

Accounts Receivable Report

For the Fiscal Year Ended June 30, 2002

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

Arthur L. Barnhart, 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, 2002 unless otherwise indicated.

Report Format

The format for the FY01-02 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 three Spotlights are 1) the University of Northern Colorado's collection of student debt, 2) the success of the vendor offset program, and 3) 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.sco.state.co.us/acct_rec/acct_rec.htm). This website also has additional information on vendor offset and the Central Collections Service.

Overview

Consistent with stagnation in the growth in revenues in the state, at June 30, 2002, the state's gross accounts declined slightly to \$3.25 billion from \$3.27 billion for all state agencies and funds. At the same time taxes receivable decreased by about \$111 million.

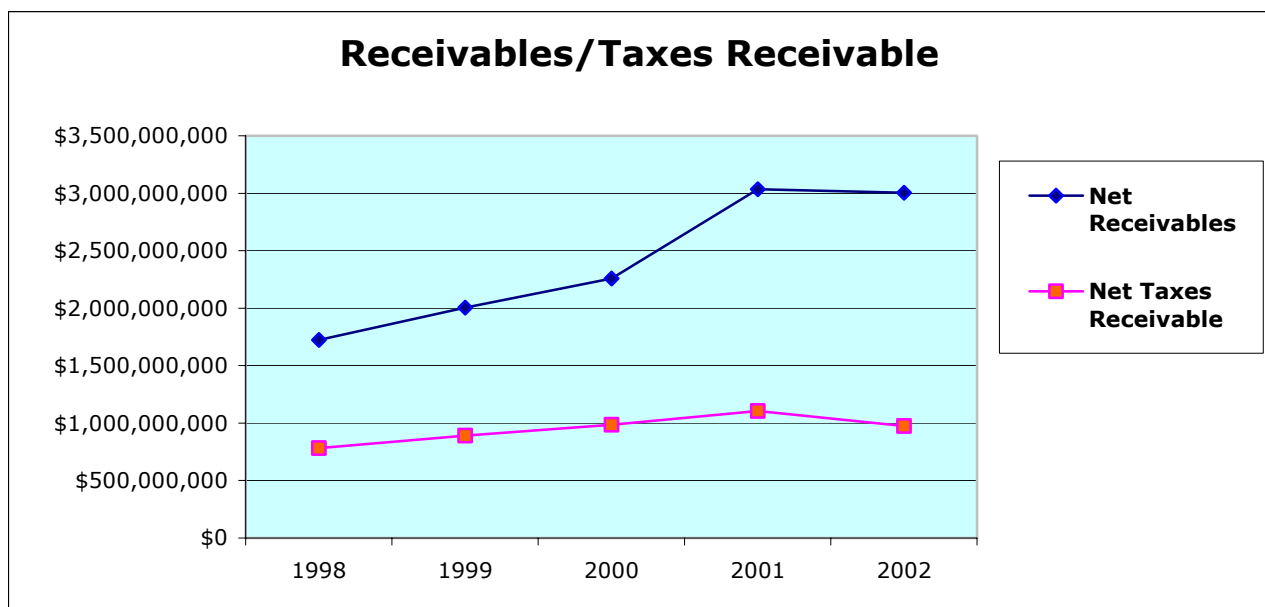
The allowance for doubtful accounts represents the dollar amount of accounts receivable that is estimated by state agencies to be uncollectible. The state's allowance for doubtful accounts for taxes receivable at June 30, 2002 was \$161 million which represents an increase of \$23 million from the previous fiscal year. This increase is consistent with the decline in Colorado's economy. In a declining economy, individuals and businesses have a more difficult time paying their debts.

Total Receivables by State Fiscal Year

	1998	1999	2000	2001	2002
Gross receivables	\$2,004,337,689	\$2,239,889,547	\$2,504,908,359	\$3,267,726,000	\$3,251,580,423
Less: Allowance	(\$280,535,435)	(\$234,807,681)	(\$235,407,182)	(\$232,873,212)	(\$248,334,262)
Net receivables	\$1,723,802,254	\$2,005,081,866	\$2,269,501,177	\$3,034,852,788	\$3,003,246,161

Taxes Receivable by State Fiscal Year

	1998	1999	2000	2001	2002
Taxes receivable	\$941,680,620	\$1,044,379,613	\$1,141,671,621	\$1,243,565,205	\$1,134,637,614
Less: Allowance	(\$158,147,702)	(\$154,672,863)	(\$155,760,694)	(\$138,066,289)	(\$160,957,819)
Net taxes Rec.	\$783,532,918	\$889,706,750	\$985,910,927	\$1,105,498,916	\$973,679,795



Of the state's total accounts receivable, a portion results from year end revenue accrual estimates. 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 FY01-02 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 2002. This amount will ultimately be paid to the state by taxpayers in the normal course of filing their tax returns during FY02-03.

Spotlight on the University of Northern Colorado

The University of Northern Colorado is a state-funded institution established in 1889 as the State Normal School. More than a century later, the University has grown to become a comprehensive Carnegie Doctoral Intensive institution. In addition to its historical and statutory mission in teacher education, the university offers an array of undergraduate and graduate programs, with more than two thousand courses in nearly one hundred degree programs across five colleges – Arts & Sciences, Business, Education, Health and Human Sciences and Performing and Visual Arts. The Graduate School offers sixteen doctoral, three doctoral minor, two specialist and thirty-three master's degree programs, primarily in the field of education.

