

State of Colorado



Bill Owens

Governor

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Executive Director

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DPA

**Department of Personnel
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February 6, 2004

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 six-month period ended December 31, 2003. 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 December 31, 2003. Factors that contribute to the \$743.4 million deficit Total Fund Equity are addressed in the Exhibit B discussion below. When four percent of appropriations are reserved, as is required by current law, the General Fund unreserved fund balance deficit is \$965.1 million. This compares to the unreserved fund balance deficit of \$1,387.8 million at December 31, 2002. In Fiscal Year 2002-03, the deficit was addressed by \$85.3 million of reserve spending, \$555.8 million of transfers from cash funds, deferral of \$164.2 million of payroll and Medicaid expenditures, and by refinancing and other decreases of General Fund appropriations. In the current year, \$7.1 million has been transferred in to augment the General Fund; however, that amount is offset by \$50.0 million that was transferred out to repay a portion of the prior year transfers. The December 18, 2003, Economic Perspective, issued by your office, anticipates additional transfers into the General Fund of \$7.1 million.

The General Fund is normally in deficit at this time of year because of the legal requirement for the Department of Education to transfer nine months of public school moneys by the end of the second quarter. This transfer caused approximated \$588.7 million of the \$965.1million unreserved deficit.

The cash position of the General Fund shows significant improvement over December 31, 2002. The state's current General Fund cash position (defined here as the Liability to Pooled Cash plus the State Treasurer's short-term borrowing payable at June 27, 2004, reduced by investments available for liquidation) is \$905.4 in deficit. The state's General Fund deficit cash position was \$1,688.5 million and \$911.2 million at December 31, 2002, and 2001, respectively. Using the current revenue estimates, the State Treasurer no longer anticipates a General Fund cash deficit

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at fiscal year end. In addition, the state's overall cash position has improved as a result of borrowable resources increasing to \$1.3 billion.

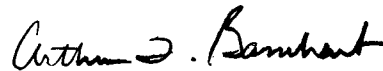
Exhibit B provides a *Schedule of Revenues, Expenditures and Changes in Unreserved Fund Balance - General Fund - Budget and Actual* for the six-month period ended December 31, 2003. The Current Annual Estimate/Restricted Budget column reflects the most recent OSPB estimate of revenues on the modified accrual basis for the fiscal year and appropriations and transfers currently in law. The line item titled Difference Between Recorded and Estimated Appropriations primarily reflects that the OSPB estimate of expenditures includes a \$70.2 million reduction of General Fund match for Medicaid costs that is not entirely reflected in the departmental budgets. Actual revenues reported on the December Year-to-Date Revenue Summary Report exceeded the estimate by \$15.1 million. This amount is not reflected in the Current Annual Estimate, and it is therefore not reflected in the anticipated \$66.0 million ending unreserved fund balance. The \$15.1 million is reflected in the actual unreserved fund balance deficit.

At the end of the first quarter, actual general-purpose revenues were \$2,764.8 million, which is 48.4 percent of the annual estimated revenue. Due to the deferral of payroll expenditures and Medicaid costs from Fiscal Year 2002-03 into Fiscal Year 2003-04 and the accelerated transfers to the Public School fund, it is not practicable to assess whether departmental spending rates are consistent with a quarterly allocation of appropriations. Prior year's expenditures are not comparable to current year expenditures due to the payroll and Medicaid cost deferrals. In addition, refinancing of General Fund expenditures to cash funds means that current year General Fund expenditures are not comparable to prior years. Departments have expended 66.0 percent of the appropriation at December 31, 2003, as compared to 61.9 percent at this same time in the prior fiscal year.

Exhibit C is a *Schedule of Revenues, Expenditures and Changes in Unreserved Fund Balance - Regular Capital Construction Fund - Budget and Actual* for the six-month period ended December 31, 2003. The estimated expenditures of the Capital Construction Fund reflect budget restrictions. Actual 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. The \$20.8 million deficit unreserved fund balance reflects the fact that departments have encumbered projects for which they have legal commitments but for which the cash funded revenue has not yet been earned.

