

State of Colorado



Bill Owens
Governor

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January 31, 2005

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, 2004. 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, 2004. Factors that contribute to the \$755.0 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 \$987.5 million. This compares to the unreserved fund balance deficit of \$965.1 million at December 31, 2003.

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 approximately \$682.5 million of the \$987.5 million unreserved fund balance deficit.

The cash position of the General Fund has declined from December 31, 2003. 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 in June 2005, reduced by investments available for liquidation) is \$1,102.1 million in deficit. The state's General Fund deficit cash position was \$905.4 million, \$1,688.5 million and \$911.2 million at December 31, 2003, 2002, and 2001, respectively. The General Fund has access to various cash funds' cash balances, and therefore, the state's overall cash position is best considered using the definition of borrowable resources, which currently shows resources in excess of \$1,626.0 million.

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, 2004. The Current Annual Estimate/Restricted Budget column reflects the most recent OSPB estimate of revenues on the modified accrual basis for the fiscal year, appropriations and transfers

currently in law, and an estimate of the Fiscal Year 2004-05 TABOR refund. Actual revenues reported on the December Year-to-Date Revenue Summary Report exceeded the estimate by \$75.1 million. This amount is not reflected in the Current Annual Estimate, and it is therefore not reflected in the \$97.8 million revenue enhancement or expenditure reduction needed to maintain the four percent reserve. The \$75.1 million is reflected in the actual unreserved fund balance deficit. The Difference Between Recorded and Estimated Appropriations is primarily related to restrictions currently recorded and statutory appropriation adjustments that have not yet been recorded.

At the end of the first quarter, actual general-purpose revenues were \$2,929.2 million, which is 49.1 percent of the annual estimated revenue. Due to the deferral of payroll expenditures and Medicaid costs from Fiscal Year 2003-04 into Fiscal Year 2004-05 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. Except for Medicaid accruals discussed below, similar expenditure deferral and accelerated transfers existed in Fiscal Year 2003-04. Departmental expenditures of the General Fund for the second quarter of the current fiscal year were 66.9 percent of current appropriations. This compares with the prior year figure of 66.0 percent of appropriations at December 31, 2003. In compliance with statutory requirements to report Medicaid expenditures on the cash basis, the Department of Health Care Policy and Financing did not prepare an accrual of Medicaid costs at December 31, 2004; at December 31, 2003, the department accrued \$162.9 million of Medicaid costs.

Exhibit C is a *Schedule of Revenues, Expenditures, and Changes in Unreserved Fund Balance - Funded By General Purpose Revenue - Budget and Actual - Capital Construction Fund* for the six-month period ended December 31, 2004. The estimated expenditures of the Capital Construction Fund reflect budget restrictions. Actual expenditures of the Capital Construction Fund in the current year are expected to be less than outstanding appropriations because of the multi-year nature of the appropriations compared to current fiscal year expenditures. The ending unreserved fund balance of \$8,340.0 is net of reserve for encumbrances that relate to all types of funding, not just general funded expenditures; this is the primary difference between the estimated and actual unreserved fund balance reported.

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,



Leslie M. Shenefelt
State Controller

Attachments

cc: Jeffrey M. Wells, DPA
Henry Sobanet, OSPB
John Ziegler, JBC

BALANCE SHEET
GENERAL AND CAPITAL CONSTRUCTION FUNDS
DECEMBER 31, 2004

(DOLLARS IN THOUSANDS)	UNRESTRICTED GENERAL FUND	CAPITAL CONSTRUCTION
ASSETS:		
Cash and Pooled Cash	\$ -	\$ 83,397
Taxes Receivable, net	777,045	-
Other Receivables, net	64,052	804
Intrafund Receivables	13,818	-
Due From Other Governments	191,506	1,479
Due From Other Funds	3,063	1,761
Inventories	6,381	-
Prepays, Advances, and Deferred Charges	31,149	6,030
Investments	3,680	-
Other Long-Term Assets	312	164
TOTAL ASSETS	\$ 1,091,006	\$ 93,635
LIABILITIES		
Liability to Pooled Cash	\$ 435,019	\$ -
Tax Refunds Payable	420,471	-
Accounts Payable and Accrued Liabilities	178,963	9,308
Due To Other Governments	39,046	-
Due To Other Funds	193	253
Deferred Revenue	108,885	3,753
Other Current Liabilities	663,379	1,076
Deposits Held in Custody for Others	6	-
Other Long-Term Liabilities	6	-
TOTAL LIABILITIES	1,845,968	14,390
FUND EQUITY:		
Fund Balances:		
Reserved For:		
Encumbrances	-	70,741
Long-Term Assets and Loans Receivable	312	164
Statutory Reserve	232,200	-
Unreserved:		
Designated	-	8,340
Undesignated	(987,474)	-
TOTAL FUND EQUITY	(754,962)	79,245
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,091,006	\$ 93,635

