

State of Colorado



Bill Owens

Governor

Jeffrey M. Wells

Executive Director

Paul Farley

Deputy Executive Director

Leslie M. Shenefelt

State Controller

DPA

Department of Personnel
& Administration

Division of Finance and Procurement

State Controller's Office

633 17th Street, Suite 1500

Denver, Colorado 80202

Phone (303) 866-6200

Fax (303) 866-4233

www.colorado.gov/dpa

April 28, 2006

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 nine-month period ended March 31, 2006. 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 March 31, 2006. Factors that contribute to the General Fund \$825.4 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 \$1,077.3 million. This compares to the unreserved fund balance deficit of \$803.9 million at March 31, 2005.

The General Fund is normally in deficit at this time of year because individual income tax, insurance premium tax, and gaming transfers are disproportionately recorded in the final quarter of the fiscal year and because of the legal requirement for the Department of Education to transfer twelve months of public school moneys by the end of the third quarter. This transfer caused approximately \$551.7 million of the \$1,077.3 million unreserved fund balance deficit.

The cash position of the General Fund has improved over March 31, 2005. 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 2006, reduced by investments available for liquidation) is \$1,107.3 million in deficit. The state's General Fund deficit cash position was \$846.1 million, \$992.3 million, and \$1,553.3 million at March 31, 2005, 2004, and 2003, respectively. The General Fund has access to the cash balance of various cash funds, and therefore, the state's overall cash position is best considered using the definition of borrowable resources, which currently shows resources in excess of \$2,009.4 million.

Exhibit B provides a *Schedule of Revenues, Expenditures and Changes in Unreserved Fund Balance - General Fund - Budget and Actual* for the nine-month period ended March 31, 2006. The Current Annual Estimate/Unrestricted 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 without restrictions. Actual revenues reported on the March Year-to-Date Revenue Summary Report exceeded the estimate by \$31.7 million. This amount is not reflected in the Current Annual Estimate, and it is therefore not reflected in the projected ending unreserved

fund balance. The \$31.7 million is reflected in the actual unreserved fund balance deficit. The line item titled Difference Between Recorded and Estimated Appropriations is the result of appropriation increases related to Referendum C and increased revenues that have been identified by the Office of State Planning and Budgeting but have not been recorded by the State Controller's Office. Both the OSPB estimate of appropriations and the recording on the state's accounting system change significantly during the final portion of the legislative session. Therefore, aligning the estimated appropriation and the recorded amount is not practicable at the close of the third quarter.

At the end of the third quarter, actual general-purpose revenues were \$4,447.8 million, which is 69.4 percent of the annual estimated revenue. Due to the deferral of payroll expenditures and Medicaid costs from Fiscal Year 2004-05 into Fiscal Year 2005-06 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. However, similar expenditure deferrals and accelerated transfers existed in Fiscal Year 2004-05. Departmental expenditures of the General Fund at the third quarter of the current fiscal year were 85.6 percent of current appropriations, which compares with the prior year figure of 86.5 percent of appropriations at March 31, 2005. 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 March 31, 2006 or March 31, 2005. The Medicaid accrual was \$163.2 million at March 31, 2004.

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 nine-month period ended March 31, 2006. The estimated expenditures of the Capital Construction Fund do not reflect budget restrictions. The revenues of the fund were \$62.1 million or 148.7 percent over estimate primarily due to a \$20.0 million transfer from the General Fund authorized by House Bill 06-1373 on March 31, 2006. Actual expenditures of the Capital Construction Fund in the current year are expected to be significantly less than outstanding appropriations because of the multi-year nature of the appropriations compared to current fiscal year expenditures. The \$24.4 million deficit unreserved fund balance is primarily the result of \$127.3 million of encumbrances that are legal commitments primarily of cash and federally funded projects, as well as general funded projects. Not all of the revenue supporting the cash and federally funded projects has been earned at March 31, 2006.