Based on a 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: Jeffrey M. Wells, DPA
Nancy McCallin, OSPB
John Ziegler, JBC

BALANCE SHEET
GENERAL AND CAPITAL CONSTRUCTION FUNDS
DECEMBER 31, 2003

| (DOLLARS IN THOUSANDS) | UNRESTRICTED | |
|--|---------------------|-------------------------|
| | GENERAL FUND | CAPITAL CONSTRUCTION |
| ASSETS: | | |
| Cash and Cash Equivalents | \$ - | \$ 62,768 |
| Taxes Receivable, net | 750,866 | - |
| Other Receivables, net | 57,952 | 318 |
| Intrafund Receivables | 15,724 | 19 |
| Due From Other Governments | 312,186 | 5,822 |
| Due From Other Funds | 1,456 | 19 |
| Inventories | 7,042 | - |
| Prepays, Advances, and Deferred Charges | 51,620 | 5,739 |
| Investments | 3,678 | - |
| Other Long-Term Assets | 231 | 172 |
| TOTAL ASSETS | \$ 1,200,755 | \$ 74,857 |
| LIABILITIES | | |
| Liability to Pooled Cash | \$ 597,921 | \$ - |
| Tax Refunds Payable | 427,743 | - |
| Accounts Payable and Accrued Liabilities | 426,353 | 9,338 |
| Due To Other Governments | 46,072 | - |
| Due To Other Funds | 2,250 | 194 |
| Intrafund Payables | 1,133 | - |
| Deferred Revenue | 131,455 | 3,253 |
| Other Current Liabilities | 311,151 | - |
| Deposits Held in Custody for Others | 10 | - |
| Other Long-Term Liabilities | 40 | - |
| TOTAL LIABILITIES | 1,944,128 | 12,785 |
| FUND EQUITY: | | |
| Fund Balances: | | |
| Reserved For: | | |
| Encumbrances | - | 77,146 |
| Other Specific Purposes | - | 5,553 |
| Long-Term Assets and Loans Receivable | 231 | 172 |
| Statutory Reserve | 221,500 | - |
| Unreserved: | | |
| Designated | - | (20,799) |
| Undesignated | (965,104) | - |
| TOTAL FUND EQUITY | (743,373) | 62,072 |
| TOTAL LIABILITIES AND FUND EQUITY | \$ 1,200,755 | \$ 74,857 |

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE - GENERAL FUND
BUDGET AND ACTUAL - BUDGETARY BASIS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2003**

| (DOLLARS IN THOUSANDS) | CURRENT ANNUAL ESTIMATE/ RESTRICTED BUDGET | ACTUAL | PERCENT OF ESTIMATE |
|---|---|---------------------|------------------------------------|
| REVENUES: | | | |
| Sales and Use Tax | \$ 1,897,800 | \$ 951,476 | |
| Other Excise Taxes | 96,000 | 48,862 | |
| Individual Income Tax, net | 3,140,300 | 1,517,026 | |
| Corporate Income Tax, net | 216,100 | 102,064 | |
| Estate Tax | 53,300 | 28,076 | |
| Insurance Tax | 172,400 | 78,726 | |
| Parimutuel, Courts, and Other | 85,900 | 33,145 | |
| Investment Earnings | 11,000 | 5,445 | |
| Gaming | 39,600 | - | |
| TOTAL GENERAL PURPOSE REVENUES | 5,712,400 | 2,764,820 | 48.4% |
| EXPENDITURES: | | | |
| Agriculture | 4,153 | 2,429 | |
| Corrections | 469,772 | 251,947 | |
| Education | 2,417,663 | 1,882,780 | |
| Governor | 13,304 | 8,066 | |
| Health Care Policy and Financing | 1,134,315 | 683,009 | |
| Higher Education | 591,428 | 353,096 | |
| Human Services | 454,458 | 236,783 | |
| Judicial Branch | 207,297 | 116,022 | |
| Law | 6,748 | 3,422 | |
| Legislative Branch | 27,147 | 13,554 | |
| Local Affairs | 4,779 | 2,354 | |
| Military Affairs | 3,839 | 2,125 | |
| Natural Resources | 19,528 | 12,857 | |
| Personnel and Administration | 7,728 | 5,517 | |
| Public Health and Environment | 12,448 | 6,990 | |
| Public Safety | 54,179 | 26,651 | |
| Regulatory Agencies | 1,058 | 605 | |
| Revenue | 171,837 | 80,592 | |
| Treasury | 4,553 | 9,911 | |
| SUBTOTAL DEPARTMENTAL EXPENDITURES | 5,606,234 | 3,698,710 | 66.0% |
| Appropriation to Capital Construction Fund | 9,500 | 9,490 | |
| Difference Between Recorded and Estimated Appropriations | (16,234) | | |
| TOTAL GENERAL FUNDED EXPENDITURES | 5,599,500 | 3,708,200 | |
| EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES | 112,900 | (943,380) | |
| EXCESS AUGMENTING REVENUES | - | 26,015 | |
| TRANSFERS: | | | |
| Transfers from Cash Funds to General Fund | 14,200 | 7,089 | |
| Transfers from General Fund to Repay Cash Funds | (56,200) | (50,000) | |
| Transfer of Excess Beginning Reserve to Highways and Capital Construction | (8,400) | (8,339) | |
| TOTAL TRANSFERS | (50,400) | (51,250) | |
| BEGINNING UNRESERVED FUND BALANCE - BUDGET BASIS | 93,700 | 93,659 | |
| Deduct the GAAP Expenditures Not Budgeted | - | 3 | |
| Add GAAP Revenue Adjustments | - | 89 | |
| (Additions) Deductions to the Statutory Four Percent Reserve | (90,200) | (90,240) | |
| ENDING UNRESERVED FUND BALANCE - BUDGET BASIS | \$ 66,000 | \$ (965,104) | |

