

State of Colorado



DPA

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& Administration

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David J. McDermott
State Controller

February 3, 2011

The Honorable John W. Hickenlooper
Governor
136 State Capitol Building
Denver, Colorado 80203

Dear Governor Hickenlooper:

I am submitting a Quarterly Financial Report on the status of the State's financial condition for the six-month period ended December 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 December 31, 2010. Factors that contribute to the General Fund \$963.6 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 \$1,099.7 million. This compares to the unreserved fund balance deficit of \$1,479.6 million at December 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 nine months of public school moneys by the end of the second quarter. This transfer caused approximately \$588.8 million of the \$1,099.7 million unreserved fund balance deficit. The cash position of the General Fund has increased as compared to December 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 2011, reduced by investments available for liquidation) is \$1,270.0 million in deficit. The State's General Fund deficit cash position was \$1,656.7 million, \$1,684.3 million, and \$1,447.8 million at December 31, 2009, 2008, and 2007 respectively. With the failure of ballot initiative Amendment 61, the State engaged in short-term borrowing that contributed \$504.6 million towards reducing the Liability to Pooled Cash. The General Fund reserve continues to be comprised of tax and other receivables of unpredictable liquidity that may result in unexpected reductions of general purpose revenue at year end. 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 \$2,462.0 million (\$2,070.3 million at December 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 (\$53.8 million) decreased from the December 31, 2009, balance (\$109.7 million). 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.

"Good Government Starts Here"

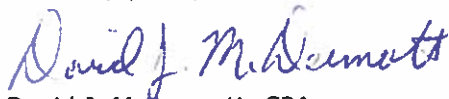
Exhibit B provides a *Schedule of Revenues, Expenditures and Changes in Unreserved Fund Balance - General Fund - Budget and Actual* for the six-month period ended December 31, 2010. The Current Annual Estimate/Unrestricted Budget column reflects the most recently published Office of State Planning and Budgeting (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 more than the estimate by \$100.0 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 \$100.0 million revenue increase is reflected in the actual unreserved fund balance deficit. The line item titled Difference Between Recorded and Estimated Appropriations (\$294.7 million) represents the impact of the Governor's budget balancing plans dated August 23, 2010, October 22, 2010, and November 1, 2010. The OSPB requested that restrictions be recorded on the State's accounting system related to the August 23, 2010 and October 22, 2010 plans. This resulted in general fund restrictions of \$266.9 million to prevent expenditure of the funds earmarked for reduction. OSPB has not requested the restriction of the \$9.9 million earmarked for reduction in the November 1, 2010 budget balancing plan because the reductions were to be handled as an early supplemental through the regular budget process. The remaining balance represents typical timing differences between the estimated General Fund obligations and the appropriations recorded on the State's accounting system.

At the end of the second quarter, actual general-purpose revenues were \$3,369.9 million, which is 49.4 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 second quarter of the current fiscal year were 63.2 percent of current appropriations, which compares with the prior year 4-year average figure of 62.4 percent of appropriations at December 31. 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, 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 six-month period ended December 31, 2010. The estimated expenditures of the Capital Construction Fund do not reflect budget restrictions. The estimate includes transfers from the General Fund to the Capital Construction Fund. The revenues of the fund were \$12.7 million or 85.7 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 \$54.2 million unreserved fund balance deficit is a result of \$108.0 million of encumbrances that are legal commitments of cash and federally funded projects (\$91.9 million), as well as general-funded projects (\$16.1 million). Not all of the revenue expected to support the cash and federally-funded projects has been earned at December 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, CPA
Colorado State Controller

Attachments

cc: Kathy Nesbitt, DPA
Henry Sobanet, OSPB
John Ziegler, JBC
Website

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**BALANCE SHEET
GENERAL AND CAPITAL CONSTRUCTION FUNDS
DECEMBER 31, 2010**

(DOLLARS IN THOUSANDS)	UNRESTRICTED GENERAL FUND	CAPITAL CONSTRUCTION
ASSETS:		
Cash and Pooled Cash	\$ -	\$ 59,073
Taxes Receivable, net	1,000,660	-
Other Receivables, net	36,694	3,075
Intrafund Receivables	27,739	56
Due From Other Governments	224,821	2,030
Due From Other Funds	1,577	5,827
Inventories	3,001	-
Prepays, Advances, and Deferred Charges	39,246	487
Investments	5,228	-
Other Long-Term Assets	197	112
TOTAL ASSETS	\$ 1,339,163	\$ 70,660
LIABILITIES:		
Liability to Pooled Cash	\$ 770,740	\$ -
Tax Refunds Payable	657,130	-
Accounts Payable and Accrued Liabilities	143,538	16,524
TABOR Refund Fiscal Year 2004-05	706	-
Due To Other Governments	30,174	-
Due To Other Funds	801	348
Intrafund Payables	2,557	-
Deferred Revenue	191,496	-
Other Current Liabilities	505,475	-
Deposits Held in Custody for Others	97	-
Other Long-Term Liabilities	9	-
TOTAL LIABILITIES	2,302,723	16,872
FUND EQUITY:		
Fund Balances:		
Reserved For:		
Encumbrances	-	108,012
Long-Term Assets and Loans Receivable	197	-
Statutory Reserve	135,900	-
Unreserved:		
Designated	-	(54,224)
Undesignated	(1,099,657)	-
TOTAL FUND EQUITY	(963,560)	53,788
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,339,163	\$ 70,660

