

# 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**

**Office of the State Controller**  
633 17<sup>th</sup> Street, Suite 1500  
Denver, Colorado 80202  
Phone (303) 866-6200  
Fax (303) 866-4233  
[www.colorado.gov/dpa](http://www.colorado.gov/dpa)

February 5, 2010

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, 2009. 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, 2009. Factors that contribute to the General Fund \$1,344.5 million deficit Total Fund Equity are addressed in the Exhibit B discussion below. When two percent of appropriations are reserved as is required by current law, the General Fund unreserved fund balance deficit is \$1,479.6 million. This compares to the unreserved fund balance deficit of \$1,553.9 million at December 31, 2008, which was based on a four percent reserve and would have been \$1,404.3 million if a two percent reserve was allowed at that time.

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 from the General Fund by the end of the second quarter. This transfer caused approximately \$769.1 million of the \$1,479.6 million unreserved fund balance deficit.

The cash position of the General Fund has improved slightly as compared to December 31, 2008. 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 2010, reduced by investments available for liquidation) is \$1,656.7 million in deficit. The State's General Fund deficit cash position was \$1,684.3, \$1,447.8 million, and \$1,158.2 million at December 31, 2008, 2007, and 2006 respectively. This extended trend in declining cash balance is concerning because the cash deficit will likely worsen if revenue estimates continue to decline. The cash deficit is partly due to lower beginning cash balances related to recurring year-end General Fund Surplus transfers. Although the Surplus transfer is no longer in current law, over time these transfers have reduced the liquidity of the General Fund. The General Fund reserve

continues to comprises tax and other receivables of unpredictable liquidity. However, 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 \$2,070.3 million (\$2,330.8 million at December 31, 2008). However, moving those cash resources to the General Fund has been contentious in the past.

The Total Fund Equity of the Capital Construction Fund (\$109.7 million) decreased from the December 31, 2008, balance (\$300.8 million). The decrease is the result of significantly lower transfers in from the General Fund and the absence of the General Fund Surplus transfers previously required by CRS 24-75-218. In addition, the fund balance continues to decline as payments are made on previously appropriated projects.

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, 2009. 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. Restrictions have not been reflected in the budget amounts because not all of the restrictions were recorded on the State's accounting system at the close of the second quarter. Actual revenues reported on the December Year-to-Date Revenue Summary Report were \$39.7 million less than the OSPB estimate. 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 \$39.7 million revenue shortfall is reflected in the actual unreserved fund balance deficit. At the end of the second quarter, actual general-purpose revenues were \$3,162.9 million, which is 47.3 percent of the annual estimated revenue.

Due to the deferral of payroll expenditures and Medicaid costs from Fiscal Year 2008-09 into Fiscal Year 2009-10 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 the prior year, so comparison between years is relevant.

The line item titled Difference Between Recorded and Estimated Appropriations showing negative \$771.1 million is primarily the result of restrictions not shown on the schedule. When restrictions are reflected in an amount that causes total budgeted appropriations to align with the General Fund Overview in the most recent Office of State Planning and Budgeting Revenue Estimate, departmental expenditures increase from 61.3 percent to 68.3 percent of available appropriations. The 68.3 percent compares unfavorably with the prior year 64.1 percent of fully restricted appropriations at December 31, 2008. The variance indicates that State agencies may not have adequately curtailed spending to align with the restricted budgets. It should be noted that restrictions only limits expenditures of the last dollars in a budget line item – not spending in the middle of the fiscal year. I have provided the related agency detail records to your Office of State Planning and Budgeting to determine if the spending pattern is appropriate.

In accordance with statutory requirements to report Medicaid expenditures on the cash basis at year end, I do not require the Department of Health Care Policy and Financing (DHCPF) to record an accrual of Medicaid premium expenditures in midyear. In addition, DHCPF reports at the close of the second quarter they were unable to record approximately \$30 million of enhanced Federal Medicaid Assistance Percentage (FMAP) revenue made available by the American Recovery and Reinvestment Act (ARRA). The additional Federal revenue would reduce General Fund expenditures and the percentages discussed above.