The University is located on a three hundred acre campus in Greeley, Colorado. Enrollment is 11,000 students, approximately 9,500 undergraduates and 1,500 graduates.

Historically higher education institutions have had to balance collection efforts with the ability to maintain enrollment and cultivate alumni support. The University of Northern Colorado maintains that balance with a collection process that treats all student debtors in a fair and consistent manner.

Collection efforts begin with the monthly billing process. To encourage prompt payment, unpaid balances incur monthly service charges. In addition, students with an outstanding balance at the end of the semester are not allowed to register for the next semester. The monthly billing process resulted in the collection of 88% of all charges posted to student accounts in FY 2002.

In the next step of the collection process students carrying a balance at the end of the semester are sent a series of three reminder letters. The letters remind the students of their obligations and outline the options available. In FY 2002, 39% of the reminder letters generated a response from the students.

In the final step student accounts are assigned to UNC's internal collections department and additional collection costs are assessed. The internal collections department uses traditional and on-line collection tools. One of the most useful on-line tools the internal collections department uses to its advantage is the credit investigation and reporting service provided by Equifax Information Services LLC. through a State of Colorado price agreement. In FY 2002 the University of Northern Colorado collected 69% of the average outstanding balance in internal collections. Accounts not collected are submitted to the State of Colorado Central Collection Services.

Throughout the collection process data is collected to monitor the effectiveness of each step of the process as well as the process as a whole.

With the change, facilitated by the State Controller's Office, in CRS 23-5-115 the University of Northern Colorado will begin submitting accounts to the Department of Revenue for offset against the debtor's state tax refund.

The University of Northern Colorado will continue to seek additional techniques and methods to improve its collection process.

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.sco.state.co.us/vendor/vendor.htm>.

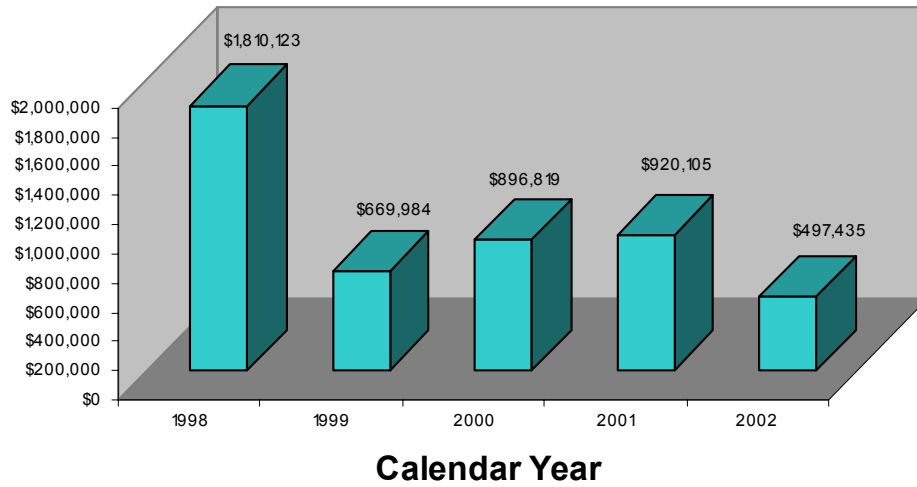
Quarterly Financial Report

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 2002, the total amount collected statewide, since inception of the vendor offset system, is \$4,794,466, an increase of \$497,435 since last year. Vendor offset collections have declined by 46%. The following chart shows collections by calendar year.

