

State of Colorado



Bill Owens
Governor

Jeffrey M. Wells
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

October 31, 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 three-month period ended September 30, 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 September 30, 2006. Factors that contribute to the General Fund \$498.1 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 \$765.2 million. This compares to the unreserved fund balance deficit of \$868.1 million at September 30, 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 six months of public school moneys by the end of the first quarter. This transfer caused approximately \$662.0 million of the \$765.2 million unreserved fund balance deficit.

The cash position of the General Fund declined as compared to September 30, 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 \$862.5 million in deficit. The state's General Fund deficit cash position was \$786.6 million, \$750.2 million, \$732.7 million, and \$1,153.1 at September 30, 2005, 2004, 2003, and 2002, 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 \$2,394.2 million (\$1,925.9 million at September 30, 2005).

The Total Fund Equity of the Capital Construction Fund (\$350.5 million) increased significantly over the September 30, 2005, balance (\$94.4 million) due primarily to significant Fiscal Year 2005-06 year-end appropriations from the General Fund and the General Fund Surplus transfer as required by CRS 24-75-218.

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, 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

Governor Bill Owens
Page 2 of 2
October 31, 2006

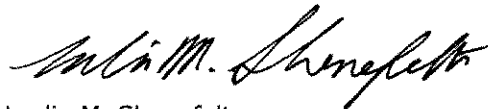
restrictions. Actual revenues reported on the September Year-to-Date Revenue Summary Report exceeded the estimate by \$24.0 million. This amount is not reflected in the Current Annual Estimate, and it is therefore not reflected in the projected ending unreserved fund balance. The \$24.0 million is reflected in the actual unreserved fund balance deficit. The line item titled Difference Between Recorded and Estimated Appropriations is primarily the result of recording \$12.2 million of appropriations rolled forward into Fiscal Year 2006-07 from Fiscal Year 2005-06.

At the end of the first quarter, actual general-purpose revenues were \$1,650.4 million, which is 23.7 percent of the annual estimated revenue. Due to the deferral of payroll expenditures and Medicaid costs from Fiscal Year 2005-06 into Fiscal Year 2006-07 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 2005-06. Departmental expenditures of the General Fund at the first quarter of the current fiscal year were 35.4 percent of current appropriations, which compares with the prior year figure of 36.6 percent of appropriations at September 30, 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 September 30, 2006 or September 30, 2005. At September 20, 2006, my office transferred \$393.9 million (90 percent) of the estimated General Fund Surplus to the Highway Fund (\$262.6 million) and the Capital Construction Fund (\$131.3 million).

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 three-month period ended September 30, 2006. The estimated expenditures of the Capital Construction Fund do not reflect budget restrictions. The revenues of the fund were \$213.6 million or 97.2 percent of the estimate. Actual expenditures of the Capital Construction Fund in each year are expected to be significantly less than outstanding appropriations because of the multi-year nature of the appropriations as compared to current fiscal year expenditures. The \$161.8 million unreserved fund balance has been reduced by \$188.5 million of encumbrances that are legal commitments of cash and federally funded projects (\$172.2 million), as well as general funded projects (\$16.4 million). Not all of the revenue expected to support the cash and federally funded projects has been earned at September 30, 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
SEPTEMBER 30, 2006

(DOLLARS IN THOUSANDS)	UNRESTRICTED GENERAL FUND	CAPITAL CONSTRUCTION
ASSETS:		
Cash and Pooled Cash	\$ -	\$ 350,319
Taxes Receivable, net	912,732	-
Other Receivables, net	45,881	1,236
Intrafund Receivables	20,204	613
Due From Other Governments	179,069	2,526
Due From Other Funds	1,202	7,076
Inventories	3,722	-
Prepays, Advances, and Deferred Charges	27,542	2,264
Investments	4,392	-
Other Long-Term Assets	87	148
TOTAL ASSETS	\$ 1,194,831	\$ 364,182
LIABILITIES		
Liability to Pooled Cash	\$ 210,369	\$ -
Tax Refunds Payable	450,159	-
Accounts Payable and Accrued Liabilities	167,760	11,480
TABOR Refund Fiscal Year 2004-05	1,984	-
Due To Other Governments	67,121	-
Due To Other Funds	165	568
Intrafund Payables	570	-
Deferred Revenue	137,635	1,652
Other Current Liabilities	657,016	3
Deposits Held in Custody for Others	164	-
Other Long-Term Liabilities	7	-
TOTAL LIABILITIES	1,692,950	13,703
FUND EQUITY:		
Fund Balances:		
Reserved For:		
Encumbrances	-	188,534
Long-Term Assets and Loans Receivable	87	148
Statutory Reserve	267,000	-
Unreserved:		
Designated	-	161,797
Undesignated	(765,206)	-
TOTAL FUND EQUITY	(498,119)	350,479
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,194,831	\$ 364,182

