

# 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  
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April 30, 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 nine-month period ended March 31, 2010. 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, 2010. Factors that contribute to the General Fund \$1,401.4 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 \$1,533.8 million. This compares to the unreserved fund balance deficit of \$1,939.2 million at March 31, 2009.

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 twelve months of public school moneys by the end of the third quarter. This transfer caused approximately \$769.1 million of the \$1,533.8 million unreserved fund balance deficit.

The cash position of the General Fund has declined as compared to March 31, 2009. 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 \$1,706.8 million in deficit. The state's General Fund deficit cash position was \$2,065.9 million, \$1,448.7 million, and \$1,262.7 million at March 31, 2009, 2008, and 2007 respectively. This appears to represent an improvement in the State's cash position over Fiscal Year 2008-09. However most of the reduction in the cash deficit was the result of transfers into the General Fund from cash funds. This trend in the cash balance reflects the economic downturn and the related revenue shortfalls. As a result of the lower cash balances, 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 assessed using the definition of borrowable resources, which currently shows available cash resources in excess of \$1,936.2 million (\$1,859.3 million at March 31, 2009). However, moving those cash resources to the General Fund has been contentious in the past.

The Total Fund Equity of the Capital Construction Fund (\$91.6 million) decreased from the March 31, 2009, balance (\$252.3 million). The decrease is the result of ongoing project spending paired with the absence of the transfers-in from the General Fund, which have ceased as a result of the general purpose revenue shortfall.

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, 2010. 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 March Year-to-Date Revenue Summary Report were more than the estimate by \$39.5 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 \$39.5 million in excess of estimate is reflected in the actual unreserved fund balance deficit.

The line item titled Difference Between Recorded and Estimated Appropriations (\$405.6 million) is primarily attributed to budget reductions shown in the Fiscal Year 2009-10 add-on section of the Fiscal Year 2010-11 Long Appropriations Act. Although you have recently signed that Act, those reductions to General Fund appropriations were not recorded on the accounting system at the close of the third quarter.

At the end of the third quarter, actual general-purpose revenues were \$4,586.0 million, which is 70.3 percent of the annual estimated revenue. Due to the deferral of payroll expenditures and Medicaid costs from Fiscal Year 2009-10 into Fiscal Year 2010-11 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 2008-09. Departmental expenditures of the General Fund at the third quarter of the current fiscal year were 85.7 percent of current appropriations, which compares with the prior year figure of 86.0 percent of appropriations at March 31, 2009. In compliance with statutory requirements to report Medicaid expenditures on a modified cash basis, the Department of Health Care Policy and Financing is not required to record an accrual of Medicaid costs at March 31, 2010.

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, 2010. The estimated expenditures of the Capital Construction Fund do not reflect budget restrictions. The revenues of the fund were \$4.4 million or 90.1 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 \$1.0 million unreserved fund balance is a result of \$90.6 million of encumbrances that are legal commitments of cash and federally funded projects (\$59.3 million), as well as general-funded projects (\$31.3 million). Not all of the revenue expected to support the cash and federally-funded projects has been earned at March 31, 2010.

