

# State of Colorado



**Bill Ritter, Jr.**  
*Governor*

**Rich Gonzales**  
*Executive Director*

**Jennifer Okes**  
*Deputy Executive Director*

**David J. McDermott**  
*State Controller*

## DPA

**Department of Personnel  
& Administration**

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January 31, 2009

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, 2008. 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, 2008. Factors that contribute to the General Fund \$1,254.8 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 \$1,553.9 million. This compares to the unreserved fund balance deficit of \$1,252.3 million at December 31, 2007.

The General Fund is normally in deficit at this time of year because income taxes 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 \$739.2 million of the \$1,553.9 million unreserved fund balance deficit.

The cash position of the General Fund has declined as compared to December 31, 2007. 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 2009, reduced by investments available for liquidation) is \$1,684.3 million in deficit. The state's General Fund deficit cash position was \$1,447.8 million, \$1,158.2 million, and \$977.4 million at December 31, 2007, 2006, and 2005, respectively. This trend in the cash balance is concerning because the cash deficit would likely worsen in the event of an economic downturn. The cash deficit is partly due to lower beginning cash balances related to recurring year-end General Fund Surplus transfers. In effect these transfers have reduced the liquidity of the General Fund. The General Fund reserve increasingly comprises tax and other receivables of unpredictable liquidity. 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 \$2,330.8 million (\$2,124.2 million at December 31, 2007). However, moving those cash resources to the General Fund has been contentious in the past.

The Total Fund Equity of the Capital Construction Fund (\$300.8 million) decreased from the December 31, 2007, balance (\$470.8 million). The decrease is the result of significantly lower appropriated transfers from the General Fund and General Fund Surplus transfers as required by CRS 24-75-218 in Fiscal Year 2008-09.

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, 2008. The Current Annual Estimate/Unrestricted Budget column reflects the most recently published OSPB estimate of revenues on the modified accrual basis for the fiscal year and estimated appropriations and transfers without consideration of restrictions. Actual revenues reported on the December Year-to-Date Revenue Summary Report were less than the estimate by \$52.6 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 \$52.6 million revenue shortfall is reflected in the actual unreserved fund balance deficit. The line item titled Difference Between Recorded and Estimated Appropriations (\$62.7 million) is primarily attributed to estimated reductions to General Fund appropriations reflected in the most recently published OSPB estimate that were not finalized through the legislative budget process by the close of the second quarter. Both the OSPB estimate of appropriations and the budget record 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 second quarter.

At the end of the second quarter, actual general-purpose revenues were \$3,429.5 million, which is 44.1 percent of the annual estimated revenue. Due to the deferral of payroll expenditures and Medicaid costs from Fiscal Year 2007-08 into Fiscal Year 2008-09 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 2007-08. Departmental expenditures of the General Fund at the second quarter of the current fiscal year were 63.6 percent of current appropriations, which compares with the prior year figure of 63.9 percent of appropriations at December 31, 2007. In compliance with statutory requirements to report Medicaid expenditures on the cash basis, the Department of Health Care Policy and Financing is not required to record an accrual of Medicaid costs at December 31, 2008.

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, 2008. The estimated expenditures of the Capital Construction Fund do not reflect budget restrictions. The revenues of the fund were \$45.9 million or 78.9 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. At December 31, 2008, state agencies had restricted approximately \$42.2 million of general-funded capital construction projects primarily related to the October 1, 2008 delay the Governor required in funding those projects. The \$73.7 million unreserved fund balance has been reduced by \$227.1 million of encumbrances that are legal commitments of cash and federally funded projects (\$115.2 million), as well as general funded projects (\$111.9 million). Not all of the revenue expected to support the cash and federally funded projects has been earned at December 31, 2008.

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,



David J. McDermott  
State Controller

Attachments

cc: Rich Gonzales, DPA  
Todd Saliman, OSPB  
John Ziegler, JBC  
Website

**BALANCE SHEET**  
**GENERAL AND CAPITAL CONSTRUCTION FUNDS**  
**DECEMBER 31, 2008**

<b>(DOLLARS IN THOUSANDS)</b>	<b>UNRESTRICTED GENERAL FUND</b>	<b>CAPITAL CONSTRUCTION</b>
<b>ASSETS:</b>		
Cash and Pooled Cash	\$ -	\$ 316,993
Taxes Receivable, net	1,016,484	-
Other Receivables, net	44,471	2,027
Intrafund Receivables	16,095	-
Due From Other Governments	165,170	1,034
Due From Other Funds	14,938	2,197
Inventories	3,798	-
Prepays, Advances, and Deferred Charges	38,178	799
Investments	4,971	-
Property, Plant and Equipment, net	-	388
Other Long-Term Assets	-	130
<b>TOTAL ASSETS</b>	<b>\$ 1,304,105</b>	<b>\$ 323,568</b>
<b>LIABILITIES</b>		
Liability to Pooled Cash	\$ 1,334,985	\$ -
Tax Refunds Payable	552,690	-
Accounts Payable and Accrued Liabilities	159,325	19,333
TABOR Refund Fiscal Year 2004-05	706	-
Due To Other Governments	23,094	-
Due To Other Funds	1,519	2,445
Intrafund Payables	25	-
Deferred Revenue	129,975	946
Other Current Liabilities	356,475	-
Deposits Held in Custody for Others	88	-
Other Long-Term Liabilities	7	-
<b>TOTAL LIABILITIES</b>	<b>2,558,889</b>	<b>22,724</b>
<b>FUND EQUITY:</b>		
Fund Balances:		
Reserved For:		
Encumbrances	-	227,056
Long-Term Assets and Loans Receivable	-	130
Statutory Reserve	299,100	-
Unreserved:		
Designated	-	73,658
Undesignated	(1,553,884)	-
<b>TOTAL FUND EQUITY</b>	<b>(1,254,784)</b>	<b>300,844</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 1,304,105</b>	<b>\$ 323,568</b>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
UNRESERVED FUND BALANCE - GENERAL FUND  
BUDGET AND ACTUAL - BUDGETARY BASIS  
FOR THE SIX MONTHS ENDED DECEMBER 31, 2008**