Vendor Offset Collections



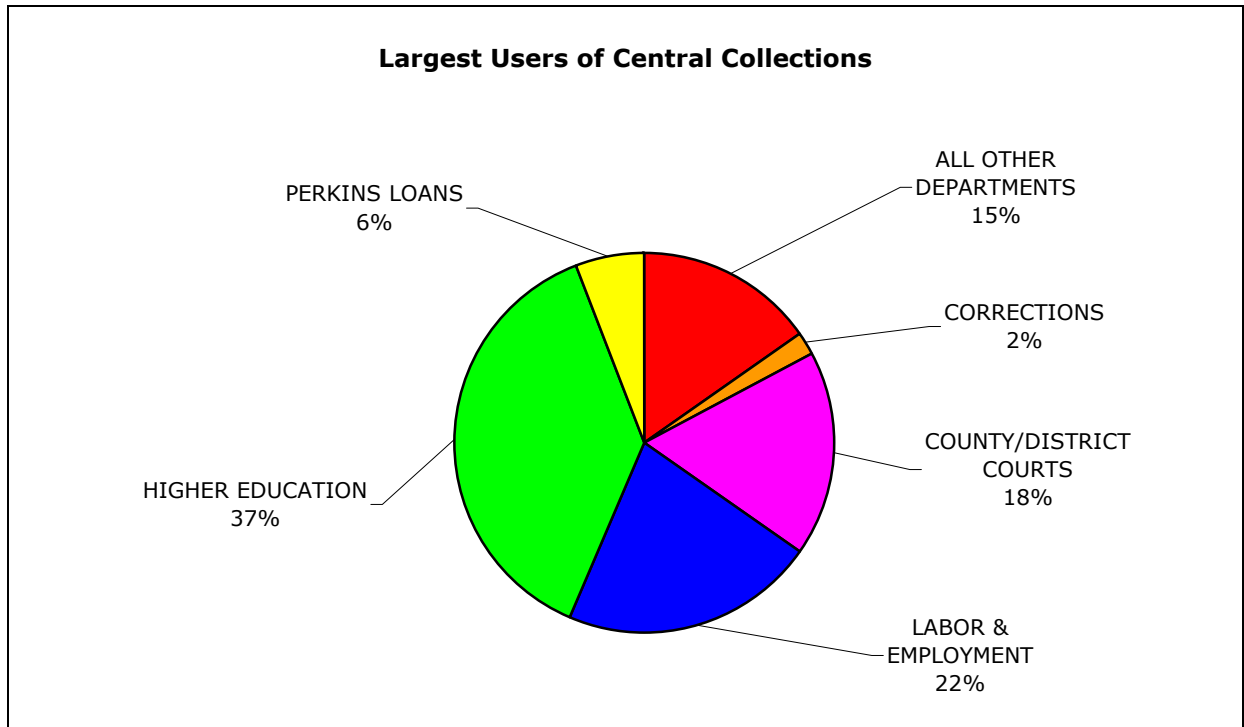
As indicated in the following table, the majority of collections are received through the Department of Revenue.

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
TOTAL	\$4,636,463	\$42,609	\$89,252	\$26,142	\$4,794,466

Spotlight On Central Collections Service

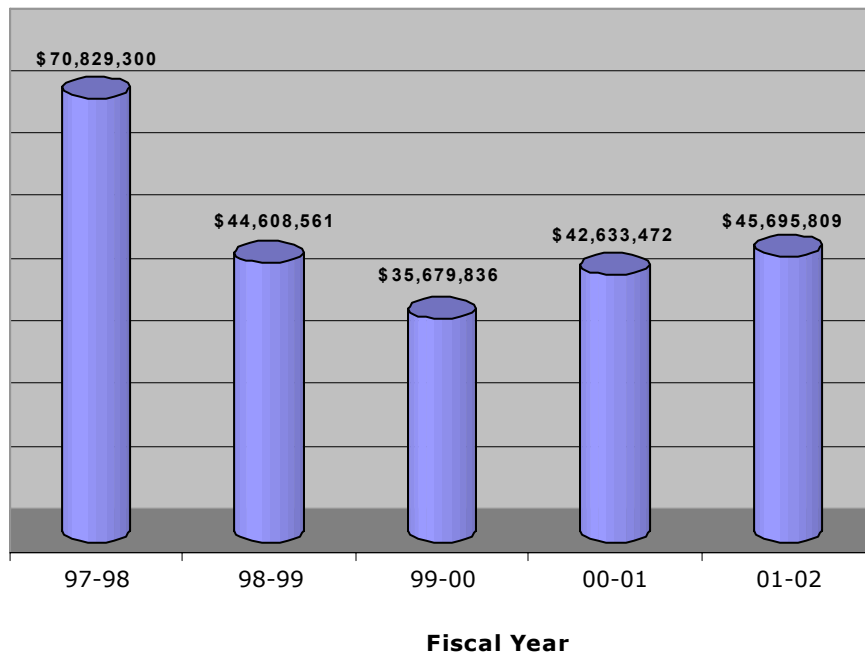
The Central Collections Service (CCS) provides debt collection services for state agencies that are required by CRS 24-30-202.4 to place past due accounts with the service. This includes all departments and agencies of the executive branch except the Departments of Revenue and Labor and Employment. However, 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.



