

State of Colorado



Bill Ritter, Jr.
Governor

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DPA

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November 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 three-month period ended September 30, 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 September 30, 2010. Factors that contribute to the General Fund \$951.2 million deficit Total Fund Equity are addressed in the Exhibit B discussion below. When two percent of appropriations are reserved, the General Fund unreserved fund balance deficit is \$1,086.8 million. This compares to the unreserved fund balance deficit of \$1,261.8 million at September 30, 2009. The two percent reserve was reduced from four percent as required by CRS 24-75-201.5(1)(a).

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 six months of public school moneys by the end of the first quarter. This transfer caused approximately \$662.6 million of the \$1,086.8 million unreserved fund balance deficit.

The cash position of the General Fund has increased as compared to September 30, 2009. The State's current General Fund cash position (defined here as the Liability to Pooled Cash plus any State Treasurer short-term borrowing, reduced by investments available for liquidation) is \$1,120.5 million in deficit. As of the end of the first quarter, the State had not engaged in short-term borrowing due to the potential effects of Amendment 61; however, with the failure of that ballot initiative such borrowing is anticipated. The State's General Fund deficit cash position was \$1,413.9 million, \$1,268.1 million, and \$1,210.0 million at September 30, 2009, 2008, and 2007, respectively. The \$293.4 million improvement in the General Fund cash position as compared to the prior year was primarily related to accelerated tax revenue collections and reduced cash outflows as a result of budget reductions statewide. 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 \$2,357.1 million (\$2,458.2 million at September 30, 2009).

The Total Fund Equity of the Capital Construction Fund (\$66.7 million) decreased from the September 30, 2009, balance (\$114.5 million). The decrease is the result of spending on previously appropriated projects and significantly lower appropriated transfers from the General Fund. As required by SB09-278 there was no General Fund Surplus transfer in Fiscal Year 2010-11 as was previously 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 three-month period ended September 30, 2010. 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 estimated appropriations and transfers without consideration of restrictions. Actual revenues reported on the September Year-to-Date Revenue Summary Report were more than the estimate by \$62.6 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 \$62.6 million revenue excess is reflected in the actual unreserved fund balance deficit. The line item titled Difference Between Recorded and Estimated Appropriations (\$10.2 million), represents typical timing differences between the estimated General Fund obligations and the appropriations recorded on the State's accounting system. The \$256.9 million Ending Unreserved Fund Balance represents the amount the Office of State Planning and Budgeting identified as appropriations not supported by projected revenues in their September 2010 Revenue Forecast. This deficit amount was addressed in your October 22, 2010, budget balancing plan.

At the end of the first quarter, actual general-purpose revenues were \$1,692.9 million, which is 24.9 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 2009-10. Departmental expenditures of the General Fund at the first quarter of the current fiscal year were 39.6 percent of current appropriations, which compares with the prior year figure of 38.0 percent of appropriations at September 30, 2009. 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 September 30, 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 three-month period ended September 30, 2010. The estimated expenditures of the Capital Construction Fund do not reflect budget restrictions. The estimate includes transfers to the Capital Construction Fund and the Corrections Expansions Reserve Fund. The revenues of the fund were \$12.4 million or 93.2 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 \$13.4 million unreserved fund balance deficit is a result of \$80.1 million of encumbrances that are legal commitments of cash and federally funded projects (\$63.8 million), as well as general funded projects (\$16.3 million). Not all of the revenue expected to support the cash and federally funded projects has been earned at September 30, 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
SEPTEMBER 30, 2010

(DOLLARS IN THOUSANDS)	UNRESTRICTED GENERAL FUND	CAPITAL CONSTRUCTION
ASSETS:		
Cash and Pooled Cash	\$ -	\$ 74,929
Taxes Receivable, net	1,000,671	-
Other Receivables, net	35,323	4,275
Intrafund Receivables	21,126	222
Due From Other Governments	222,950	1,874
Due From Other Funds	658	5,005
Inventories	3,082	-
Prepays, Advances, and Deferred Charges	25,615	547
Investments	5,411	-
Other Long-Term Assets	86	112
TOTAL ASSETS	\$ 1,314,922	\$ 86,964
LIABILITIES		
Liability to Pooled Cash	\$ 1,125,938	\$ -
Tax Refunds Payable	657,130	-
Accounts Payable and Accrued Liabilities	251,342	19,259
TABOR Refund Fiscal Year 2004-05	706	-
Due To Other Governments	32,909	-
Due To Other Funds	3,595	272
Intrafund Payables	3,033	-
Deferred Revenue	190,444	453
Other Current Liabilities	952	316
Deposits Held in Custody for Others	48	-
Other Long-Term Liabilities	8	-
TOTAL LIABILITIES	2,266,105	20,300
FUND EQUITY:		
Fund Balances:		
Reserved For:		
Encumbrances	-	80,069
Long-Term Assets and Loans Receivable	95	-
Statutory Reserve	135,500	-
Unreserved:		
Designated	-	(13,405)
Undesignated	(1,086,778)	-
TOTAL FUND EQUITY	(951,183)	66,664
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,314,922	\$ 86,964

