditional collection methods and tax offset as a means to collect on the accounts, state agencies can submit accounts to CCS for tax offset purposes only. This option is used by those agencies that have the authority to contract directly with private collection agencies for the traditional collections methods but also want to take advantage of the State’s ability to tax offset which privately collection agencies can not do.

Up until FY03, accounts placed for tax offset only have increased significantly. During FY04, the number of accounts decreased and the value of accounts decreased from \$2.8 million to \$1.5 million, due to statute change, because county and district courts established their own tax offset process and are no longer required to refer their accounts to CCS.

Value of Accounts Placed For Tax Offset Only Placements

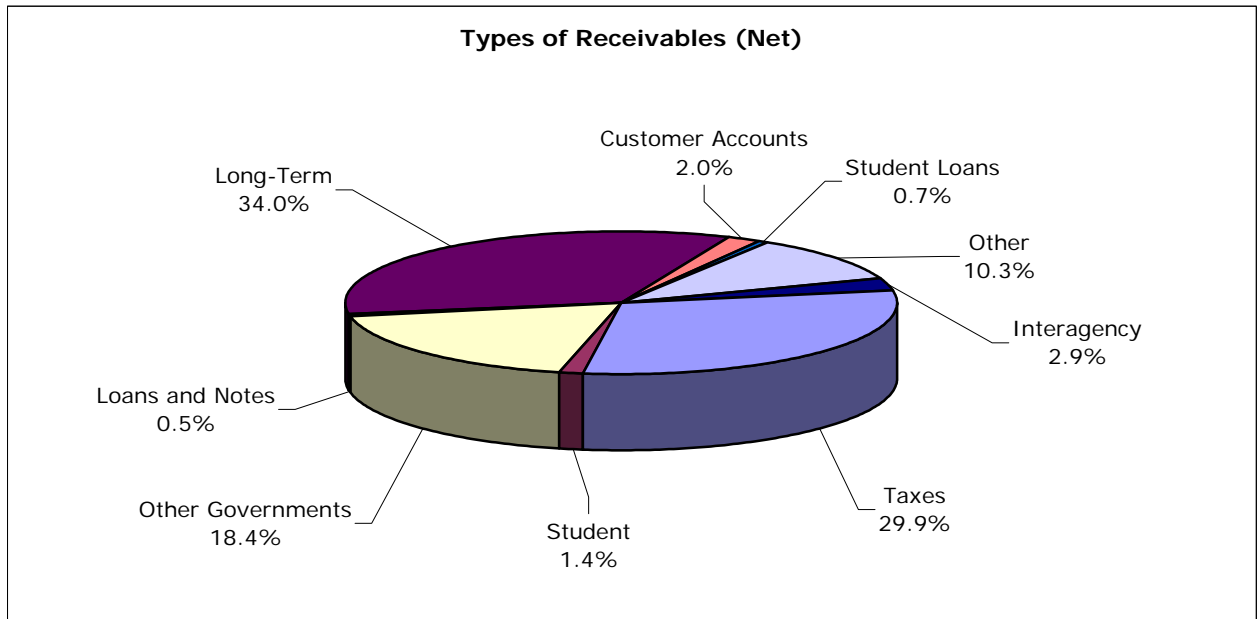


Number of Accounts Placed for Tax Offset Only



Types of Accounts Receivable

The state tracks amounts owed by several categories. Net accounts receivable represent the amount the state expects to collect. Each state agency or institution of higher education is required to estimate how much of the amount due that agency will not be collected. Net accounts receivable as of June 30, 2004 are divided into the following categories:



Type of Receivable	Net Amount Owed	% of Total
Long-term	\$1,201,062,182	34.0%
Taxes	1,056,851,683	29.9%
Other Governments	649,026,814	18.4%
Interagency	102,967,575	2.9%
Other	363,830,752	10.2%
Student Loans Receivable	23,086,707	.7%
Customer Accounts	70,391,971	2.0%
Student	49,229,547	1.4%
Loans and Notes	17,000,549	.5%
Total	\$3,533,447,780	100%

Most of the accounts receivable categories are self-explanatory such as taxes, customer accounts, loans and notes receivable, other, student loans and student receivables. Interagency receivables represent money owed from another state agency. Receivables from other governments are monies owed to Colorado by federal, other state or local governments. The primary source of these receivables is the federal government.

Long-term receivables are ones that are not anticipated to be collected within the next year and totaled \$1.14 million at the end of FY 03-04. There are two large components of long-term receivables, 1) Long-term student receivables in higher education in the amount of \$934,856,241, of which \$868,823,556 is attributable to the Colorado Student Obligation Bond Authority and 2) the Water Board loans in the Department of Natural Resources in the amount of \$200,394,193.