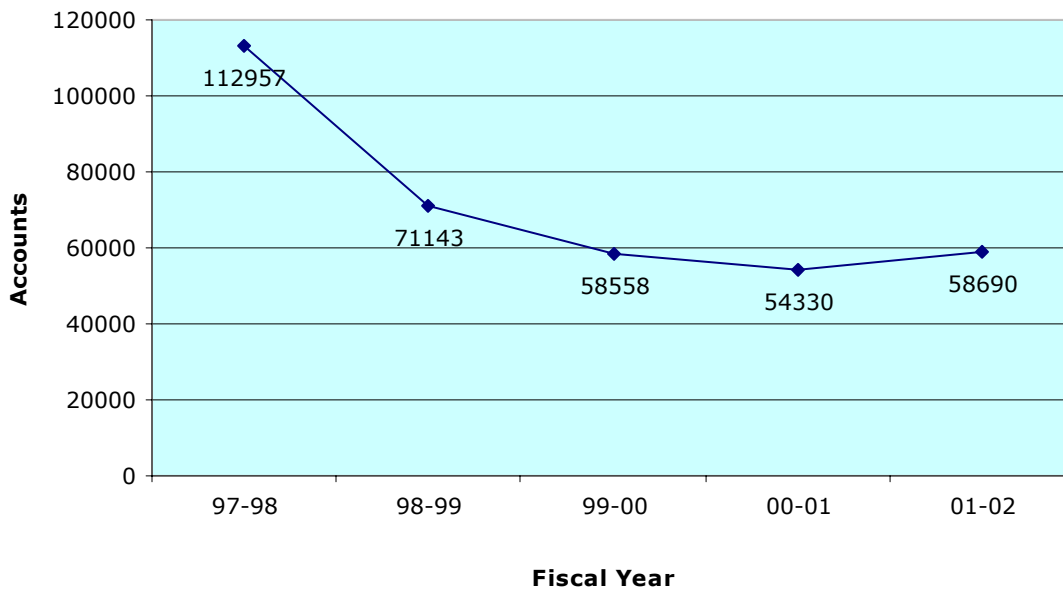
By statute, state agencies must place a past due receivable with CCS once the receivable is 31 days past due. CCS then has 90 days to obtain payment or secure a repayment arrangement with a debtor before the account must be assigned to a private collection agency. The procedures used by CCS to collect debts owed the state include telephone calls, dunning letters, credit reporting, skip tracing, tax off-set 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 FY01-02, state agencies assigned 58,690 accounts totaling \$45.7 million in past due receivables with CCS for collection. This compares to 54,330 accounts totaling over \$42.6 million for FY00-01. The following two charts show the dollar amount of placements and the number of accounts placed with CCS for the past five fiscal years.