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE - GENERAL FUND
BUDGET AND ACTUAL - BUDGETARY BASIS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2010**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
Sales and Use Tax	\$2,152,900	\$537,218	
Other Excise Taxes	88,600	23,970	
Individual Income Tax, net	3,970,900	994,879	
Corporate Income Tax, net	330,000	84,736	
Insurance Tax	192,200	43,544	
Parimutuel, Courts, and Other	27,100	6,823	
Investment Earnings	15,100	1,760	
Gaming	33,200	-	
TOTAL GENERAL PURPOSE REVENUES	6,810,000	\$1,692,930	24.9%
EXPENDITURES:			
Agriculture	4,956	1,778	
Corrections	649,197	199,932	
Education	3,179,525	1,635,490	
Governor	11,291	6,532	
Health Care Policy and Financing	1,232,272	347,159	
Higher Education	660,511	202,439	
Human Services	640,275	181,518	
Judicial Branch	332,424	108,373	
Law	10,084	2,974	
Legislative Branch	34,796	9,674	
Local Affairs	10,562	2,472	
Military Affairs	5,320	1,879	
Natural Resources	26,419	8,703	
Personnel and Administration	5,747	1,531	
Public Health and Environment	27,541	6,536	
Public Safety	82,654	33,725	
Regulatory Agencies	1,510	419	
Revenue	170,620	46,383	
Treasury	2,550	159	
Appropriation to Capital Construction Fund	14,821	11,985	
SUBTOTAL DEPARTMENTAL EXPENDITURES	7,103,075	2,809,661	39.6%
Difference Between Recorded and Estimated Appropriations	10,225		
TOTAL GENERAL FUNDED EXPENDITURES	7,113,300	2,809,661	
EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES	(303,300)	(1,116,731)	
EXCESS AUGMENTING REVENUES		10,946	
TRANSFERS:			
Transfer from Cash Funds to General Fund	44,100	10,830	
Other Net Transfers to/from the General Fund	(8,000)	(8,000)	
TOTAL TRANSFERS	36,100	2,830	
NET CHANGE IN UNRESERVED FUND BALANCE RELATED TO BUDGETED OPERATIONS	(267,200)	(1,102,955)	
BEGINNING UNRESERVED FUND BALANCE - BUDGET BASIS	13,700	13,425	
Deduct the GAAP Expenditures Not Budgeted		(2)	
(Additions) Deductions to Reserve for Encumbrance		5,721	
(Additions) Deductions to the Long-Term Loan Reserve		(95)	
(Additions) Deductions to the Statutory Four Percent Reserve	(3,400)	(2,872)	
ENDING UNRESERVED FUND BALANCE - BUDGET BASIS	\$ (256,900)	\$ (1,086,778)	

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE - FUNDED BY GENERAL PURPOSE REVENUE
BUDGET AND ACTUAL - CAPITAL CONSTRUCTION FUND
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2010**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET		PERCENT OF ESTIMATE
		ACTUAL	
REVENUES:			
General Fund Transfer-In	\$ 11,959	\$ 11,985	
Interest Earnings	1,300	378	
TOTAL CAPITAL CONSTRUCTION REVENUES	13,259	12,363	93.2%
EXPENDITURES:			
Agriculture	927	2	
Corrections	10,826	2,330	
Education	893	97	
Higher Education	20,588	4,086	
Human Services	5,679	2,136	
Judicial Branch	-	1	
Military Affairs	4,470	860	
Natural Resources	807	807	
Personnel	7,684	579	
Public Health and Environment	184	4	
Public Safety	1,356	1,129	
Revenue	14,627	682	
Transportation	500	-	
Intrafund Transfer-Out	2,859	2,859	
NET EXPENDITURES AND AUGMENTING REVENUES	71,400	15,572	21.8%
EXCESS GENERAL REVENUES OVER (UNDER)			
NET CAPITAL CONSTRUCTION EXPENDITURES	(58,141)	(3,209)	
EXCESS AUGMENTING REVENUES			
		11,642	
BEGINNING UNRESERVED FUND BALANCE - GAAP BASIS			
	(35,926)	(35,926)	
Release of the Beginning Reserve For Encumbrances - All Funding Sources	91,673	91,673	
(Additions) to Reserve for Encumbrances - General Funded - Estimate		(16,281)	
(Additions) to Reserve for Encumbrances - Non-General Funded - Estimate		(63,788)	
(Additions) Deductions to Reserve for Other Specific Purposes		2,372	
(Additions) Deductions to the Reserve for Long-Term Assets	-	112	
ENDING UNRESERVED FUND BALANCE - GAAP BASIS	\$ (2,394)	\$ (13,405)	