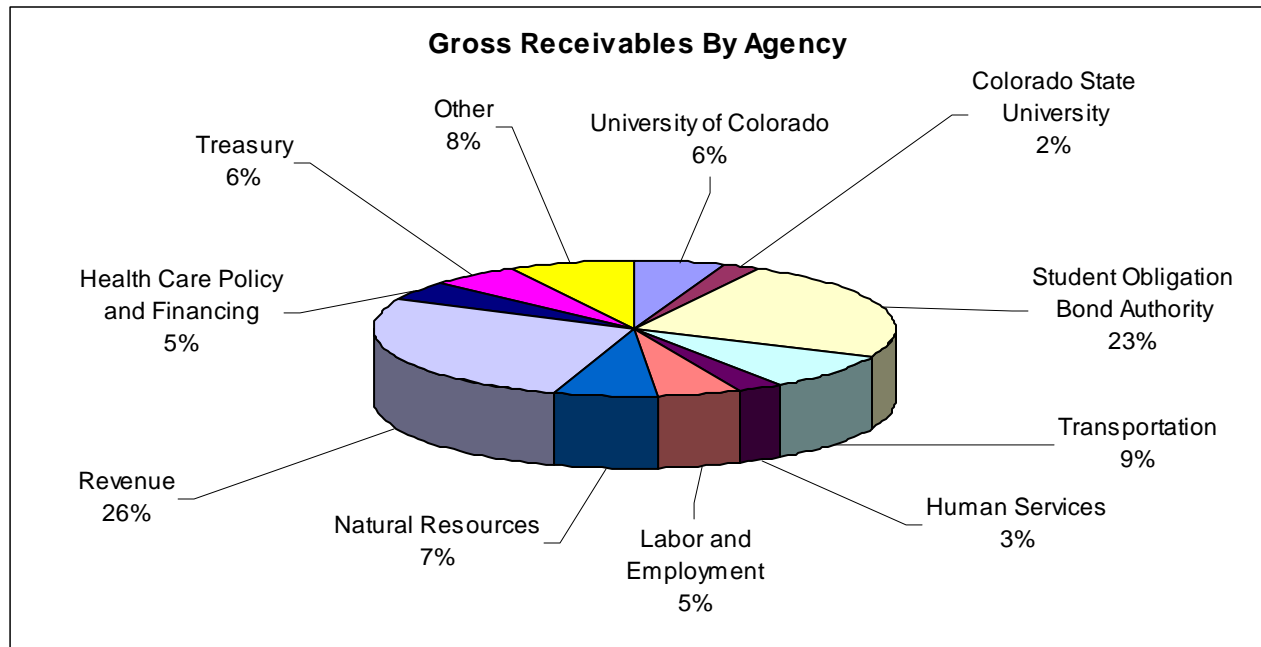
Customer accounts, student receivables and some other receivables represent funds owed to the state where the agencies have more control over whether or not they are collected in a timely manner.

An allowance for uncollectible accounts is established when a state agency determines that an amount owed to the state may not be fully collected. For certain types of receivables, an allowance is not necessary because the collectibility of the receivable is considered assured. At June 30, 2004, an allowance for uncollectible accounts of \$236.8 million, or 6.3%, was established for all types of receivables totaling \$3.8 billion. This indicates that the state expects to collect over 93.7% of the total amount of receivables due the state. The following table shows, by type of receivable, the total amount due and the amount established as uncollectible.

Type of Receivable	Total Amount Receivable	Allowance	Allowance as % of Total Receivable
Customer Accounts	\$106,818,435	\$36,426,464	34.1%
Other	403,087,927	39,257,175	9.7%
Student	61,102,352	11,872,805	19.4%
Taxes	1,196,863,470	140,011,787	11.7%
Student Loans Receivable	24,339,237	1,252,530	5.1%
Loans and Notes	17,505,604	505,055	2.9%
Long-term	1,208,509,490	7,447,308	.6%
Other Governments	649,026,814	0	0.0%
Interagency	102,967,575	0	0.0%

Agencies with the Largest Accounts Receivable

Gross accounts receivable represent the total amount due the state regardless of the collectibility of these amounts. The allowance for doubtful accounts is the estimated amount of the receivables that will not be collected. The net receivables reflect the amount the agency expects to collect. The ten state agencies with the largest gross accounts receivable balances as of June 30, 2004 are separately identified below; the remaining agencies are in the "other" category. These ten agencies account for 92% of the total gross receivables in the state.



A review of the type of receivables for the agencies indicates the following:

- The majority of the receivables for the Department of Revenue and the Colorado Student Obligation Bond Authority are taxes and student loans, respectively.
- The Department of Transportation has \$275 million, or 84% of its receivables, due from Federal government, other governments and other state agencies.
- The Departments of Health Care Policy and Financing and Human Services have 85% and 78%, respectively, of their receivables due from other governments. Health Care Policy and Financing's receivables relate to the Federal share of Medicaid payments made by the state to the providers. Human Services' receivables involve amounts due from the federal government for various federal programs such as food stamps, Temporary

Assistance for Needy Families (TANF), child care and child welfare services and veteran's administration.

- Within the Department of Natural Resources, the Water Board has Long-term receivables of \$200 million, representing 94% of the total receivables for the Department. These receivables relate to loans made by the Board to Colorado local governments for various types of water related projects. The Department does not calculate an allowance on the long-term receivable because adjustments to the loan occur through the legislative process.
- The Department of Labor and Employment has \$123.3 million, or 91%, of its receivables due from unemployment insurance taxes.