Dollar Amount of Accounts Placed for Collection

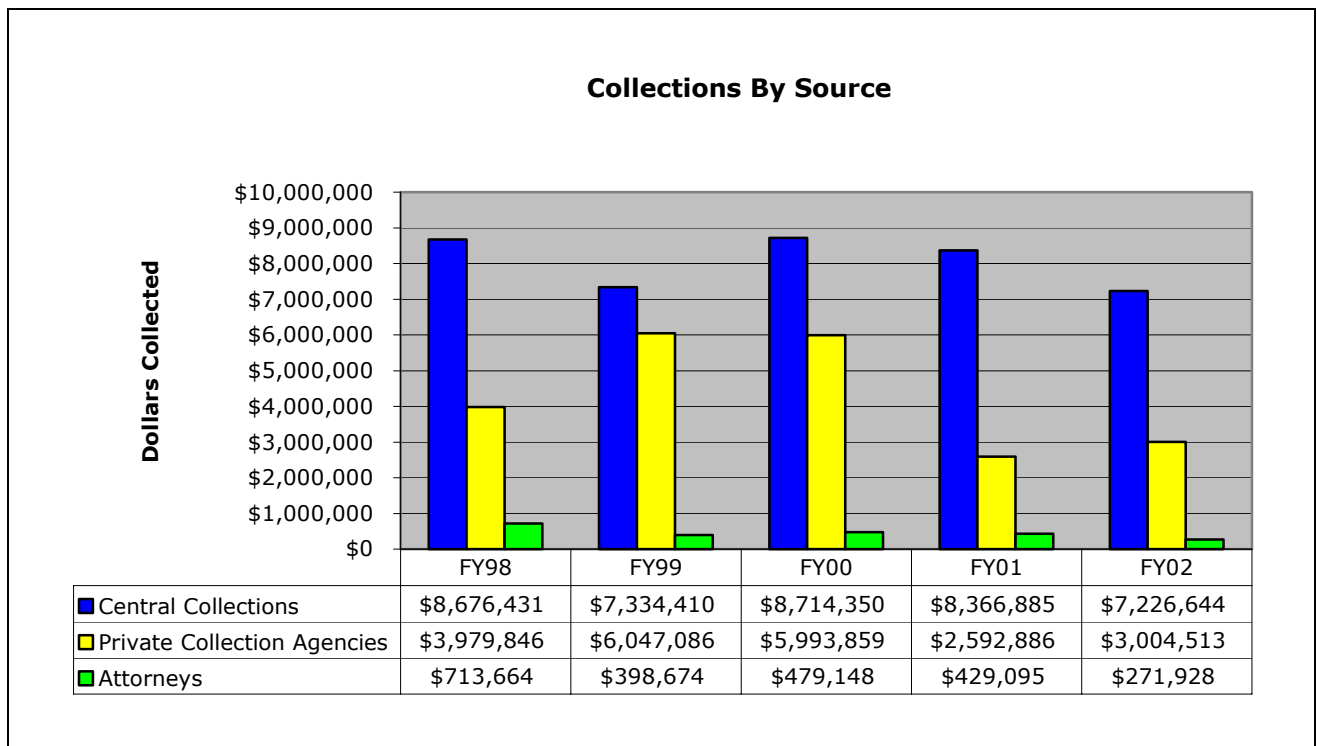


NUMBER OF ACCOUNTS PLACED FOR COLLECTION



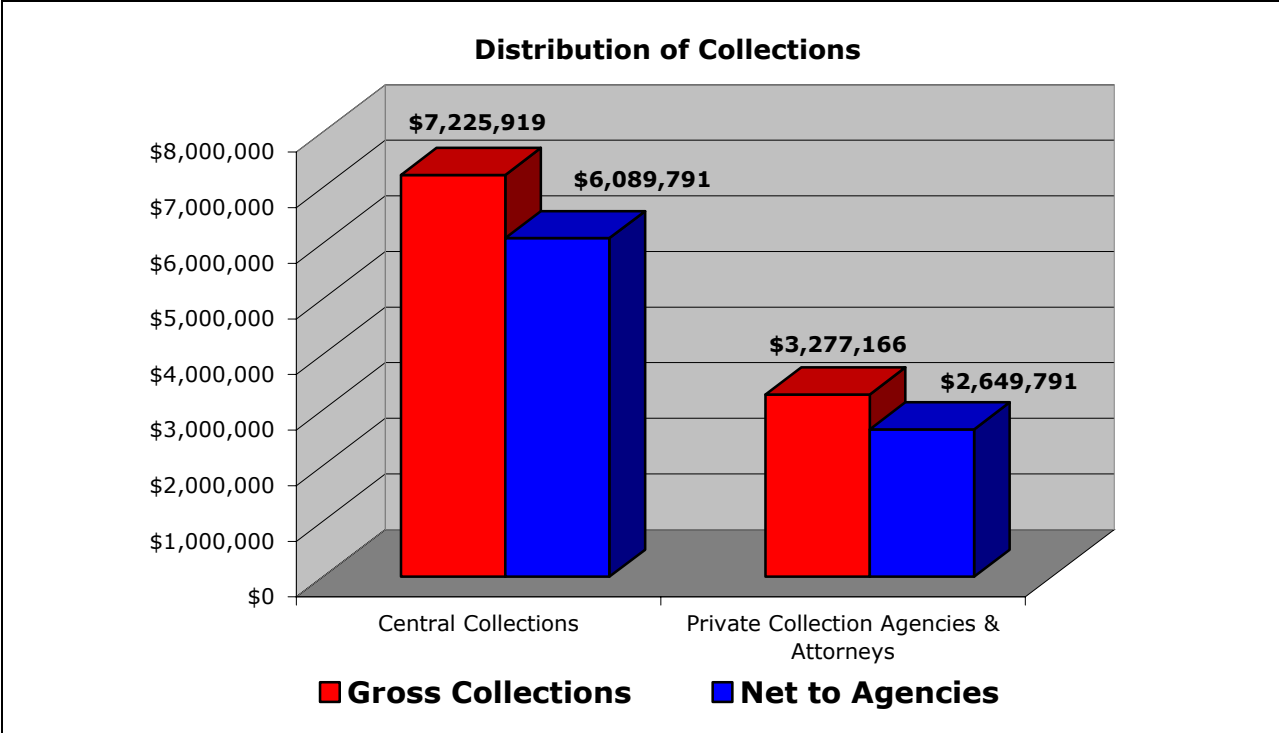
Placements from FY01-02 increased to the FY99-00 level. The amount of placements increased by \$3 million and about 4,000 accounts. However, the revenue collected declined slightly.

During FY01-02, CCS and the private collection agencies contracting with CCS collected \$10.5 million of past due receivables. That compares to collections for FY00-01 of \$11.4 million. This was an 8% decrease compared to the previous year; this is on top of a decrease of 26% this previous fiscal year. CCS attributes much of this revenue loss to the fact that higher education debt was released from tax offset. The following graph shows a breakdown of the source of collections for the past five fiscal years.

