

State of Colorado



Bill Ritter, Jr.
Governor

Rich Gonzales
Executive Director

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State Controller

DPA

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January 31, 2007

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

Dear Governor Ritter:

I am submitting a Quarterly Financial Report on the status of the state's financial condition for the six-month period ended December 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 December 31, 2006. Factors that contribute to the General Fund \$822.5 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 \$1,089.6 million. This compares to the unreserved fund balance deficit of \$1,034.1 million at December 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 nine months of public school moneys by the end of the second quarter. This transfer caused approximately \$662.0 million of the \$1,089.6 million unreserved fund balance deficit.

The cash position of the General Fund declined as compared to December 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 2007, reduced by investments available for liquidation) is \$1,158.2[dm3] million in deficit. The state's General Fund deficit cash position was \$977.4 million[MM4], \$1,102.1 million, and \$905.4 million at December 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 should also be considered using the definition of borrowable resources, which currently shows resources in excess of \$1,864.7 million (\$2,155.1 million at December 31, 2005).

The Total Fund Equity of the Capital Construction Fund (\$354.9 million) increased significantly over the December 31, 2005, balance (\$82.7 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 six-month period ended December 31, 2006. The Current Annual Estimate/Unrestricted Budget column reflects the most recent OSPB estimate of revenues on

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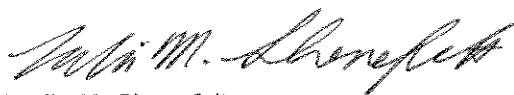
the modified accrual basis for the fiscal year and appropriations and transfers currently in law without consideration of restrictions. Actual revenues reported on the December Year-to-Date Revenue Summary Report were less than the estimate by \$13.8 million. This amount is not reflected in the Current Annual Estimate, and it is therefore not reflected in the projected ending unreserved fund balance. The \$13.8 million is reflected in the actual unreserved fund balance deficit.

At the end of the second quarter, actual general-purpose revenues were \$3,170.4 million, which is 45.2 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 second quarter of the current fiscal year were 60.6 percent of current appropriations, which compares with the prior year figure of 62.9 percent of appropriations at December 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 December 31, 2006 or December 31, 2005. At September 20, 2006, my office transferred \$393.9 million (90 percent) of the Fiscal Year 2005-06 General Fund Surplus to the Highway Fund and Capital Construction Fund in the ratio of 2/3 and 1/3, respectively. As of December 14, 2006, the entire Fiscal Year 2005-06 General Fund Surplus of \$436.8 million had been transferred (\$291.2 to the Highway Fund and \$145.6 to the Capital Construction Fund).

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, 2006. The estimated expenditures of the Capital Construction Fund do not reflect budget restrictions. The revenues of the fund were \$232.0 million or 90.8 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 \$110.8 million unreserved fund balance has been reduced by \$243.9 million of encumbrances that are legal commitments of cash and federally funded projects (\$185.8 million), as well as general funded projects (\$58.0 million). Not all of the revenue expected to support the cash and federally funded projects has been earned at December 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: Rich Gonzales, DPA
Todd Saliman, OSPB
John Ziegler, JBC
Website

BALANCE SHEET
GENERAL AND CAPITAL CONSTRUCTION FUNDS
DECEMBER 31, 2006

(DOLLARS IN THOUSANDS)	UNRESTRICTED GENERAL FUND	CAPITAL CONSTRUCTION
ASSETS:		
Cash and Pooled Cash	\$ -	\$ 353,979
Taxes Receivable, net	913,269	-
Other Receivables, net	44,991	1,436
Intrafund Receivables	25,225	-
Due From Other Governments	226,343	3,191
Due From Other Funds	938	5,188
Inventories	3,467	-
Prepays, Advances, and Deferred Charges	30,152	1,450
Investments	4,216	-
Other Long-Term Assets	83	148
TOTAL ASSETS	\$ 1,248,684	\$ 365,392
LIABILITIES		
Liability to Pooled Cash	\$ 508,028	\$ -
Tax Refunds Payable	450,159	-
Accounts Payable and Accrued Liabilities	246,287	9,357
TABOR Refund Fiscal Year 2004-05	747	-
Due To Other Governments	71,370	-
Due To Other Funds	389	156
Intrafund Payables	68	-
Deferred Revenue	138,067	1,013
Other Current Liabilities	655,944	3
Deposits Held in Custody for Others	149	-
Capital Lease Obligations	5	-
Other Long-Term Liabilities	7	-
TOTAL LIABILITIES	2,071,220	10,529
FUND EQUITY:		
Fund Balances:		
Reserved For:		
Encumbrances	-	243,896
Long-Term Assets and Loans Receivable	83	148
Statutory Reserve	267,000	-
Unreserved:		
Designated	-	110,819
Undesignated	(1,089,619)	-
TOTAL FUND EQUITY	(822,536)	354,863
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,248,684	\$ 365,392

