

# State of Colorado



**John W. Hickenlooper**  
Governor

**Kathy Nesbitt**  
Executive Director

**Jennifer Okes**  
Deputy Executive Director

**David J. McDermott**  
State Controller

## DPA

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November 8, 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 three-month period ended September 30, 2011. Beginning this period, the classifications of fund balance have changed from those previously reported due new accounting standards. This Quarterly Financial Report summarizes activity in the General Fund, now referred to as the General Purpose Revenue Fund, and the Capital Construction Fund.

The attached Exhibit A provides a *Balance Sheet* for the General Purpose Revenue Fund and Capital Construction Fund at September 30, 2011. Factors that contribute to the General Purpose Revenue Fund \$994.4 million deficit are addressed in the Exhibit B discussion below. When four percent of appropriations are set aside as is required by current law and restrictions related to the Department of Correction's energy performance contract are considered, the General Purpose Revenue Fund unassigned fund balance deficit is \$1,280.9 million. This compares to the unreserved fund balance deficit of \$1,086.8 million at September 30, 2010.

The General Purpose Revenue 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 \$832.5 million of the \$1,280.9 million unassigned fund balance deficit.

The cash position of the General Purpose Revenue Fund has improved as compared to September 30, 2010. The state's current General Purpose Revenue 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 \$891.1 million in deficit. The State's General Purpose Revenue Fund deficit cash position was \$1,120.5 million, \$1,413.9 million, and \$1,268.1 million at September 30, 2010, 2009, and 2008 respectively. The improved cash position has resulted from an increase in general-purpose revenue. Despite the improvement in revenues it should be noted that the General Purpose Revenue Fund assets comprise taxes and other receivables of unpredictable liquidity. The General Purpose Revenue 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 \$3,365.4 million (\$2,357.1 million at September 30, 2011). Moving those cash resources to the General Purpose Revenue Fund has been contentious in the past.

Governor John W. Hickenlooper  
Page 2 of 2  
November 8, 2011

The Total Fund Equity of the Capital Construction Fund (\$65.6 million) decreased slightly from the September 30, 2011, balance (\$66.6 million). The balance did not change significantly as decreases from ongoing project spending were offset with the restoration of transfers-in from the General Purpose Revenue Fund. Although the balance is comparable to last year, there is a downward trend over time in project funding as a result of the general-purpose revenue shortfalls.

Exhibit B provides a *Schedule of Revenues, Expenditures and Changes in Unassigned Fund Balance - General Fund - Budget and Actual* for the three-month period ended September 30, 2011. The Current Annual Estimate 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 budget restrictions. Actual revenues reported on the September Year-to-Date Revenue Summary Report were more than the estimate by \$67.8 million. This amount is not reflected in the Current Annual Estimate, and it is therefore not reflected in the projected ending unassigned fund balance. However, the \$67.8 million in excess of estimate is reflected in the actual unassigned fund balance deficit.

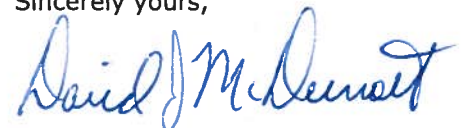
The line item titled Difference Between Recorded and Estimated Appropriations (\$4.2 million) is primarily attributed to timing differences in the recording of budget transactions on the accounting system.

At the end of the first quarter, actual general-purpose revenues were \$1,787.0 million, which is 25.0 percent of the annual estimated revenue. Due to the deferral of payroll expenditures and Medicaid costs from Fiscal Year 2010-11 into Fiscal Year 2011-12 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 2010-11. Departmental expenditures of the General Fund at the first quarter of the current fiscal year were 41.3 percent of current appropriations, which compares with the prior year figure of 39.6 percent of appropriations at September 30, 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 September 30, 2011.

Exhibit C is a *Schedule of Revenues, Expenditures, and Changes in Fund Balance - Funded By General Purpose Revenue - Budget and Actual - Capital Construction Fund* for the three-month period ended September 30, 2011. The estimated expenditures of the Capital Construction Fund do not reflect budget restrictions. The revenues of the fund were \$49.5 million or 98.3 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 \$65.6 million fund balance includes \$25.9 million of encumbrances that are legal commitments of cash and federally funded projects, as well as \$17.4 million of encumbrances for general-funded projects. Not all of the revenue expected to support the cash and federally-funded projects has been earned at September 30, 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 PURPOSE REVENUE AND CAPITAL CONSTRUCTION FUNDS**  
**SEPTEMBER 30, 2011**