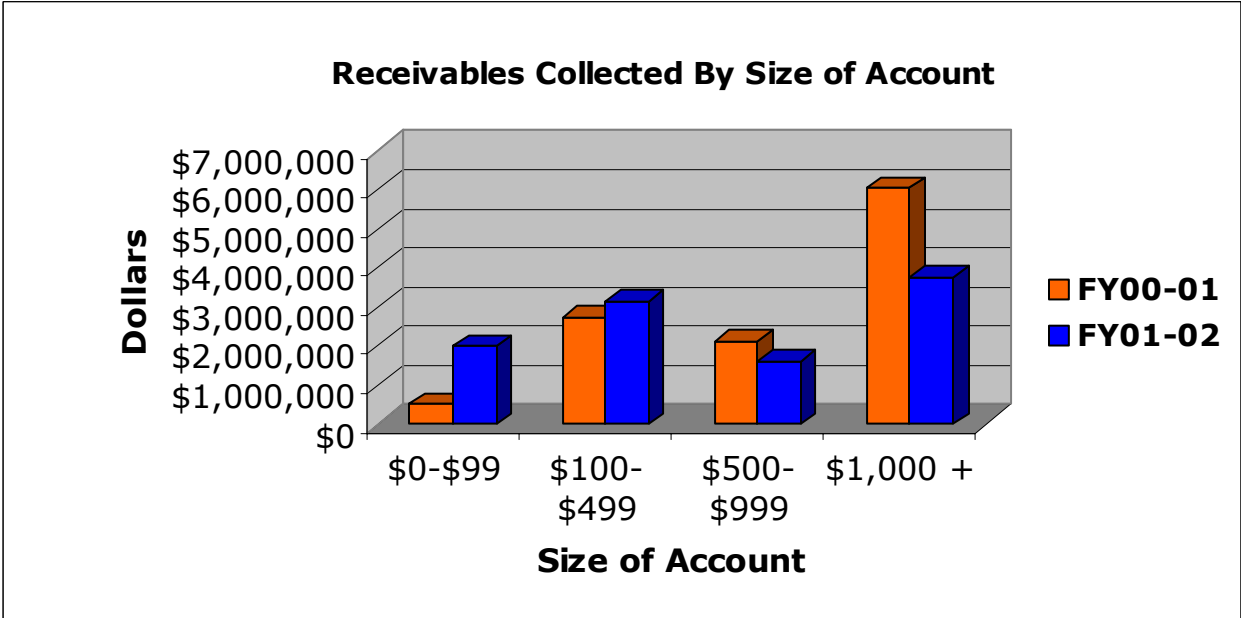


The collections from private collection agencies and attorneys increased over \$200,000 from the previous fiscal year. However, these collections remain considerably lower than the level in the previous three fiscal years.

From the total dollars collected, 84% is returned to the agency submitting the debt for collection; the CCS commission is 16%. If the debt is collected by private collection agencies or attorneys, the agencies net 81%; commissions average 19%. This is shown on the following table.



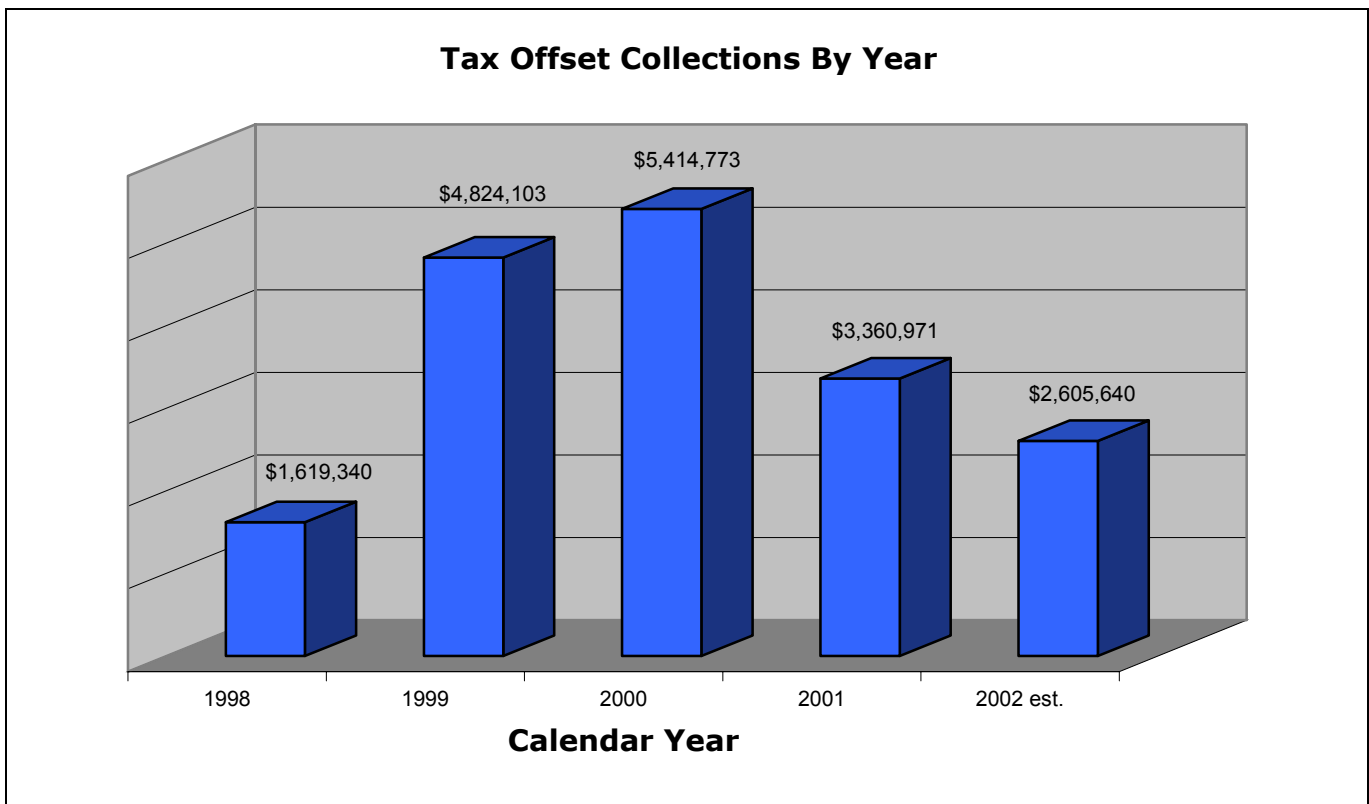
During FY99-00, CCS began to monitor the collection of past due receivables based on the balance of the receivable at the time of placement. For both FY00-01 and FY01-02, the following chart shows a breakdown of collections in four account-size ranges. The increase in the \$0-\$99 category and the drop in the \$1,000+ category are noted; however, no specific reason for these two shifts have been identified.