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

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
Sales and Use Tax	\$2,050,300	\$962,538	
Other Excise Taxes	91,200	47,639	
Individual Income Tax, net	4,153,100	1,855,673	
Corporate Income Tax, net	433,800	190,590	
Estate Tax	1,000	457	
Insurance Tax	170,900	78,162	
Parimutuel, Courts, and Other	52,600	20,553	
Investment Earnings	45,400	14,782	
Gaming	16,300	-	
TOTAL GENERAL PURPOSE REVENUES	7,014,600	3,170,394	45.2%
EXPENDITURES:			
Agriculture	5,205	3,044	
Corrections	586,828	307,020	
Education	2,874,606	2,156,589	
Governor	15,165	7,293	
Health Care Policy and Financing	1,393,229	684,277	
Higher Education	689,794	387,386	
Human Services	615,091	301,617	
Judicial Branch	263,054	149,170	
Labor and Employment	140	-	
Law	10,056	4,440	
Legislative Branch	31,131	14,810	
Local Affairs	10,300	6,325	
Military Affairs	5,275	2,874	
Natural Resources	28,558	17,738	
Personnel and Administration	7,451	4,775	
Public Health and Environment	26,819	11,714	
Public Safety	66,942	32,719	
Regulatory Agencies	1,302	611	
Revenue	179,971	98,959	
Treasury	107,055	3,720	
SUBTOTAL DEPARTMENTAL EXPENDITURES	6,917,972	4,195,081	60.6%
Difference Between Recorded and Estimated Appropriations	4,728	-	
TOTAL GENERAL FUNDED EXPENDITURES	6,922,700	4,195,081	
EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES	91,900	(1,024,687)	
EXCESS AUGMENTING REVENUES		18,065	
TRANSFERS:			
Transfer from Cash Funds to General Fund	24,400	-	
Transfers from General Fund to Capital Construction	(101,000)	(79,776)	
Transfer of Excess Beginning Reserve to Highways and Capital Construction	(436,800)	(436,768)	
TOTAL TRANSFERS	(513,400)	(516,544)	
NET CHANGE IN UNRESERVED FUND BALANCE RELATED TO BUDGETED OPERATIONS	(421,500)	(1,523,166)	
BEGINNING UNRESERVED FUND BALANCE - BUDGET BASIS	436,800	436,768	
Add Budgeted Non-GAAP Expenditures		23	
Deduct the GAAP Expenditures Not Budgeted		(296)	
Add GAAP Revenue Adjustments		107	
(Additions) Deductions to Reserve for Encumbrance		12,233	
(Additions) Deductions to the Long-Term Loan Reserve		8	
(Additions) Deductions to the Statutory Four Percent Reserve	(15,300)	(15,296)	
ENDING UNRESERVED FUND BALANCE - BUDGET BASIS	\$ 0	\$ (1,089,619)	

**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, 2006**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET		PERCENT OF ESTIMATE
REVENUES:			
General Fund Transfer-In	\$ 101,000	\$ 79,776	
Beginning General Fund Excess Reserve Transfer	145,600	145,589	
Interest Earnings	9,000	6,606	
TOTAL CAPITAL CONSTRUCTION REVENUES	255,600	231,971	90.8%
EXPENDITURES:			
Agriculture	2,859	2,109	
Corrections	19,242	1,886	
Education	1,418	286	
Governor	41	-	
Health Care Policy and Financing	112	-	
Higher Education	100,124	19,377	
Human Services	45,785	3,300	
Judicial Branch	862	135	
Military Affairs	3,311	185	
Natural Resources	2,777	2,777	
Personnel	10,664	1,795	
Public Health and Environment	3,377	5	
Public Safety	2,506	89	
Revenue	8,876	225	
Transportation	25,000	-	
Intrafund Transfer-Out	2,093	2,093	
NET EXPENDITURES AND AUGMENTING REVENUES	229,047	34,262	15.0%
EXCESS GENERAL REVENUES OVER (UNDER) NET CAPITAL CONSTRUCTION EXPENDITURES	26,553	197,709	
EXCESS AUGMENTING REVENUES		8,975	
BEGINNING UNRESERVED FUND BALANCE - GAAP BASIS	(47,740)	(47,740)	
Release of the Beginning Reserve For Encumbrances - All Funding Sources	189,127	189,127	
(Additions) Deductions to Reserve for Encumbrances - General Funded		(58,047)	
(Additions) Deductions to Reserve for Encumbrances - Non-General Funded		(185,849)	
(Additions) Deductions to Reserve for Other Specific Purposes	-	6,644	
ENDING UNRESERVED FUND BALANCE - GAAP BASIS	\$ 167,940	\$ 110,819	