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
Website

BALANCE SHEET
GENERAL AND CAPITAL CONSTRUCTION FUNDS
MARCH 31, 2006

| (DOLLARS IN THOUSANDS) | UNRESTRICTED GENERAL FUND | CAPITAL CONSTRUCTION |
|--|--|---------------------------------|
| ASSETS: | | |
| Cash and Pooled Cash | \$ - | \$ 108,247 |
| Taxes Receivable, net | 785,497 | - |
| Other Receivables, net | 45,283 | 621 |
| Intrafund Receivables | 28,934 | 2,038 |
| Due From Other Governments | 236,430 | 2,454 |
| Due From Other Funds | 1,643 | 2,942 |
| Inventories | 7,832 | - |
| Prepays, Advances, and Deferred Charges | 36,004 | 4,867 |
| Investments | 3,794 | - |
| Other Long-Term Assets | 141 | 156 |
| TOTAL ASSETS | \$ 1,145,558 | \$ 121,325 |
| LIABILITIES | | |
| Liability to Pooled Cash | \$ 403,183 | \$ - |
| Tax Refunds Payable | 461,428 | - |
| Accounts Payable and Accrued Liabilities | 153,849 | 11,563 |
| TABOR Refund Fiscal Year 2004-05 | 19,957 | - |
| Due To Other Governments | 37,005 | - |
| Due To Other Funds | 48,871 | 357 |
| Intrafund Payables | 144 | - |
| Deferred Revenue | 133,902 | 5,266 |
| Other Current Liabilities | 711,305 | 3 |
| Deposits Held in Custody for Others | 1,354 | - |
| Other Long-Term Liabilities | 7 | - |
| TOTAL LIABILITIES | 1,971,005 | 17,189 |
| FUND EQUITY: | | |
| Fund Balances: | | |
| Reserved For: | | |
| Encumbrances | - | 127,293 |
| Other Specific Purposes | - | 1,040 |
| Long-Term Assets and Loans Receivable | 141 | 156 |
| Statutory Reserve | 251,700 | - |
| Unreserved: | | |
| Designated | - | (24,353) |
| Undesignated | (1,077,288) | - |
| TOTAL FUND EQUITY | (825,447) | 104,136 |
| TOTAL LIABILITIES AND FUND EQUITY | \$ 1,145,558 | \$ 121,325 |

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE - GENERAL FUND
BUDGET AND ACTUAL - BUDGETARY BASIS
FOR THE SIX MONTHS ENDED MARCH 31, 2006**

| (DOLLARS IN THOUSANDS) | CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET | ACTUAL | PERCENT OF ESTIMATE |
|---|---|-----------------------|------------------------------------|
| REVENUES: | | | |
| Sales and Use Tax | \$1,889,000 | \$1,413,962 | |
| Other Excise Taxes | 90,500 | 69,361 | |
| Individual Income Tax, net | 3,666,500 | 2,526,715 | |
| Corporate Income Tax, net | 414,500 | 239,792 | |
| Estate Tax | 7,800 | 6,661 | |
| Insurance Tax | 191,200 | 130,881 | |
| Parimutuel, Courts, and Other | 59,500 | 40,902 | |
| Investment Earnings | 51,200 | 19,498 | |
| Gaming | 40,000 | - | |
| TOTAL GENERAL PURPOSE REVENUES | 6,410,200 | 4,447,772 | 69.4% |
| EXPENDITURES: | | | |
| Agriculture | 4,278 | 3,408 | |
| Corrections | 536,073 | 424,920 | |
| Education | 2,698,322 | 2,687,981 | |
| Governor | 16,025 | 12,696 | |
| Health Care Policy and Financing | 1,393,929 | 988,182 | |
| Higher Education | 628,736 | 503,935 | |
| Human Services | 507,842 | 380,572 | |
| Judicial Branch | 236,984 | 193,889 | |
| Law | 7,571 | 5,208 | |
| Legislative Branch | 29,843 | 21,183 | |
| Local Affairs | 8,593 | 6,969 | |
| Military Affairs | 4,427 | 3,354 | |
| Natural Resources | 22,920 | 19,242 | |
| Personnel and Administration | 8,519 | 6,427 | |
| Public Health and Environment | 15,303 | 11,693 | |
| Public Safety | 58,893 | 45,127 | |
| Regulatory Agencies | 1,292 | 1,032 | |
| Revenue | 157,617 | 132,679 | |
| Treasury | 43,778 | 12,012 | |
| Appropriation to Capital Construction Fund | 20,093 | 20,076 | |
| SUBTOTAL DEPARTMENTAL EXPENDITURES | 6,401,038 | 5,480,585 | 85.6% |
| Difference Between Recorded and Estimated Appropriations | 41,762 | - | |
| TOTAL GENERAL FUNDED EXPENDITURES | 6,442,800 | 5,480,585 | |
| EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES | (32,600) | (1,032,813) | |
| EXCESS AUGMENTING REVENUES | | 33,476 | |
| TRANSFERS: | | | |
| Transfer from Controlled Maintenance Trust Fund to General Fund | 232,800 | - | |
| Transfers from General Fund to Repay Cash Funds | (67,100) | (67,100) | |
| Transfer of Excess Beginning Reserve to Highways and Capital Construction | (98,000) | (98,017) | |
| TOTAL TRANSFERS | 67,700 | (165,117) | |
| NET CHANGE IN UNRESERVED FUND BALANCE RELATED TO BUDGETED OPERATIONS | 35,100 | (1,164,454) | |
| BEGINNING UNRESERVED FUND BALANCE - BUDGET BASIS | 98,000 | 98,017 | |
| Add Budgeted Non-GAAP Expenditures | | 10 | |
| Deduct the GAAP Expenditures Not Budgeted | | (117) | |
| (Additions) Deductions to Reserve for Encumbrance | | 3,497 | |
| (Additions) Deductions to the Long-Term Loan Reserve | | 51 | |
| (Additions) Deductions to the Statutory Four Percent Reserve | (14,300) | (14,292) | |
| ENDING UNRESERVED FUND BALANCE - BUDGET BASIS | \$ 118,800 | \$ (1,077,288) | |