Tax Offset Program

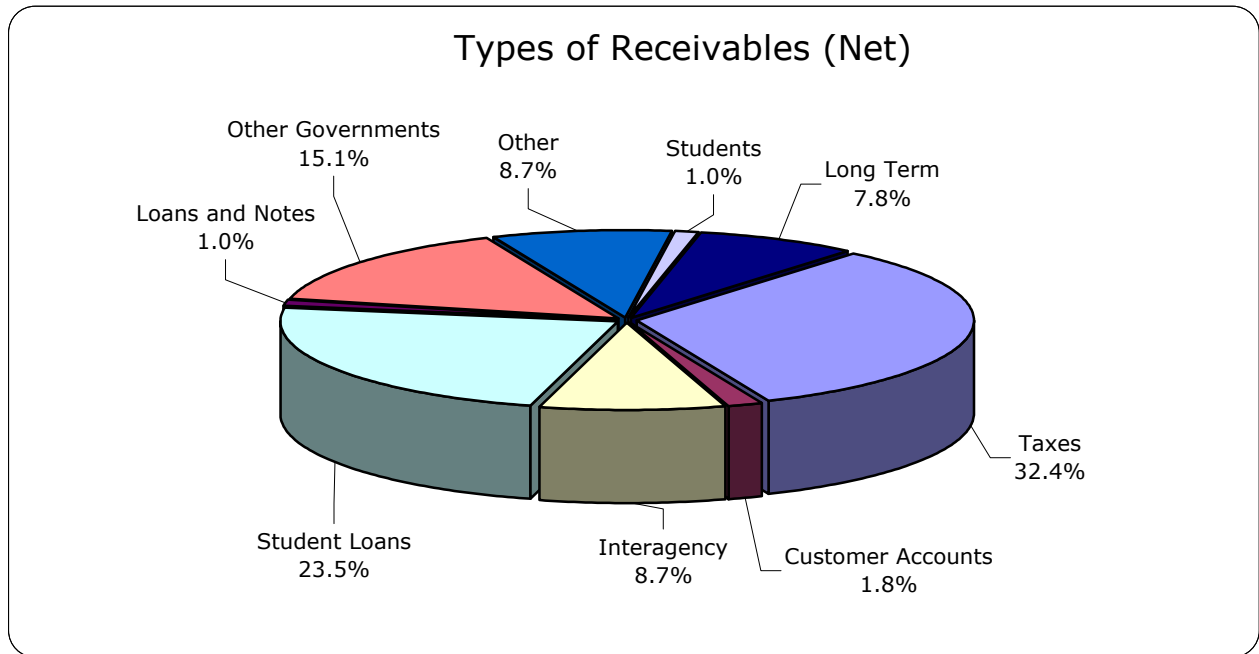
One of the most successful tools used by CCS to collect past due accounts is the tax offset program run by the Department of Revenue. Through this program, CCS attempts to match debtors with taxpayers receiving an income tax refund. Where a match is made, state regulations allow CCS to intercept the taxpayer's refund and apply it towards past due debts owed the state. The tax offset program is run on a calendar year basis. For calendar year 2002, tax offset revenues were \$2.6 million versus \$3.4 million for the previous calendar year. This was another 22.5% decrease following last year's 37% reduction in revenues. The decrease over the prior year's collections was in due to a combination of factors including the inability to run higher education institutions' debt through the tax offset process. Nearly \$29 million in higher education debt was exempt from tax offset for in 2002 due to inconsistencies in the state statute. Legislation was passed during the 2002 legislative session to correct the inconsistencies in the statute. This will allow higher education institution debt to again be processed through the tax offset system.

The following chart shows the tax offset collections for the past five years.



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, 2002 are divided into the following categories:



Type of Receivable	Net Amount Owed	% of Total
Taxes	\$973,679,795	32.4%
Student loans receivable	705,994,802	23.5%
Other Governments	452,966,516	15.1%
Interagency	262,419,071	8.7%
Other	261,079,723	8.7%
Long Term	234,680,817	7.8%
Customer Accounts	53,348,118	1.8%
Loans and Notes	30,124,128	1.0%
Student	28,953,191	1.0%

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. The largest amount of long term receivables is the Water Board loans in the Department of Natural Resources. These loans account for 72% of the receivables in this category.

