

State of Colorado



John W. Hickenlooper
Governor

Kathy Nesbitt
Executive Director

Jennifer Okes
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State Controller

DPA

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April 29, 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 nine-month period ended March 31, 2011. 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, 2011. Factors that contribute to the General Fund \$1,031.2 million deficit Total Fund Equity are addressed in the Exhibit B discussion below. When two and three tenths percent of appropriations are reserved, as is required by current law, the General Fund unreserved fund balance deficit is \$1,187.9 million. This compares to the unreserved fund balance deficit of \$1,533.8 million at March 31, 2010.

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 \$702.2 million of the \$1,187.9 million unreserved fund balance deficit.

The cash position of the General Fund has improved as compared to March 31, 2010. 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 \$1,345.4 million in deficit. The state's General Fund deficit cash position was \$1,706.8 million, \$2,065.9 million, and \$1,448.7 million at March 31, 2010, 2009, and 2008 respectively. The improved cash position has resulted from an increase in general-purpose revenue. Despite the improvement in revenues, the General Fund reserve is comprised of 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 \$2,782.1 million (\$1,936.2 million at March 31, 2010). However, moving those cash resources to the General Fund has been contentious in the past.

The Total Fund Equity of the Capital Construction Fund (\$33.5 million) decreased from the March 31, 2010, balance (\$91.6 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, 2011. 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 \$106.3 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 \$106.3 million in excess of estimate is reflected in the actual unreserved fund balance deficit.

The line item titled Difference Between Recorded and Estimated Appropriations (\$55.7 million) is primarily attributed to timing differences. The major difference is from budget adjustments shown in the Fiscal Year 2011-12 add-on section of the next Long Appropriations Act 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 \$4,931.4 million, which is 69.8 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 third quarter of the current fiscal year were 88.5 percent of current appropriations, which compares with the prior year figure of 85.7 percent of appropriations at March 31, 2010. 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, 2011.

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, 2011. The estimated expenditures of the Capital Construction Fund do not reflect budget restrictions. The revenues of the fund were \$12.9 million or 89.5 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 negative \$73.9 million unreserved fund balance is a result of \$107.3 million of encumbrances that are legal commitments of cash and federally funded projects (\$96.2 million), as well as general-funded projects (\$11.1 million). Not all of the revenue expected to support the cash and federally-funded projects has been earned at March 31, 2011.

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

BALANCE SHEET
GENERAL AND CAPITAL CONSTRUCTION FUNDS
MARCH 31, 2011

(DOLLARS IN THOUSANDS)	UNRESTRICTED GENERAL FUND	CAPITAL CONSTRUCTION
ASSETS:		
Cash and Pooled Cash	\$ -	\$ 34,552
Taxes Receivable, net	999,455	-
Other Receivables, net	36,739	3,095
Intrafund Receivables	16,849	-
Due From Other Governments	310,639	2,483
Due From Other Funds	2,410	7,547
Inventories	3,010	-
Prepays, Advances, and Deferred Charges	38,417	451
Investments	5,145	-
Other Long-Term Assets	190	112
TOTAL ASSETS	\$ 1,412,854	\$ 48,240
LIABILITIES:		
Liability to Pooled Cash	\$ 846,157	\$ -
Tax Refunds Payable	657,130	-
Accounts Payable and Accrued Liabilities	241,254	14,174
TABOR Refund Fiscal Year 2004-05	706	-
Due To Other Governments	30,773	-
Due To Other Funds	3,776	271
Intrafund Payables	2,680	-
Deferred Revenue	198,761	298
Other Current Liabilities	462,653	-
Deposits Held in Custody for Others	203	-
Other Long-Term Liabilities	9	-
TOTAL LIABILITIES	2,441,102	14,743
FUND EQUITY:		
Fund Balances:		
Reserved For:		
Encumbrances	-	107,270
Long-Term Assets and Loans Receivable	190	112
Statutory Reserve	156,500	-
Unreserved:		
Designated	-	(73,885)
Undesignated	(1,187,938)	-
TOTAL FUND EQUITY	(1,031,248)	33,497
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,412,854	\$ 48,240