(DOLLARS IN THOUSANDS)		GENERAL PURPOSE REVENUE FUND	CAPITAL CONSTRUCTION
<b>ASSETS:</b>			
Cash and Pooled Cash	\$	-	\$ 70,828
Taxes Receivable, net		1,066,844	-
Other Receivables, net		32,590	32
Intrafund Receivables		22,554	-
Due From Other Governments		148,045	1,836
Due From Other Funds		1,027	7,033
Inventories		4,432	-
Prepays, Advances, and Deferred Charges		39,047	-
Investments		6,423	-
Other Long-Term Assets		36	102
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>1,320,998</b>	<b>\$ 79,831</b>
<b>LIABILITIES:</b>			
Liability to Pooled Cash	\$	389,107	\$ -
Tax Refunds Payable		615,164	-
Accounts Payable and Accrued Liabilities		163,903	14,123
TABOR Refund Fiscal Year 2004-05		706	-
Due To Other Governments		32,686	-
Due To Other Funds		299,111	112
Intrafund Payables		3,674	-
Deferred Revenue		300,839	-
Other Current Liabilities		510,027	-
Deposits Held in Custody for Others		162	-
Other Long-Term Liabilities		9	-
<b>TOTAL LIABILITIES</b>		<b>2,315,388</b>	<b>14,235</b>
<b>FUND BALANCES:</b>			
Restricted		7,165	-
Committed		279,300	65,596
Unassigned		(1,280,855)	-
<b>TOTAL FUND BALANCE</b>		<b>(994,390)</b>	<b>65,596</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$</b>	<b>1,320,998</b>	<b>\$ 79,831</b>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
UNASSIGNED FUND BALANCE - GENERAL PURPOSE REVENUE FUND  
BUDGET AND ACTUAL - BUDGETARY BASIS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
<b>REVENUES:</b>			
Sales and Use Tax	\$2,199,900	\$580,092	
Other Excise Taxes	90,200	24,933	
Individual Income Tax, net	4,275,600	1,043,025	
Corporate Income Tax, net	321,800	85,124	
Estate Tax	-	84	
Insurance Tax	206,200	44,239	
Parimutuel, Courts, and Other	20,700	5,872	
Investment Earnings	8,100	3,625	
Gaming	20,300	-	
<b>TOTAL GENERAL PURPOSE REVENUES</b>	<b>7,142,800</b>	<b>\$1,786,994</b>	<b>25.0%</b>
<b>EXPENDITURES:</b>			
Agriculture	5,164	1,805	
Corrections	637,780	209,088	
Education	2,833,644	1,675,409	
Governor	11,229	6,420	
Health Care Policy and Financing	1,670,248	443,109	
Higher Education	624,212	209,948	
Human Services	614,651	160,438	
Judicial Branch	340,244	116,423	
Labor and Employment	-	9	
Law	9,718	3,066	
Legislative Branch	34,704	9,808	
Local Affairs	10,384	2,282	
Military Affairs	5,422	1,806	
Natural Resources	23,422	8,022	
Personnel and Administration	5,079	3,625	
Public Health and Environment	27,478	7,774	
Public Safety	83,114	35,216	
Regulatory Agencies	1,599	579	
Revenue	159,783	42,770	
Treasury	9,820	623	
Transfers to Capital Construction Fund	2,153	-	
<b>SUBTOTAL DEPARTMENTAL EXPENDITURES</b>	<b>7,109,848</b>	<b>2,938,220</b>	<b>41.3%</b>
Difference Between Recorded and Estimated Appropriations	4,152		
<b>TOTAL GENERAL FUNDED EXPENDITURES</b>	<b>7,114,000</b>	<b>2,938,220</b>	
<b>EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES</b>	<b>28,800</b>	<b>\$(1,151,226)</b>	
<b>EXCESS AUGMENTING REVENUES</b>		<b>18,558</b>	
<b>TRANSFERS:</b>			
Transfer from Cash Funds to General Fund	132,800	25,165	
Other Net Transfers to/from the General Fund	(8,000)	(8,000)	
Transfers from General Fund to Capital Construction	(49,300)	(49,298)	
<b>TOTAL TRANSFERS</b>	<b>75,500</b>	<b>(32,133)</b>	
<b>NET CHANGE IN GENERAL PURPOSE REVENUE FUND BALANCE RELATED TO BUDGETED OPERATIONS</b>	<b>104,300</b>	<b>(1,164,801)</b>	
<b>BEGINNING GENERAL PURPOSE REVENUE FUND BALANCE - BUDGET BASIS</b>		<b>-</b>	
Add Budgeted Non-GAAP Expenditures		11	
Deduct the GAAP Expenditures Not Budgeted		(3,228)	
Restricted		3,116	
Committed - Statutory 4% Reserve	(122,600)	(122,652)	
Committed - Other Purposes		6,590	
Assigned		109	
<b>ENDING UNASSIGNED GENERAL PURPOSE REVENUE FUND BALANCE - GAAP BASIS</b>	<b>\$ (18,300)</b>	<b>\$ (1,280,855)</b>	

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - FUNDED BY GENERAL PURPOSE REVENUE  
BUDGET AND ACTUAL - CAPITAL CONSTRUCTION FUND  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
General Fund Transfer-In	\$ 49,300	\$ 49,298	
Interest Earnings	1,100	229	
TOTAL CAPITAL CONSTRUCTION REVENUES	50,400	49,527	98.3%
EXPENDITURES:			
Agriculture	422	118	
Corrections	20,654	2,006	
Education	704	21	
Governor	865	119	
Higher Education	12,706	6,154	
Human Services	3,425	507	
Judicial Branch	-	1	
Labor and Employment	-	321	
Military Affairs	5,662	307	
Personnel	7,247	1,067	
Public Health and Environment	75	3	
Public Safety	22	-	
Revenue	15,484	3,270	
Transportation	500	-	
Treasury	4,067	-	
Intrafund Transfer-Out	1,126	1,126	
NET EXPENDITURES AND AUGMENTING REVENUES	72,959	15,020	20.6%
EXCESS GENERAL REVENUES OVER (UNDER)			
NET CAPITAL CONSTRUCTION EXPENDITURES	(22,559)	34,508	
EXCESS AUGMENTING REVENUES			
		3,051	
BEGINNING FUND BALANCE - GAAP BASIS	-	28,463	
Add GAAP Revenue Adjustments		(426)	
ENDING FUND BALANCE - GAAP BASIS	\$ (22,559)	\$ 65,596	