

State of Colorado



DPA

Bill Owens
Governor

Troy A. Eid
Executive Director

Paul Farley
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Arthur L. Barnhart
State Controller

**Department of Personnel
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November 1, 2002

The Honorable Bill Owens
Governor
136 State Capitol Building
Denver, Colorado 80203

Dear Governor Owens:

I am submitting a Quarterly Financial Report on the status of the state's financial condition for the three-month period ended September 30, 2002. This Quarterly Financial Report summarizes activity in the General Fund and the Capital Construction Fund.

The attached Exhibit A provides a *Balance Sheet* for the Unrestricted General Fund and Capital Construction Fund at September 30, 2002. Several factors that contribute to the \$849.6 million deficit total fund equity are discussed in Exhibit B below. When two percent of appropriations are reserved, as is required by current law, the General Fund unreserved fund balance deficit is \$966.0 million. This compares to the unreserved fund balance deficit of \$1,375.0 million at September 30, 2001. The General Fund is normally in deficit at this time of year because of the legal requirement for the Department of Education to transfer six months of public school moneys by the end of the first quarter. The current deficit would be greater by \$219.0 million if not for current year transfers from the Major Medical Fund, Employment Support Fund, and the Tobacco Settlement Trust Fund. In addition, this year's unreserved fund balance is not comparable to last year's because of a significant amount of year-end transfers made at June 30, 2002.

The General Fund deficit is significant because the General Fund also has cash flow problems. The \$740.8 million Liability to Pooled Cash, which represents a cash deficit, is in addition to the State Treasurer's borrowing of \$800.0 million. That borrowing must be repaid along with accrued interest by June 27, 2003. At September 30, 2001, the state's cash deficit was \$816.9 million before similar short-term Treasury borrowings.

Exhibit B provides a *Schedule of Revenues, Expenditures and Changes in Unreserved Fund Balance - General Fund - Budget and Actual* for the three-month period ended September 30, 2002. The Current Estimate/Budget column reflects the most recent OSPB estimate of revenues on the modified accrual basis for the fiscal year and appropriations and transfers currently in law. The Governor's four percent restriction on departmental budgets is not reflected in the departmental budget amounts reported. The four percent restriction is

Governor Bill Owens
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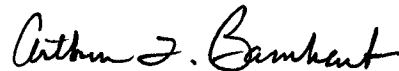
reflected in the \$494.9 million shown in the line item titled Appropriation Reductions Needed to Meet the Required Statutory Reserve. An additional \$28.8 million revenue shortfall reported on the September Year-to-Date Revenue Summary Report is not yet reflected in the Current Revenue Estimate and is therefore also not reflected in the \$494.9 million amount.

At the end of the first quarter, actual general-purpose revenues were \$1,349.7 million, which is 23.5 percent of the annual estimate. Expenditures of the General Fund through the first quarter were 39.3 percent of current appropriations, less required reductions. This compares with the prior year figure of 46.7 percent of appropriations at September 30, 2001. The prior year percentage was significantly higher because of the \$927.2 million TABOR refund expenditure and the \$256.8 million transfer to the Capital Construction Fund recorded on July 1, 2001. With these two items excluded, last year's expenditure percentage at September 30, 2001, would have been 35.2 percent - 4.1 percent less than the current year percentage. The primary reason for spending more than 25 percent for the first quarter is the legal requirement to transfer six months of public school moneys totaling \$1,229.8 million from the General Fund to the Public School Fund by September 30. In addition, eleven departments have spent in excess of 25 percent of their unrestricted budgets at September 30, 2002, while only eight departments have spent less than 25 percent.

Exhibit C is a *Schedule of Revenues, Expenditures and Changes in Unreserved Fund Balance - Regular Capital Construction Fund - Budget and Actual* for the three-month period ended September 30, 2002. Consistent with our normal reporting practice, the estimated expenditures of the Capital Construction Fund do not reflect any current restrictions. It is anticipated that expenditures will be reduced to prevent a deficit fund balance. Expenditures of the Capital Construction Fund are expected to be less than outstanding appropriations because of the multi-year nature of the appropriations compared to current fiscal year expenditures. This timing difference between the revenues and expenditures, inherent in the multi-year appropriations process, causes a large variance between the estimated and the actual fund balance.

Based on review of the attached financial reports and agency comments, I have presented the financial issues that I believe are significant to the state. Questions concerning this report should be directed to my office.

Sincerely yours,



Arthur L. Barnhart
State Controller

Attachments

cc: Troy A. Eid, DOP/DPA
Nancy McCallin, OSPB
John Ziegler, JBC

BALANCE SHEET
GENERAL AND CAPITAL CONSTRUCTION FUNDS
SEPTEMBER 30, 2002

(DOLLARS IN THOUSANDS)	UNRESTRICTED	
	GENERAL FUND	CAPITAL CONSTRUCTION
ASSETS:		
Cash and Cash Equivalents	\$ -	\$ 150,831
Taxes Receivable, net	735,926	-
Other Receivables, net	97,222	694
Intrafund Receivables	16,345	4,610
Due From Other Governments	280,914	11,146
Due From Other Funds	4,274	413
Inventories	5,774	-
Prepays, Advances, and Deferred Charges	35,916	4,225
Investments	400,768	-
Other Long-Term Assets	320	180
TOTAL ASSETS	\$ 1,577,459	\$ 172,113
LIABILITIES		
Liability to Pooled Cash	\$ 740,766	\$ -
Tax Refunds Payable	411,166	-
Accounts Payable and Accrued Liabilities	299,538	24,802
TABOR Refund Fiscal Year 2000-01	18	-
Due To Other Governments	62,403	-
Due To Other Funds	34,880	1,363
Intrafund Payables	2,348	4,131
Deferred Revenue	62,645	446
Other Current Liabilities	813,076	-
Deposits Held in Custody for Others	44	-
Other Long-Term Liabilities	204	-
TOTAL LIABILITIES	2,427,088	30,742
FUND EQUITY:		
Fund Balances:		
Reserved For:		
Encumbrances	-	106,705
Other Specific Purposes		3,255
Long-Term Assets and Loans Receivable	320	180
Statutory Reserve	116,100	-
Unreserved:		
Designated	-	31,231
Undesignated	(966,049)	-
TOTAL FUND EQUITY	(849,629)	141,371
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,577,459	\$ 172,113