<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	\$2,246,300	\$1,012,189	
Other Excise Taxes	91,600	49,967	
Individual Income Tax, net	4,743,100	2,091,968	
Corporate Income Tax, net	439,300	165,980	
Estate Tax	-	20	
Insurance Tax	192,500	80,238	
Parimutuel, Courts, and Other	46,300	22,347	
Investment Earnings	15,700	6,791	
<b>TOTAL GENERAL PURPOSE REVENUES</b>	<b>7,775,000</b>	<b>3,429,500</b>	<b>44.1%</b>
<b>EXPENDITURES:</b>			
Agriculture	7,696	4,056	
Corrections	679,982	370,942	
Education	3,175,369	2,383,586	
Governor	16,011	9,290	
Health Care Policy and Financing	1,531,941	797,922	
Higher Education	813,224	614,060	
Human Services	704,166	364,586	
Judicial Branch	327,715	201,603	
Labor and Employment	-	129	
Law	10,060	4,976	
Legislative Branch	35,033	16,726	
Local Affairs	12,778	7,195	
Military Affairs	5,855	3,069	
Natural Resources	32,103	19,103	
Personnel and Administration	6,535	3,902	
Public Health and Environment	26,834	13,388	
Public Safety	82,520	39,687	
Regulatory Agencies	1,579	1,073	
Revenue	187,872	94,588	
Treasury	128,267	2,420	
<b>SUBTOTAL DEPARTMENTAL EXPENDITURES</b>	<b>7,785,540</b>	<b>4,952,301</b>	<b>63.6%</b>
Difference Between Recorded and Estimated Appropriations	(62,740)		
<b>TOTAL GENERAL FUNDED EXPENDITURES</b>	<b>7,722,800</b>	<b>4,952,301</b>	
<b>EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES</b>	<b>52,200</b>	<b>(1,522,801)</b>	
<b>EXCESS AUGMENTING REVENUES</b>		<b>6,126</b>	
<b>TRANSFERS:</b>			
Net Transfers to/from the General Fund	(9,419)	(10,668)	
Transfers from General Fund to Repay Cash Funds	(2,281)	(2,281)	
Transfers from General Fund to Capital Construction	(24,900)	(24,914)	
Transfer of Excess Beginning Reserve to Highways and Capital Construction	(41,900)	(43,447)	
<b>TOTAL TRANSFERS</b>	<b>(78,500)</b>	<b>(81,310)</b>	
<b>NET CHANGE IN UNRESERVED FUND BALANCE RELATED TO BUDGETED OPERATIONS</b>	<b>(26,300)</b>	<b>(1,597,985)</b>	
<b>BEGINNING UNRESERVED FUND BALANCE - BUDGET BASIS</b>	<b>41,900</b>	<b>43,447</b>	
Deduct the GAAP Expenditures Not Budgeted		(252)	
(Additions) Deductions to Reserve for Encumbrance		16,487	
(Additions) Deductions to the Long-Term Loan Reserve		7	
(Additions) Deductions to the Statutory Four Percent Reserve	(15,600)	(15,588)	
<b>ENDING UNRESERVED FUND BALANCE - BUDGET BASIS</b>	<b>\$ 0</b>	<b>\$ (1,553,884)</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 DECEMBER 31, 2008**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET		ACTUAL	PERCENT OF ESTIMATE
REVENUES:				
General Fund Transfer-In	\$	24,900	\$	24,914
Beginning General Fund Excess Reserve Transfer		14,000		14,483
Interest Earnings		19,300		6,514
TOTAL CAPITAL CONSTRUCTION REVENUES		58,200	45,911	78.9%
EXPENDITURES:				
Agriculture		4,750		910
Corrections		61,209		14,741
Education		1,581		327
Higher Education		222,593		73,668
Human Services		40,817		15,275
Judicial Branch		473		-
Military Affairs		9,780		1,365
Natural Resources		911		911
Personnel		22,788		8,896
Public Health and Environment		1,400		956
Public Safety		10,006		1,781
Revenue		18,787		3,084
Transportation		28,950		16,092
Intrafund Transfer-Out		5,238		5,238
NET EXPENDITURES AND AUGMENTING REVENUES		429,283	143,244	33.4%
EXCESS GENERAL REVENUES OVER (UNDER)				
NET CAPITAL CONSTRUCTION EXPENDITURES		(371,083)		(97,333)
EXCESS AUGMENTING REVENUES			4,546	
BEGINNING UNRESERVED FUND BALANCE - GAAP BASIS				
Add Budgeted Non-GAAP Expenditures		134,470		134,470
Release of the Beginning Reserve For Encumbrances - All Funding Sources		-		388
(Additions) to Reserve for Encumbrances - General Funded - Estimate		255,101		255,101
(Additions) to Reserve for Encumbrances - Non-General Funded - Estimate				(111,857)
(Additions) Deductions to Reserve for Other Specific Purposes				(115,199)
				3,542
ENDING UNRESERVED FUND BALANCE - GAAP BASIS	\$	18,488	\$	73,658