

# State of Colorado



Bill Ritter, Jr.  
Governor

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Executive Director

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## DPA

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April 30, 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 nine-month period ended March 31, 2007. 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, 2007. Factors that contribute to the General Fund \$949.5 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 \$1,216.5 million. This compares to the unreserved fund balance deficit of \$1,077.3 million at March 31, 2006.

The General Fund is normally in deficit at this time of year because income taxes 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 \$662.0 million of the \$1,216.5 million unreserved fund balance deficit.

The cash position of the General Fund has declined as compared to March 31, 2006. 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 \$1,262.7 million in deficit. The state's General Fund deficit cash position was \$1,107.3 million, \$846.1 million, and \$992.3 million at March 31, 2006, 2005, and 2004, 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 available cash resources in excess of \$1,827.8 million (\$2,009.4 million at March 31, 2006).

The Total Fund Equity of the Capital Construction Fund (\$344.8 million) increased significantly over the March 31, 2006, balance (\$104.1 million) due primarily to larger Fiscal Year 2006-07 appropriated transfers from the General Fund and an increased General Fund Surplus transfer as required by CRS 24-75-218. The Capital Construction Fund also has increased interest earnings related to the larger cash balances.

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, 2007. 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 consideration of restrictions. The estimated appropriations also reflect an additional \$20.9 million of General Fund transfers to Capital Construction per the original budget submission by Governor Owens. Actual revenues reported on the March Year-to-Date Revenue Summary Report were less than the estimate by \$21.7 million. This amount is not reflected in the Current Annual Estimate, and it is therefore not reflected in the projected ending unreserved fund balance. However, the \$21.7 million revenue shortfall is reflected in the actual unreserved fund balance deficit. The line item titled Difference Between Recorded and Estimated Appropriations (\$14.2 million) is primarily related to the rollforward of prior year appropriations that are being expended in the current year.

At the end of the third quarter, actual general-purpose revenues were \$4,740.0 million, which is 66.2 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 third quarter of the current fiscal year were 84.8 percent of current appropriations, which compares with the prior year figure of 85.6 percent of appropriations at March 31, 2006. 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, 2007 or March 31, 2006.

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, 2007. The estimated expenditures of the Capital Construction Fund do not reflect budget restrictions. The revenues of the fund were \$236.1 million or 92.4 percent of the estimate. However, the estimate includes \$20.9 million of anticipated General Fund transfers-in that are not in current law. Without the \$20.9 million, Capital Construction revenues exceed the estimate by a small amount due to greater than anticipated interest earnings. 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 \$133.5 million unreserved fund balance has been reduced by \$211.2 million of encumbrances that are legal commitments of cash and federally funded projects (\$150.4 million), as well as general funded projects (\$60.8 million). Not all of the revenue expected to support the cash and federally funded projects has been earned at March 31, 2007.

Based on a review of the attached financial reports and state 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**  
**MARCH 31, 2007**

<b>(DOLLARS IN THOUSANDS)</b>	<b>UNRESTRICTED GENERAL FUND</b>	<b>CAPITAL CONSTRUCTION</b>
<b>ASSETS:</b>		
Cash and Pooled Cash	\$ -	\$ 345,553
Taxes Receivable, net	912,949	-
Other Receivables, net	45,310	1,614
Intrafund Receivables	25,250	-
Due From Other Governments	140,422	1,601
Due From Other Funds	763	6,540
Inventories	2,953	-
Prepays, Advances, and Deferred Charges	30,844	1,304
Investments	4,086	-
Other Long-Term Assets	16	148
<b>TOTAL ASSETS</b>	<b>\$ 1,162,593</b>	<b>\$ 356,760</b>
<b>LIABILITIES</b>		
Liability to Pooled Cash	\$ 612,360	\$ -
Tax Refunds Payable	450,159	-
Accounts Payable and Accrued Liabilities	186,219	10,497
TABOR Refund Fiscal Year 2004-05	731	-
Due To Other Governments	67,373	-
Due To Other Funds	125	517
Intrafund Payables	849	-
Deferred Revenue	138,145	949
Other Current Liabilities	656,071	-
Deposits Held in Custody for Others	9	-
Capital Lease Obligations	5	-
Other Long-Term Liabilities	7	-
<b>TOTAL LIABILITIES</b>	<b>2,112,053</b>	<b>11,963</b>
<b>FUND EQUITY:</b>		
Fund Balances:		
Reserved For:		
Encumbrances	-	211,186
Long-Term Assets and Loans Receivable	16	148
Statutory Reserve	267,000	-
Unreserved:		
Designated	-	133,463
Undesignated	(1,216,476)	-
<b>TOTAL FUND EQUITY</b>	<b>(949,460)</b>	<b>344,797</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 1,162,593</b>	<b>\$ 356,760</b>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
UNRESERVED FUND BALANCE - GENERAL FUND  
BUDGET AND ACTUAL - BUDGETARY BASIS  
FOR THE SIX MONTHS ENDED MARCH 31, 2007**