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, 2009. The estimated expenditures of the Capital Construction Fund do not reflect budget restrictions. The revenues of the fund were \$3.7 million or 98.6 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 \$56.4 million unreserved fund balance deficit is a result of \$166.1 million of encumbrances that are legal commitments of cash and federally funded projects (\$125.5 million), as well as general-funded projects (\$40.6 million). Not all of the revenue expected to support the cash and federally-funded projects has been earned at December 31, 2009.

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,



David J. McDermott, CPA  
Colorado State Controller

Attachments

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

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**BALANCE SHEET**  
**GENERAL AND CAPITAL CONSTRUCTION FUNDS**  
**DECEMBER 31, 2009**

<b>(DOLLARS IN THOUSANDS)</b>	<b>UNRESTRICTED GENERAL FUND</b>	<b>CAPITAL CONSTRUCTION</b>
<b>ASSETS:</b>		
Cash and Pooled Cash	\$ -	\$ 121,983
Taxes Receivable, net	1,008,803	-
Other Receivables, net	46,713	1,084
Intrafund Receivables	20,529	-
Due From Other Governments	170,773	1,392
Due From Other Funds	14,420	4,536
Inventories	3,094	-
Prepays, Advances, and Deferred Charges	31,521	823
Investments	4,194	-
Other Long-Term Assets	-	121
<b>TOTAL ASSETS</b>	<b>\$ 1,300,047</b>	<b>\$ 129,939</b>
<b>LIABILITIES:</b>		
Liability to Pooled Cash	\$ 1,001,614	\$ -
Tax Refunds Payable	624,317	-
Accounts Payable and Accrued Liabilities	165,968	18,393
TABOR Refund Fiscal Year 2004-05	706	-
Due To Other Governments	24,385	-
Due To Other Funds	4,057	489
Intrafund Payables	25	-
Deferred Revenue	166,026	934
Other Current Liabilities	657,274	396
Deposits Held in Custody for Others	121	-
Other Long-Term Liabilities	7	-
<b>TOTAL LIABILITIES</b>	<b>2,644,500</b>	<b>20,212</b>
<b>FUND EQUITY:</b>		
Fund Balances:		
Reserved For:		
Encumbrances	-	166,138
Statutory Reserve	135,100	-
Unreserved:		
Designated	-	(56,411)
Undesignated	(1,479,553)	-
<b>TOTAL FUND EQUITY</b>	<b>(1,344,453)</b>	<b>109,727</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 1,300,047</b>	<b>\$ 129,939</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, 2009**