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE - GENERAL FUND
BUDGET AND ACTUAL - BUDGETARY BASIS
FOR THE NINE MONTHS ENDED MARCH 31, 2011**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
Sales and Use Tax	\$2,126,700	\$1,633,015	
Other Excise Taxes	91,800	67,492	
Individual Income Tax, net	4,262,800	2,868,410	
Corporate Income Tax, net	340,000	195,750	
Estate Tax	-	25	
Insurance Tax	191,600	145,373	
Parimutuel, Courts, and Other	22,600	17,153	
Investment Earnings	6,000	4,203	
Gaming	20,400	-	
TOTAL GENERAL PURPOSE REVENUES	7,061,900	\$4,981,421	69.8%
EXPENDITURES:			
Agriculture	4,924	3,773	
Corrections	660,811	523,166	
Education	2,963,562	2,940,149	
Governor	11,930	9,749	
Health Care Policy and Financing	1,168,137	1,040,521	
Higher Education	705,386	556,983	
Human Services	635,652	493,992	
Judicial Branch	330,335	269,141	
Labor and Employment	-	15	
Law	9,979	7,674	
Legislative Branch	34,796	24,528	
Local Affairs	10,754	9,101	
Military Affairs	5,286	4,184	
Natural Resources	26,201	20,456	
Personnel and Administration	5,533	4,153	
Public Health and Environment	27,461	21,308	
Public Safety	82,310	64,748	
Regulatory Agencies	1,510	1,098	
Revenue	170,587	124,503	
Treasury	5,974	2,205	
Appropriation to Capital Construction Fund	14,821	11,985	
SUBTOTAL DEPARTMENTAL EXPENDITURES	6,875,949	6,133,432	
Difference Between Recorded and Estimated Appropriations	55,651		
TOTAL GENERAL FUNDED EXPENDITURES	6,931,600	6,133,432	88.5%
EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES	130,300	(1,202,011)	
EXCESS AUGMENTING REVENUES		12,050	
TRANSFERS:			
Transfer from Cash Funds to General Fund	144,900	10,845	
Other Net Transfers to/from the General Fund	(8,000)	(8,000)	
TOTAL TRANSFERS	136,900	2,845	
NET CHANGE IN UNRESERVED FUND BALANCE RELATED TO BUDGETED OPERATIONS	267,200	(1,187,116)	
BEGINNING UNRESERVED FUND BALANCE - BUDGET BASIS	4,800	4,793	
Add Budgeted Non-GAAP Expenditures		1	
Deduct the GAAP Expenditures Not Budgeted		(474)	
Add GAAP Revenue Adjustments		13,199	
Release of the Beginning Reserve For Encumbrances		5,721	
(Additions) Deductions to the Long-Term Loan Reserve		(190)	
(Additions) Deductions to the Statutory Four Percent Reserve	(23,900)	(23,872)	
ENDING UNRESERVED FUND BALANCE - BUDGET BASIS	\$ 248,100	\$ (1,187,938)	

**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, 2011**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET		ACTUAL	PERCENT OF ESTIMATE
REVENUES:				
General Fund Transfer-In	\$	12,059	\$	11,985
Interest Earnings		2,400		954
TOTAL CAPITAL CONSTRUCTION REVENUES		14,459	12,939	89.5%
EXPENDITURES:				
Agriculture		953		212
Corrections		10,826		7,926
Education		893		159
Higher Education		20,128		11,407
Human Services		5,549		3,769
Military Affairs		4,470		2,694
Natural Resources		807		807
Personnel		7,745		2,581
Public Health and Environment		184		60
Public Safety		1,356		1,210
Revenue		14,627		6,218
Transportation		500		-
Intrafund Transfer-Out		2,859		2,859
NET EXPENDITURES AND AUGMENTING REVENUES		70,897	39,902	56.3%
EXCESS GENERAL REVENUES OVER (UNDER) NET CAPITAL CONSTRUCTION EXPENDITURES		(56,438)	(26,963)	
EXCESS AUGMENTING REVENUES			1,914	
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				(11,105)
(Additions) to Reserve for Encumbrances - Non-General Funded - Estimate				(96,165)
Release of the Beginning Reserve for Other Specific Purposes				2,372
ENDING UNRESERVED FUND BALANCE - GAAP BASIS	\$	(376)	\$	(73,885)