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE - GENERAL FUND
BUDGET AND ACTUAL - BUDGETARY BASIS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
Sales and Use Tax	\$2,134,400	\$512,561	
Other Excise Taxes	89,400	24,970	
Individual Income Tax, net	4,091,200	944,828	
Corporate Income Tax, net	377,200	106,082	
Estate Tax	2,000	363	
Insurance Tax	158,200	40,736	
Parimutuel, Courts, and Other	52,800	9,159	
Investment Earnings	45,400	11,702	
Gaming	15,600	-	
TOTAL GENERAL PURPOSE REVENUES	6,966,200	1,650,401	23.7%
EXPENDITURES:			
Agriculture	5,205	1,940	
Corrections	586,674	172,413	
Education	2,874,606	1,413,268	
Governor	15,165	5,710	
Health Care Policy and Financing	1,393,229	334,584	
Higher Education	689,632	140,128	
Human Services	611,506	145,124	
Judicial Branch	263,054	82,580	
Labor and Employment	140	-	
Law	9,956	2,289	
Legislative Branch	31,131	8,774	
Local Affairs	10,300	1,380	
Military Affairs	5,275	1,454	
Natural Resources	28,558	10,500	
Personnel and Administration	7,451	2,564	
Public Health and Environment	26,817	5,647	
Public Safety	66,942	17,543	
Regulatory Agencies	1,302	356	
Revenue	179,971	46,864	
Treasury	107,055	1,583	
Appropriation to Capital Construction Fund	79,776	79,776	
SUBTOTAL DEPARTMENTAL EXPENDITURES	6,993,745	2,474,477	35.4%
Difference Between Recorded and Estimated Appropriations	(10,245)	-	
TOTAL GENERAL FUNDED EXPENDITURES	6,983,500	2,474,477	
EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES	(17,300)	(824,076)	
EXCESS AUGMENTING REVENUES		19,236	
TRANSFERS:			
Transfer from Cash Funds to General Fund	32,600	-	
Transfer of Excess Beginning Reserve to Highways and Capital Construction	(437,700)	(393,947)	
TOTAL TRANSFERS	(405,100)	(393,947)	
NET CHANGE IN UNRESERVED FUND BALANCE RELATED TO BUDGETED OPERATIONS	(422,400)	(1,198,787)	
BEGINNING UNRESERVED FUND BALANCE - BUDGET BASIS	437,700	436,768	
Add Budgeted Non-GAAP Expenditures		23	
Deduct the GAAP Expenditures Not Budgeted		(510)	
Add GAAP Revenue Adjustments		363	
(Additions) Deductions to Reserve for Encumbrance		12,233	
(Additions) Deductions to the Long-Term Loan Reserve		4	
(Additions) Deductions to the Statutory Four Percent Reserve	(15,300)	(15,300)	
ENDING UNRESERVED FUND BALANCE - BUDGET BASIS	\$ 0	\$ (765,206)	

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE - FUNDED BY GENERAL PURPOSE REVENUE
BUDGET AND ACTUAL - CAPITAL CONSTRUCTION FUND
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
General Fund Transfer-In	\$ 64,800	\$ 79,776	
Beginning General Fund Excess Reserve Transfer	145,900	131,316	
Interest Earnings	9,000	2,488	
TOTAL CAPITAL CONSTRUCTION REVENUES	219,700	213,580	97.2%
EXPENDITURES:			
Agriculture	2,859	2,109	
Corrections	19,242	1,322	
Education	1,418	38	
Governor	41	-	
Health Care Policy and Financing	112	-	
Higher Education	99,419	11,452	
Human Services	45,785	1,539	
Judicial Branch	862	-	
Military Affairs	3,311	147	
Natural Resources	2,473	2,473	
Personnel	10,664	360	
Public Health and Environment	3,377	-	
Public Safety	2,506	16	
Revenue	8,876	225	
Transportation	25,000	-	
Intrafund Transfer-Out	2,093	2,093	
NET EXPENDITURES AND AUGMENTING REVENUES	228,038	21,774	9.5%
EXCESS GENERAL REVENUES OVER (UNDER) NET CAPITAL CONSTRUCTION EXPENDITURES	(8,338)	191,806	
EXCESS AUGMENTING REVENUES		10,493	
BEGINNING UNRESERVED FUND BALANCE - GAAP BASIS	(47,435)	(47,435)	
Release of the Beginning Reserve For Encumbrances - All Funding Sources	189,127	189,127	
(Additions) Deductions to Reserve for Encumbrances - General Funded		(16,364)	
(Additions) Deductions to Reserve for Encumbrances - Non-General Funded		(172,170)	
(Additions) Deductions to Reserve for Other Specific Purposes	-	6,340	
ENDING UNRESERVED FUND BALANCE - GAAP BASIS	\$ 133,354	\$ 161,797	