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE - GENERAL FUND
BUDGET AND ACTUAL - BUDGETARY BASIS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2004**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ RESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
Sales and Use Tax	\$ 1,991,100	\$ 996,179	
Other Excise Taxes	99,500	54,349	
Individual Income Tax, net	3,308,100	1,616,016	
Corporate Income Tax, net	249,100	130,204	
Estate Tax	18,300	14,437	
Insurance Tax	177,100	79,409	
Parimutuel, Courts, and Other	56,300	32,091	
Investment Earnings	23,000	6,516	
Gaming	39,700	-	
TOTAL GENERAL PURPOSE REVENUES	5,962,200	2,929,201	49.1%
EXPENDITURES:			
Agriculture	4,228	2,559	
Corrections	500,721	270,227	
Education	2,539,580	2,185,381	
Governor	15,951	8,917	
Health Care Policy and Financing	1,250,117	598,186	
Higher Education	588,068	344,786	
Human Services	469,629	258,483	
Judicial Branch	219,577	122,772	
Law	7,243	3,754	
Legislative Branch	28,557	13,503	
Local Affairs	4,916	2,233	
Military Affairs	3,952	2,298	
Natural Resources	22,479	13,926	
Personnel and Administration	8,242	5,046	
Public Health and Environment	13,072	7,036	
Public Safety	56,820	28,144	
Regulatory Agencies	1,029	620	
Revenue	165,501	79,338	
Treasury	4,526	3,881	
SUBTOTAL DEPARTMENTAL EXPENDITURES	5,904,208	3,951,090	66.9%
Fiscal Year 2004-05 TABOR Refund	150,800	-	
Appropriation to Capital Construction Fund	200	153	
Expenditure/Revenue Adjustment Needed to Maintain Four Percent Reserve	(97,800)	-	
Difference Between Recorded and Estimated Appropriations	22,792	-	
TOTAL GENERAL FUNDED EXPENDITURES	5,980,200	3,951,243	
EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES	(18,000)	(1,022,042)	
EXCESS AUGMENTING REVENUES	-	14,975	
TRANSFERS:			
Transfer from Tobacco Settlement to General Fund	26,200	26,160	
Transfer of Excess Beginning Reserve to Highways and Capital Construction	(122,300)	(121,818)	
TOTAL TRANSFERS	(96,100)	(95,658)	
NET CHANGE IN UNRESERVED FUND BALANCE RELATED TO BUDGETED OPERATIONS	(114,100)	(1,102,725)	
BEGINNING UNRESERVED FUND BALANCE - BUDGET BASIS	122,300	121,818	
Deduct the GAAP Expenditures Not Budgeted	-	(97)	
(Additions) Deductions to Reserve for Encumbrance	-	2,106	
(Additions) Deductions to the Long-Term Loan Reserve	-	(12)	
(Additions) Deductions to the Statutory Four Percent Reserve	(8,200)	(8,564)	
ENDING UNRESERVED FUND BALANCE - BUDGET BASIS	\$ 0	\$ (987,474)	

**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, 2004**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ RESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
General Fund Transfer-In	\$ 153	\$ 153	
Beginning General Fund Excess Reserve Transfer	40,800	40,606	
Interest Earnings	1,400	817	
TOTAL CAPITAL CONSTRUCTION REVENUES	42,353	41,576	98.2%
EXPENDITURES:			
Corrections	1,887	608	
Governor	314	1	
Health Care Policy and Financing	515	232	
Higher Education	7,015	2,313	
Human Services	1,727	412	
Military Affairs	9	-	
Natural Resources	723	725	
Personnel	6,846	3,495	
Public Health and Environment	982	221	
Public Safety	1,817	1,817	
Revenue	957	669	
Intrafund Transfer-Out	439	439	
NET EXPENDITURES AND AUGMENTING REVENUES	23,231	10,932	47.1%
EXCESS GENERAL REVENUES OVER (UNDER) NET CAPITAL CONSTRUCTION EXPENDITURES	19,122	30,644	
EXCESS AUGMENTING REVENUES		17,301	
BEGINNING UNRESERVED FUND BALANCE - GAAP BASIS	(39,986)	(39,986)	
(Additions) Deductions to Reserve for Encumbrances - All Funding Sources	63,640	(7,101)	
(Additions) Deductions to Reserve for Other Specific Purposes	-	7,223	
(Additions) Deductions to the Reserve for Long-Term Assets	-	259	
ENDING UNRESERVED FUND BALANCE - GAAP BASIS	\$ 42,776	\$ 8,340	