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE - FUNDED BY GENERAL PURPOSE REVENUE
BUDGET AND ACTUAL - CAPITAL CONSTRUCTION FUND
FOR THE SIX MONTHS ENDED DECEMBER 31, 2003**

| (DOLLARS IN THOUSANDS) | CURRENT ANNUAL ESTIMATE/ RESTRICTED BUDGET | ACTUAL | PERCENT OF ESTIMATE |
|---|---|--------------------|------------------------------------|
| REVENUES: | | | |
| General Fund Transfer-In | \$ 9,490 | \$ 9,490 | |
| Beginning General Fund Excess Reserve Transfer | - | 2,780 | |
| Interest Earnings | 1,800 | 734 | |
| TOTAL CAPITAL CONSTRUCTION REVENUES | 11,290 | 13,004 | 115.2% |
| EXPENDITURES: | | | |
| Agriculture | 167 | 21 | |
| Corrections | 4,586 | 1,474 | |
| Governor | 390 | 68 | |
| Health Care Policy and Financing | 4,957 | 1,725 | |
| Higher Education | 27,028 | 8,974 | |
| Human Services | 6,173 | 3,685 | |
| Judicial Branch | 112 | 47 | |
| Law | 5 | 3 | |
| Military Affairs | 27 | 6 | |
| Natural Resources | 835 | 1,025 | |
| Personnel | 8,418 | 4,598 | |
| Public Health and Environment | 1,758 | 730 | |
| Public Safety | 1,669 | 297 | |
| Revenue | 661 | - | |
| Transportation | 8 | - | |
| Intrafund Transfer-Out | 69 | 69 | |
| NET EXPENDITURES AND AUGMENTING REVENUES | 56,863 | 22,722 | 40.0% |
| EXCESS GENERAL REVENUES OVER (UNDER) NET CAPITAL CONSTRUCTION EXPENDITURES | (45,573) | (9,718) | |
| EXCESS AUGMENTING REVENUES | - | 26,454 | |
| BEGINNING UNRESERVED FUND BALANCE - GAAP BASIS | 4,555 | 4,555 | |
| (Additions) Deductions to Reserve for Encumbrances - All Funding Sources | 35,023 | (42,123) | |
| (Additions) Deductions to Reserve for Other Specific Purposes | - | 33 | |
| ENDING UNRESERVED FUND BALANCE - GAAP BASIS | \$ (5,995) | \$ (20,799) | |