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**  
**MARCH 31, 2010**

<b>(DOLLARS IN THOUSANDS)</b>	<b>UNRESTRICTED GENERAL FUND</b>	<b>CAPITAL CONSTRUCTION</b>
<b>ASSETS:</b>		
Cash and Pooled Cash	\$ -	\$ 98,274
Taxes Receivable, net	1,007,646	-
Other Receivables, net	42,298	2,618
Intrafund Receivables	16,576	-
Due From Other Governments	205,590	3,750
Due From Other Funds	24,837	1,282
Inventories	2,320	-
Prepays, Advances, and Deferred Charges	32,226	590
Investments	4,146	-
Other Long-Term Assets	-	121
<b>TOTAL ASSETS</b>	<b>\$ 1,835,689</b>	<b>\$ 106,635</b>
<b>LIABILITIES:</b>		
Liability to Pooled Cash	\$ 1,051,702	\$ -
Tax Refunds Payable	624,317	-
Accounts Payable and Accrued Liabilities	212,303	13,532
TABOR Refund Fiscal Year 2004-05	706	-
Due To Other Governments	22,818	-
Due To Other Funds	854	621
Intrafund Payables	25	-
Deferred Revenue	165,512	446
Other Current Liabilities	658,775	393
Deposits Held in Custody for Others	21	-
Other Long-Term Liabilities	7	-
<b>TOTAL LIABILITIES</b>	<b>2,727,040</b>	<b>14,992</b>
<b>FUND EQUITY:</b>		
Fund Balances:		
Reserved For:		
Encumbrances	-	90,601
Statutory Reserve	132,400	-
Unreserved:		
Designated	-	1,042
Undesignated	(1,533,801)	-
<b>TOTAL FUND EQUITY</b>	<b>(1,401,401)</b>	<b>91,643</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 1,335,639</b>	<b>\$ 106,635</b>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
UNRESERVED FUND BALANCE - GENERAL FUND  
BUDGET AND ACTUAL - BUDGETARY BASIS  
FOR THE NINE MONTHS ENDED MARCH 31, 2010**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
<b>REVENUES:</b>			
Sales and Use Tax	\$1,983,100	\$1,528,104	
Other Excise Taxes	90,200	70,254	
Individual Income Tax, net	3,854,900	2,588,855	
Corporate Income Tax, net	335,800	189,045	
Estate Tax	-	61	
Insurance Tax	198,100	145,507	
Parimutuel, Courts, and Other	35,700	57,534	
Investment Earnings	8,800	6,605	
Gaming	14,200	-	
<b>TOTAL GENERAL PURPOSE REVENUES</b>	<b>6,520,800</b>	<b>\$4,585,965</b>	<b>70.3%</b>
<b>EXPENDITURES:</b>			
Agriculture	6,056	4,621	
Corrections	566,111	450,019	
Education	3,239,437	3,234,112	
Governor	13,581	12,142	
Health Care Policy and Financing	1,542,416	961,044	
Higher Education	429,107	400,726	
Human Services	656,699	508,758	
Judicial Branch	323,815	272,997	
Labor and Employment	-	232	
Law	9,585	7,319	
Legislative Branch	35,162	25,295	
Local Affairs	11,024	9,259	
Military Affairs	5,419	4,185	
Natural Resources	26,646	20,493	
Personnel and Administration	5,580	4,269	
Public Health and Environment	27,137	18,847	
Public Safety	82,035	70,682	
Regulatory Agencies	1,457	1,271	
Revenue	179,702	133,613	
Treasury	8,895	4,935	
<b>SUBTOTAL DEPARTMENTAL EXPENDITURES</b>	<b>7,169,864</b>	<b>6,144,819</b>	<b>85.7%</b>
Difference Between Recorded and Estimated Appropriations	(405,622)		
<b>TOTAL GENERAL FUNDED EXPENDITURES</b>	<b>6,764,242</b>	<b>6,144,819</b>	
<b>EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES</b>	<b>(243,442)</b>	<b>(1,558,854)</b>	
<b>EXCESS AUGMENTING REVENUES</b>		<b>24,058</b>	
<b>TRANSFERS:</b>			
Transfer from Cash Funds to General Fund	400,100	155,433	
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)	
Transfer of Excess Beginning Reserve to Highways and Capital Construction	-	-	
<b>TOTAL TRANSFERS</b>	<b>(67,958)</b>	<b>(312,601)</b>	
<b>NET CHANGE IN UNRESERVED FUND BALANCE RELATED TO BUDGETED OPERATIONS</b>	<b>(311,400)</b>	<b>(1,847,397)</b>	
<b>BEGINNING UNRESERVED FUND BALANCE - BUDGET BASIS</b>	<b>295,600</b>	<b>295,556</b>	
Deduct the GAAP Expenditures Not Budgeted		32	
(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	15,800	15,812	
<b>ENDING UNRESERVED FUND BALANCE - BUDGET BASIS</b>	<b>\$ 0</b>	<b>\$ (1,583,801)</b>	

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
UNRESERVED FUND BALANCE - FUNDED BY GENERAL PURPOSE REVENUE  
BUDGET AND ACTUAL - CAPITAL CONSTRUCTION FUND  
FOR THE NINE MONTHS ENDED MARCH 31, 2010**

<b>(DOLLARS IN THOUSANDS)</b>	<b>CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET</b>	<b>ACTUAL</b>	<b>PERCENT OF ESTIMATE</b>
<b>REVENUES:</b>			
General Fund Transfer-In	\$ 2,000	\$ 1,976	
Interest Earnings	2,900	2,440	
<b>TOTAL CAPITAL CONSTRUCTION REVENUES</b>	<b>4,900</b>	<b>4,416</b>	<b>90.1%</b>
<b>EXPENDITURES:</b>			
Agriculture	2,460	982	
Corrections	35,036	16,375	
Education	1,157	470	
Higher Education	58,693	32,644	
Human Services	11,670	5,390	
Judicial Branch	-	6	
Labor and Employment	476	476	
Military Affairs	7,719	1,586	
Natural Resources	1,010	1,010	
Personnel	12,280	5,290	
Public Health and Environment	184	-	
Public Safety	5,226	2,964	
Revenue	17,557	7,514	
Transportation	46	46	
Intrafund Transfer-Out	30,031	30,031	
<b>NET EXPENDITURES AND AUGMENTING REVENUES</b>	<b>183,545</b>	<b>104,784</b>	<b>57.1%</b>
<b>EXCESS GENERAL REVENUES OVER (UNDER) NET CAPITAL CONSTRUCTION EXPENDITURES</b>	<b>(178,645)</b>	<b>(100,368)</b>	
<b>EXCESS AUGMENTING REVENUES</b>		<b>5,871</b>	
<b>BEGINNING UNRESERVED FUND BALANCE - GAAP BASIS</b>	<b>54,687</b>	<b>54,687</b>	
Previously Expended for Budgetary Purposes	-	622	
Release of the Beginning Reserve For Encumbrances - All Funding Sources	128,039	128,039	
(Additions) to Reserve for Encumbrances - General Funded - Estimate		(31,331)	
(Additions) to Reserve for Encumbrances - Non-General Funded - Estimate		(59,270)	
(Additions) Deductions to Reserve for Other Specific Purposes		2,671	
(Additions) Deductions to the Reserve for Long-Term Assets	-	121	
<b>ENDING UNRESERVED FUND BALANCE - GAAP BASIS</b>	<b>\$ 4,081</b>	<b>\$ 1,042</b>	