<b>(DOLLARS IN THOUSANDS)</b>	<b>CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET</b>	<b>ACTUAL</b>	<b>PERCENT OF ESTIMATE</b>
<b>REVENUES:</b>			
Sales and Use Tax	\$2,007,200	\$1,484,631	
Other Excise Taxes	91,200	69,995	
Individual Income Tax, net	4,332,800	2,769,605	
Corporate Income Tax, net	414,400	229,009	
Estate Tax	1,000	574	
Insurance Tax	194,700	136,720	
Parimutuel, Courts, and Other	52,700	31,503	
Investment Earnings	45,400	17,983	
Gaming	16,300	-	
<b>TOTAL GENERAL PURPOSE REVENUES</b>	<b>7,155,700</b>	<b>4,740,020</b>	<b>66.2%</b>
<b>EXPENDITURES:</b>			
Agriculture	5,222	4,245	
Corrections	585,168	453,025	
Education	2,874,216	2,856,685	
Governor	15,350	9,255	
Health Care Policy and Financing	1,404,343	1,029,832	
Higher Education	691,227	543,607	
Human Services	612,066	477,659	
Judicial Branch	265,046	216,511	
Labor and Employment	141	-	
Law	10,280	6,646	
Legislative Branch	31,175	22,464	
Local Affairs	10,299	7,840	
Military Affairs	5,215	4,150	
Natural Resources	28,452	22,999	
Personnel and Administration	9,567	7,575	
Public Health and Environment	27,335	17,950	
Public Safety	66,964	49,321	
Regulatory Agencies	1,302	1,018	
Revenue	178,536	142,695	
Treasury	111,778	8,071	
<b>SUBTOTAL DEPARTMENTAL EXPENDITURES</b>	<b>6,933,682</b>	<b>5,881,548</b>	<b>84.8%</b>
Difference Between Recorded and Estimated Appropriations	(14,182)	-	
<b>TOTAL GENERAL FUNDED EXPENDITURES</b>	<b>6,919,500</b>	<b>5,881,548</b>	
<b>EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES</b>	<b>236,200</b>	<b>(1,141,528)</b>	
<b>EXCESS AUGMENTING REVENUES</b>		<b>7,956</b>	
<b>TRANSFERS:</b>			
Net Transfers to/from the General Fund	(3,800)	-	
Transfers from General Fund to Capital Construction	(101,000)	(79,776)	
Transfer of Excess Beginning Reserve to Highways and Capital Construction	(436,700)	(436,768)	
<b>TOTAL TRANSFERS</b>	<b>(541,500)</b>	<b>(516,544)</b>	
<b>NET CHANGE IN UNRESERVED FUND BALANCE RELATED TO BUDGETED OPERATIONS</b>	<b>(305,300)</b>	<b>(1,650,116)</b>	
<b>BEGINNING UNRESERVED FUND BALANCE - BUDGET BASIS</b>	<b>436,700</b>	<b>436,768</b>	
Deduct the GAAP Expenditures Not Budgeted		(346)	
Add GAAP Revenue Adjustments		206	
(Additions) Deductions to Reserve for Encumbrance		12,233	
(Additions) Deductions to the Long-Term Loan Reserve		75	
(Additions) Deductions to the Statutory Four Percent Reserve	(15,300)	(15,296)	
<b>ENDING UNRESERVED FUND BALANCE - BUDGET BASIS</b>	<b>\$ 116,100</b>	<b>\$ (1,216,476)</b>	

**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, 2007**

<b>(DOLLARS IN THOUSANDS)</b>	<b>CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET</b>		<b>PERCENT OF ESTIMATE</b>
<b>REVENUES:</b>			
General Fund Transfer-In	\$ 101,000	\$ 79,776	
Beginning General Fund Excess Reserve Transfer	145,600	145,589	
Interest Earnings	9,000	10,777	
<b>TOTAL CAPITAL CONSTRUCTION REVENUES</b>	<b>255,600</b>	<b>236,142</b>	<b>92.4%</b>
<b>EXPENDITURES:</b>			
Agriculture	2,859	2,109	
Corrections	18,792	2,686	
Education	1,418	303	
Governor	57	-	
Health Care Policy and Financing	112	-	
Higher Education	96,675	23,182	
Human Services	45,785	6,215	
Judicial Branch	862	28	
Military Affairs	3,311	467	
Natural Resources	2,777	2,777	
Personnel	11,114	2,528	
Public Health and Environment	3,377	10	
Public Safety	2,506	243	
Revenue	8,876	235	
Transportation	25,000	-	
Intrafund Transfer-Out	2,093	2,093	
<b>NET EXPENDITURES AND AUGMENTING REVENUES</b>	<b>225,614</b>	<b>42,876</b>	<b>19.0%</b>
<b>EXCESS GENERAL REVENUES OVER (UNDER) NET CAPITAL CONSTRUCTION EXPENDITURES</b>	<b>29,986</b>	<b>193,266</b>	
<b>EXCESS AUGMENTING REVENUES</b>		<b>3,352</b>	
<b>BEGINNING UNRESERVED FUND BALANCE - GAAP BASIS</b>	<b>(47,740)</b>	<b>(47,740)</b>	
Release of the Beginning Reserve For Encumbrances - All Funding Sources	189,127	189,127	
(Additions) Deductions to Reserve for Encumbrances - General Funded		(60,812)	
(Additions) Deductions to Reserve for Encumbrances - Non-General Funded		(150,374)	
(Additions) Deductions to Reserve for Other Specific Purposes	-	6,644	
<b>ENDING UNRESERVED FUND BALANCE - GAAP BASIS</b>	<b>\$ 171,373</b>	<b>\$ 133,463</b>	