**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 MARCH 31, 2006**

| (DOLLARS IN THOUSANDS) | CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET | ACTUAL | PERCENT OF ESTIMATE |
|---|---|--------------------|------------------------------------|
| REVENUES: | | | |
| General Fund Transfer-In | \$ 100 | \$ 20,076 | |
| Beginning General Fund Excess Reserve Transfer | 32,700 | 32,672 | |
| Tobacco Settlement Transfer For Fitzsimons COPS | 6,986 | 6,986 | |
| Interest Earnings | 2,000 | 2,386 | |
| TOTAL CAPITAL CONSTRUCTION REVENUES | 41,786 | 62,120 | 148.7% |
| EXPENDITURES: | | | |
| Agriculture | 750 | - | |
| Corrections | 4,106 | 479 | |
| Education | 425 | 3 | |
| Governor | 310 | 47 | |
| Health Care Policy and Financing | 112 | - | |
| Higher Education | 37,853 | 10,399 | |
| Human Services | 5,546 | 1,241 | |
| Judicial Branch | 258 | 136 | |
| Military Affairs | 1,441 | 129 | |
| Natural Resources | 4,204 | 4,204 | |
| Personnel | 8,131 | 5,159 | |
| Public Health and Environment | 489 | 424 | |
| Public Safety | 506 | 506 | |
| Regulatory Agencies | 5 | 5 | |
| Revenue | 610 | 567 | |
| Intrafund Transfer-Out | 76 | 76 | |
| NET EXPENDITURES AND AUGMENTING REVENUES | 64,822 | 23,375 | 36.1% |
| EXCESS GENERAL REVENUES OVER (UNDER) | | | |
| NET CAPITAL CONSTRUCTION EXPENDITURES | (23,036) | 38,745 | |
| EXCESS AUGMENTING REVENUES | | 6,359 | |
| BEGINNING UNRESERVED FUND BALANCE - GAAP BASIS | (12,545) | (12,545) | |
| Release of the Beginning Reserve For Encumbrances - All Funding Sources | 64,645 | 64,645 | |
| (Additions) Deductions to Reserve for Encumbrances - General Funded | | (19,211) | |
| (Additions) Deductions to Reserve for Encumbrances - Non-General Funded | | (108,082) | |
| (Additions) Deductions to Reserve for Other Specific Purposes | - | 5,736 | |
| ENDING UNRESERVED FUND BALANCE - GAAP BASIS | \$ 29,064 | \$ (24,353) | |