<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	\$2,096,000	\$1,027,403	
Other Excise Taxes	94,800	47,869	
Individual Income Tax, net	3,944,400	1,861,171	
Corporate Income Tax, net	299,500	118,474	
Estate Tax	-	34	
Insurance Tax	194,200	82,451	
Parimutuel, Courts, and Other	36,000	19,657	
Investment Earnings	9,100	5,858	
Gaming	14,200	-	
<b>TOTAL GENERAL PURPOSE REVENUES</b>	<b>6,688,100</b>	<b>\$3,162,917</b>	<b>47.3%</b>
<b>EXPENDITURES:</b>			
Agriculture	6,861	3,354	
Corrections	632,947	320,194	
Education	3,239,441	2,452,843	
Governor	14,288	10,502	
Health Care Policy and Financing	1,613,575	708,688	
Higher Education	660,899	399,211	
Human Services	671,273	348,084	
Judicial Branch	336,358	202,076	
Labor and Employment	-	682	
Law	10,367	4,805	
Legislative Branch	35,162	16,569	
Local Affairs	11,996	8,281	
Military Affairs	5,874	2,854	
Natural Resources	29,692	16,861	
Personnel and Administration	6,300	3,495	
Public Health and Environment	28,232	11,861	
Public Safety	83,263	40,912	
Regulatory Agencies	1,667	976	
Revenue	180,910	89,943	
Treasury	6,895	2,569	
<b>SUBTOTAL DEPARTMENTAL EXPENDITURES</b>	<b>7,576,000</b>	<b>4,644,760</b>	<b>61.3%</b>
Difference Between Recorded and Estimated Appropriations	(771,058)		
<b>TOTAL GENERAL FUNDED EXPENDITURES</b>	<b>6,804,942</b>	<b>4,644,760</b>	
<b>EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES</b>	<b>(116,842)</b>	<b>(1,481,843)</b>	
<b>EXCESS AUGMENTING REVENUES</b>		<b>14,198</b>	
<b>TRANSFERS:</b>			
Transfer from Cash Funds to General Fund	280,000	145,083	
Net Transfers to/from the General Fund	(8,000)	(8,000)	
Transfers from General Fund to Repay Cash Funds	(458,058)	(458,058)	
Transfers from General Fund to Capital Construction	(2,000)	(1,976)	
<b>TOTAL TRANSFERS</b>	<b>(188,058)</b>	<b>(322,951)</b>	
<b>NET CHANGE IN UNRESERVED FUND BALANCE RELATED TO BUDGETED OPERATIONS</b>	<b>(304,900)</b>	<b>(1,790,596)</b>	
<b>BEGINNING UNRESERVED FUND BALANCE - BUDGET BASIS</b>	<b>291,800</b>	<b>295,556</b>	
Deduct the GAAP Expenditures Not Budgeted		(13)	
(Additions) Deductions to Reserve for Encumbrance		2,195	
(Additions) Deductions to the Long-Term Loan Reserve		1	
(Additions) Deductions to the Statutory Four Percent Reserve	13,100	13,112	
<b>ENDING UNRESERVED FUND BALANCE - BUDGET BASIS</b>	<b>\$ 0</b>	<b>\$ (1,479,553)</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, 2009**

<b>(DOLLARS IN THOUSANDS)</b>	<b>CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET</b>		<b>PERCENT OF ESTIMATE</b>
		<b>ACTUAL</b>	
REVENUES:			
General Fund Transfer-In	\$ 2,000	\$ 1,976	
Interest Earnings	1,800	1,771	
TOTAL CAPITAL CONSTRUCTION REVENUES	3,800	3,747	98.6%
EXPENDITURES:			
Agriculture	2,460	981	
Corrections	35,036	11,851	
Education	1,157	140	
Higher Education	58,555	23,928	
Human Services	11,670	4,956	
Judicial Branch	-	3	
Labor and Employment	476	476	
Military Affairs	7,719	1,060	
Natural Resources	1,010	1,010	
Personnel	12,296	3,974	
Public Health and Environment	184	-	
Public Safety	5,226	1,981	
Revenue	17,557	4,442	
Transportation	46	46	
Intrafund Transfer-Out	30,031	30,031	
NET EXPENDITURES AND AUGMENTING REVENUES	183,423	84,879	46.3%
EXCESS GENERAL REVENUES OVER (UNDER)			
NET CAPITAL CONSTRUCTION EXPENDITURES	(179,623)	(81,132)	
EXCESS AUGMENTING REVENUES		4,722	
BEGINNING UNRESERVED FUND BALANCE - GAAP BASIS	54,687	54,687	
Previously Expended for Budgetary Purposes	-	619	
Release of the Beginning Reserve For Encumbrances - All Funding Sources	128,039	128,039	
(Additions) to Reserve for Encumbrances - General Funded - Estimate		(40,635)	
(Additions) to Reserve for Encumbrances - Non-General Funded - Estimate		(125,503)	
(Additions) Deductions to Reserve for Other Specific Purposes		2,671	
(Additions) Deductions to the Reserve for Long-Term Assets	-	121	
ENDING UNRESERVED FUND BALANCE - GAAP BASIS	\$ 3,103	\$ (56,411)	