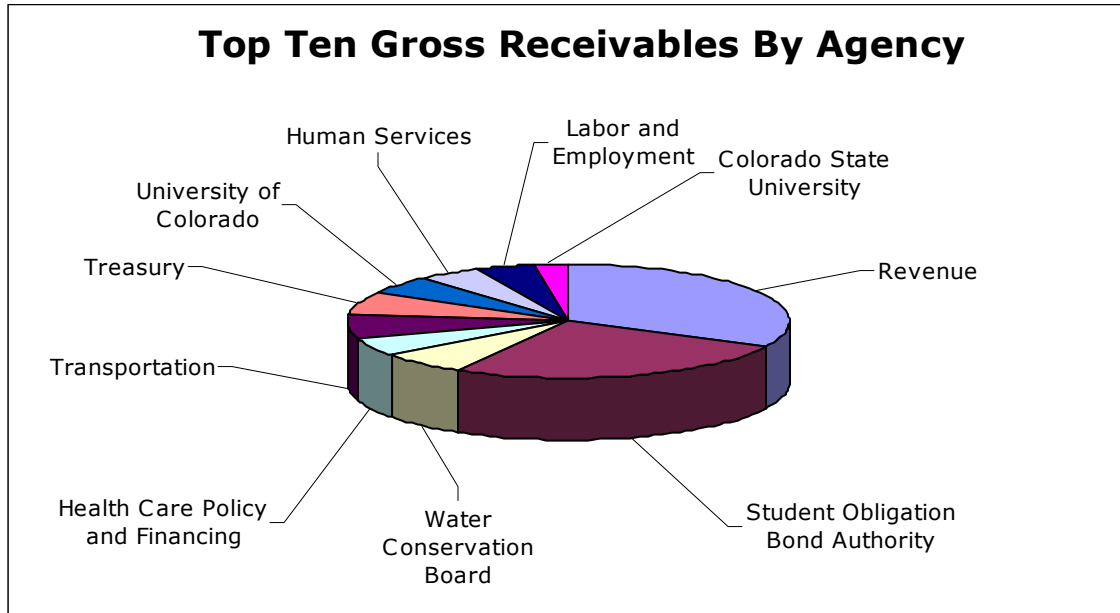
Customer accounts, student receivables and some other receivables represent funds owed to the state where the agencies have more control over whether or not they are collected in a timely manner.

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 good. At June 30, 2002, an allowance for uncollectible accounts of \$248 million, or 7.6%, was established for all types of receivables totaling \$3.25 billion. This indicates that the state expects to collect over 92.4% 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
Student	\$54,758,918	\$25,805,727	47.1%
Customer Accounts	82,310,404	28,962,286	35.2%
Taxes	1,134,637,614	160,957,819	14.2%
Other	291,518,190	30,438,467	10.4%
Loans and Notes	30,523,239	399,111	1.0%
Student Loans receivable	707,765,654	1,770,852	0.1%
Other Governments	452,966,516	0	0.0%
Interagency	262,419,071	0	0.0%
Long Term	234,680,817	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, 2002 are listed below. These ten agencies account for 89% of the total gross receivables in the state.



A review of the type of receivables for these top ten agencies indicates the following:

- The majority of the receivables for the Department of Revenue, Student Obligation Bond Authority, and University of Colorado are taxes, student loans, and student tuition and fees respectively.
- The Department of Transportation has \$140 million, or 77% of its receivables, due from other governments and other state agencies.
- The Departments of Health Care Policy and Financing and Human Services have 89.6% and 82.7%, 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 \$169 million, representing 85.5% 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 \$66.8 million, or 73.7%, of its receivables due from unemployment insurance taxes.

Customer Accounts Receivable

Customer accounts receivable are those receivables due from customers who receive goods or services from the state. This is one of the categories of receivables where the state has the ability to use collection efforts to increase the dollars collected. Net customer accounts receivable in the state as of June 30, 2002 were \$53,348,118.

The distribution of accounts in this category is an interesting one. Of all of the agencies in the state (138 on the list), only seven agencies have net customer receivables in excess of \$1 million. Another ten agencies have net customer accounts receivable over \$100,000 and less than \$1,000,000. The remaining 121 agencies have less than \$100,000 in customer accounts. Below is the list of the top 7 agencies. Their balances in net customer receivables account for 90% of the total. This means that collection efforts concentrated at these agencies have the potential for the greatest dollar collections.

Agency	Customer Accounts	Reason
Colorado State Lottery	\$13,536,459	Due from retailers
University of Colorado	12,678,280	Patient accounts
Department of Labor and Employment	6,886,848	Inspections
Colorado Mental Health Institute at Pueblo	4,719,512	Patient accounts
Colorado Mental Health Institute at Ft. Logan	4,434,762	Patient accounts
Department of Public Health & Environment	4,281,603	Fees
Department of Transportation	1,686,382	Road sign damage
Total for the Top Seven Agencies	\$48,223,846	

Summary

At the end of FY01-02, the state had a total amount owed to it from various sources of over \$3.25 billion. Of this total, a large amount represents year end accruals. 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, 71% are due from three major sources:

- \$973 million is due from taxes through the Department of Revenue and Department of Labor and Employment;
- \$706 million is due from student loans through the Department of Higher Education;
- \$453 million is due from other governments, mainly the federal government.

In addition to these three sources, an additional \$262 million is owed to one state agency by another agency of the state.

Although the total net accounts receivable has increased, the net amount of taxes receivable has decreased for the first time in five years.

The state has two major automated efforts to collect past due debts—vendor offset and tax offset. Both of these programs are successful. However, the collections from both of these programs declined in FY01-02.

The estimated uncollectible amount indicates how well an organization does in collecting amounts owed to it. For the state, the allowance for uncollectable accounts represents only 7.6% of the total amount due, the same percentage as last fiscal year. This statistic indicates the state, as a whole, is doing a good job of its accounts receivable. 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 combined with the Central Collections Services and vendor and tax offset programs result in the state expecting to collect about 92.4% of the total amount due at June 30, 2002.