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

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
Sales and Use Tax	\$2,167,700	\$1,081,157	
Other Excise Taxes	90,300	46,314	
Individual Income Tax, net	3,972,300	2,000,447	
Corporate Income Tax, net	345,100	143,598	
Estate Tax	-	22	
Insurance Tax	193,000	84,441	
Parimutuel, Courts, and Other	19,700	11,454	
Investment Earnings	3,800	2,459	
Gaming	33,200	-	
TOTAL GENERAL PURPOSE REVENUES	6,825,100	\$3,369,892	49.4%
EXPENDITURES:			
Agriculture	4,956	2,665	
Corrections	649,197	360,477	
Education	3,179,610	2,229,188	
Governor	11,291	8,196	
Health Care Policy and Financing	1,232,272	675,344	
Higher Education	660,511	485,284	
Human Services	640,275	337,172	
Judicial Branch	332,424	192,183	
Law	10,084	5,286	
Legislative Branch	34,796	16,686	
Local Affairs	10,785	7,432	
Military Affairs	5,320	2,998	
Natural Resources	26,419	15,600	
Personnel and Administration	5,533	2,817	
Public Health and Environment	27,541	12,856	
Public Safety	82,654	42,383	
Regulatory Agencies	1,510	755	
Revenue	170,620	84,794	
Treasury	6,161	646	
Appropriation to Capital Construction Fund	14,821	11,985	
SUBTOTAL DEPARTMENTAL EXPENDITURES	7,106,780	4,494,909	63.2%
Difference Between Recorded and Estimated Appropriations	(294,680)		
TOTAL GENERAL FUNDED EXPENDITURES	6,812,100	4,494,909	
EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES	13,000	(1,125,017)	
EXCESS AUGMENTING REVENUES		15,481	
TRANSFERS:			
Transfer from Cash Funds to General Fund	44,100	10,838	
Other Net Transfers to/from the General Fund	(8,000)	(8,000)	
TOTAL TRANSFERS	36,100	2,838	
NET CHANGE IN UNRESERVED FUND BALANCE RELATED TO BUDGETED OPERATIONS	49,100	(1,106,698)	
BEGINNING UNRESERVED FUND BALANCE - BUDGET BASIS	13,700	4,793	
Deduct the GAAP Expenditures Not Budgeted		(4)	
Release of the Beginning Reserve For Encumbrances		5,721	
(Additions) Deductions to the Long-Term Loan Reserve		(197)	
(Additions) Deductions to the Statutory Four Percent Reserve	(3,800)	(3,272)	
ENDING UNRESERVED FUND BALANCE - BUDGET BASIS	\$ 59,000	\$ (1,099,657)	

**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, 2010**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET		PERCENT OF ESTIMATE
		ACTUAL	
REVENUES:			
General Fund Transfer-In	\$ 11,959	\$ 11,985	
Interest Earnings	2,900	745	
TOTAL CAPITAL CONSTRUCTION REVENUES	14,859	12,730	85.7%
EXPENDITURES:			
Agriculture	953	153	
Corrections	10,826	4,888	
Education	893	118	
Higher Education	20,023	7,715	
Human Services	5,545	3,574	
Judicial Branch	-	4	
Military Affairs	4,470	1,888	
Natural Resources	807	807	
Personnel	8,036	1,791	
Public Health and Environment	184	4	
Public Safety	1,356	1,198	
Revenue	14,627	2,653	
Transportation	500	-	
Intrafund Transfer-Out	2,859	2,859	
NET EXPENDITURES AND AUGMENTING REVENUES	71,079	27,652	38.9%
EXCESS GENERAL REVENUES OVER (UNDER) NET CAPITAL CONSTRUCTION EXPENDITURES	(56,220)	(14,922)	
EXCESS AUGMENTING REVENUES		10,164	
BEGINNING UNRESERVED FUND BALANCE - GAAP BASIS	(35,611)	(35,611)	
Release of the Beginning Reserve For Encumbrances - All Funding Sources	91,673	91,673	
(Additions) to Reserve for Encumbrances - General Funded - Estimate		(16,148)	
(Additions) to Reserve for Encumbrances - Non-General Funded - Estimate		(91,864)	
Release of the Beginning Reserve for Other Specific Purposes		2,372	
(Additions) Deductions to the Reserve for Long-Term Assets	-	112	
ENDING UNRESERVED FUND BALANCE - GAAP BASIS	\$ (158)	\$ (54,224)	