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE - GENERAL FUND
BUDGET AND ACTUAL - BUDGETARY BASIS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002**

Exhibit B

(DOLLARS IN THOUSANDS)	CURRENT ESTIMATE/ RESTRICTED BUDGET		ACTUAL	PERCENT OF ESTIMATE	
REVENUES:					
Sales and Use Tax	\$	1,893,800	\$	473,689	
Other Excise Taxes		97,700		25,120	
Individual Income Tax, net		3,207,700		729,910	
Corporate Income Tax, net		237,500		52,684	
Estate Tax		46,200		13,351	
Insurance Tax		145,100		35,336	
Parimutuel, Courts, and Other		53,800		13,921	
Interest Earnings		17,500		3,909	
Gaming		38,700		-	
Medicaid Transfer		10,700		1,779	
TOTAL GENERAL PURPOSE REVENUES		5,748,700		1,349,699	23.5%
EXPENDITURES:					
Agriculture		10,618		3,443	
Corrections		493,798		121,188	
Education		2,407,933		1,309,158	
Governor		20,420		8,331	
Health Care Policy and Financing		1,181,443		267,948	
Higher Education		797,861		203,450	
Human Services		548,120		137,502	
Judicial Branch		227,708		52,376	
Law		9,682		1,792	
Legislative Branch		33,194		8,426	
Local Affairs		9,735		2,424	
Military Affairs		4,873		1,696	
Natural Resources		28,603		8,065	
Personnel and Administration		14,758		4,171	
Public Health and Environment		21,610		7,731	
Public Safety		59,523		13,775	
Regulatory Agencies		2,068		498	
Revenue		189,721		40,329	
Treasury		89,749		26,913	
Appropriation to Capital Construction Fund		10,657		10,657	
Appropriation Reductions Needed to Meet the Required Statutory Reserve		(494,874)			
TOTAL GENERAL FUNDED EXPENDITURES		5,667,200		2,229,873	39.3%
EXCESS GENERAL REVENUES OVER (UNDER)					
GENERAL FUNDED EXPENDITURES		81,500		(880,174)	
EXCESS AUGMENTING REVENUES					
		-		23,306	
Transfers:					
Transfer from Cash Funds to General Fund		219,000		219,015	
Transfers from General Fund to Repay Cash Funds		(349,600)		(349,605)	
Total Transfers		(130,600)		(130,591)	
BEGINNING UNRESERVED FUND BALANCE					
		165,200		136,702	
Deduct the GAAP Expenditures Not Budgeted				(137)	
Add GAAP Revenue Adjustments				135	
(Additions) Deductions to the Statutory Two Percent Reserve		(116,100)		(116,100)	
Prior Period Adjustment				810	
ENDING UNRESERVED FUND BALANCE	\$	0	\$	(966,049)	

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE
BUDGET AND ACTUAL - CAPITAL CONSTRUCTION FUND
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002**

(DOLLARS IN THOUSANDS)	CURRENT ESTIMATE/ BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
General Fund Transfer-In	\$ 10,657	\$ 10,657	
Interest Earnings	3,900	1,806	
TOTAL CAPITAL CONSTRUCTION REVENUES	14,557	12,463	85.6%
EXPENDITURES:			
Agriculture	1,553	(33)	
Corrections	19,198	1,247	
Education	1,283	339	
Governor	1,100	71	
Health Care Policy and Financing	3,718	555	
Higher Education	94,206	20,433	
Human Services	13,950	2,607	
Judicial Branch	960	35	
Law	83	39	
Local Affairs	497	38	
Military Affairs	1,241	128	
Natural Resources	765	765	
Personnel	18,754	1,954	
Public Health and Environment	7,099	632	
Public Safety	6,009	822	
Revenue	282	-	
Transportation	5,071	675	
Intrafund Transfer-Out	1,168	1,168	
NET EXPENDITURES AND AUGMENTING REVENUES	176,937	31,475	17.8%
EXCESS GENERAL REVENUES OVER (UNDER)			
NET CAPITAL CONSTRUCTION EXPENDITURES	(162,380)	(19,012)	
EXCESS AUGMENTING REVENUES	-	2,501	
BEGINNING UNRESERVED FUND BALANCE - GAAP BASIS	39,100	39,100	
Add Budgeted Non-GAAP Expenditures	-	-	
Deduct the GAAP Expenditures Not Budgeted	-	-	
(Additions) Deductions to Reserve for Encumbrances	115,347	8,642	
(Additions) Deductions to Reserve for Other Specific Purposes	-	-	
(Additions) Deductions to the Reserve for Long-Term Assets	-	-	
Prior Period Adjustment	-	-	
ENDING UNRESERVED FUND BALANCE - GAAP BASIS	\$ (7,933)	\$ 31,231	