

State of Colorado



John W. Hickenlooper
Governor

Kathy Nesbitt
Executive Director

Jennifer Okes
Deputy Executive Director

David J. McDermott
State Controller

DPA

**Department of Personnel
& Administration**

Office of the State Controller
633 17th Street, Suite 1500
Denver, Colorado 80202
Phone (303) 866-6200
Fax (303) 866-4233
www.colorado.gov/dpa

January 27, 2012

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, 2011. This Quarterly Financial Report summarizes activity in 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 December 31, 2011. Factors that contribute to the General Purpose Revenue Fund \$1,332.7 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 \$1,617.3 million. This compares to the unreserved fund balance deficit of \$1,099.7 million at December 31, 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 nine months of public school moneys by the end of the second quarter. Beginning in Fiscal Year 2010-11, the Department of Education modified its methodology for estimating the amount associated with the nine months to better align the transfers with cash needs. The resulting transfers caused approximately \$829.7 million of the \$1,617.3 million unassigned fund balance deficit.

The cash position of the General Purpose Revenue Fund has declined as compared to December 31, 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 \$1,502.0 million in deficit. The State's General Purpose Revenue Fund deficit cash position was \$1,270.0 million, \$1,656.7 million, and \$1,684.3 million at December 31, 2010, 2009, and 2008 respectively. Despite the improvement in revenues (discussed below), it should be noted that the General Purpose Revenue Fund assets comprise taxes and other receivables of unpredictable liquidity. Additionally, the cash position of the General Purpose Revenue Fund was further reduced in December 2011 for the General Fund Surplus transfer to the Public School Fund and the State Education Fund

pursuant to Senate Bill 11-230, along with the acceleration of transfers to the Public School Fund. 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 \$2,939.6 million (\$2,462.0 million at December 31, 2010). Moving those cash resources to the General Purpose Revenue Fund has been contentious in the past.

Included in the General Purpose Revenue Fund cash balance is \$485,054 from CollegeInvest pursuant to House Bill 11-1281. Although it did not occur, a transfer of this amount should have occurred in Fiscal Year 2010-11 and been included in the prior year General Fund Surplus transfer to the State Education Fund in accordance with Senate Bill 11-230. A liability has been recorded on Exhibit A to disburse this cash balance to the State Education Fund which will occur in January 2012.

The fund balance of the Capital Construction Fund (\$57.5 million) increased slightly from the December 31, 2010, balance (\$53.8 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 Purpose Revenue Fund - Budget and Actual* for the six-month period ended December 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 budget restrictions. Actual revenues reported on the December Year-to-Date Revenue Summary Report were more than the estimate by \$76.7 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 \$76.7 million in excess of estimate is reflected in the actual unassigned fund balance deficit.

The line item titled Difference Between Recorded and Estimated Appropriations (\$3.8 million) is primarily attributed to timing differences in the recording of budget transactions on the accounting system as compared to the OSPB estimate of expenditures.

At the end of the second quarter, actual general-purpose revenues were \$3,553.7 million, which is 48.2 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. Expenditure deferrals and accelerated transfers to the Public School Fund existed in Fiscal Year 2010-11. However, further acceleration of transfers to the Public School Fund resulted in higher departmental expenditures of the General Purpose Revenue Fund at the second quarter of the current fiscal year (71.0 percent of current appropriations) as compared with the prior year (63.2 percent of appropriations). 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 December 31, 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 six-month period ended December 31, 2011. The estimated expenditures of the Capital Construction Fund do not reflect budget restrictions. The revenues of the fund were \$49.8 million or 99.3 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.

Governor John W. Hickenlooper
Page 3 of 3
January 27, 2012

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

L:\Report\FS\CUR\Qtrly\Second_qtr_letter.doc

BALANCE SHEET
GENERAL PURPOSE REVENUE AND CAPITAL CONSTRUCTION FUNDS
DECEMBER 31, 2011

(DOLLARS IN THOUSANDS)	GENERAL PURPOSE REVENUE FUND	CAPITAL CONSTRUCTION
ASSETS:		
Cash and Pooled Cash	\$ -	\$ 62,181
Taxes Receivable, net	1,066,549	-
Other Receivables, net	38,967	34
Intrafund Receivables	24,396	-
Due From Other Governments	164,177	172
Due From Other Funds	1,582	6,859
Inventories	4,246	-
Prepays, Advances, and Deferred Charges	36,267	-
Investments	6,272	-
Other Long-Term Assets	23	102
TOTAL ASSETS	\$ 1,342,479	\$ 69,348
LIABILITIES:		
Liability to Pooled Cash	\$ 999,855	\$ -
Tax Refunds Payable	615,165	-
Accounts Payable and Accrued Liabilities	195,730	11,226
TABOR Refund Fiscal Year 2004-05	706	-
Due To Other Governments	37,102	-
Due To Other Funds	2,922	612
Intrafund Payables	9	-
Deferred Revenue	313,820	2
Other Current Liabilities	509,817	-
Deposits Held in Custody for Others	28	-
Other Long-Term Liabilities	8	-
TOTAL LIABILITIES	2,675,162	11,840
FUND BALANCES:		
Restricted	5,316	-
Committed	279,300	57,508
Unassigned	(1,617,299)	-
TOTAL FUND BALANCE	(1,332,683)	57,508
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,342,479	\$ 69,348

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNASSIGNED FUND BALANCE - GENERAL PURPOSE REVENUE FUND
BUDGET AND ACTUAL - BUDGETARY BASIS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2011**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
Sales and Use Tax	\$2,237,700	\$1,135,143	
Other Excise Taxes	94,700	48,133	
Individual Income Tax, net	4,436,700	2,075,408	
Corporate Income Tax, net	348,200	186,570	
Estate Tax	-	86	
Insurance Tax	206,200	85,466	
Parimutuel, Courts, and Other	21,600	16,112	
Investment Earnings	8,400	6,811	
Gaming	20,300	-	
TOTAL GENERAL PURPOSE REVENUES	7,373,800	\$3,553,729	48.2%
EXPENDITURES:			
Agriculture	5,164	2,978	
Corrections	637,780	370,300	
Education	2,833,702	2,555,251	
Governor	11,792	8,334	
Health Care Policy and Financing	1,670,248	899,775	
Higher Education	624,232	486,963	
Human Services	614,651	320,086	
Judicial Branch	340,244	204,788	
Law	9,718	5,756	
Legislative Branch	34,704	16,770	
Local Affairs	10,467	7,427	
Military Affairs	5,422	2,908	
Natural Resources	23,422	13,556	
Personnel and Administration	5,079	4,611	
Public Health and Environment	27,478	14,783	
Public Safety	82,741	42,613	
Regulatory Agencies	1,599	987	
Revenue	159,783	85,967	
Treasury	9,820	1,245	
Transfers to Capital Construction Fund	2,153	-	
SUBTOTAL DEPARTMENTAL EXPENDITURES	7,110,199	5,045,098	71.0%
Difference Between Recorded and Estimated Appropriations	3,816		
TOTAL GENERAL FUNDED EXPENDITURES	7,114,015	5,045,098	
EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES	259,785	\$(1,491,369)	
EXCESS AUGMENTING REVENUES		16,770	
TRANSFERS:			
Transfer from Cash Funds to General Fund	132,800	25,178	
Other Net Transfers to/from the General Fund	(8,000)	(8,000)	
Transfers from General Fund to Capital Construction	(49,300)	(49,298)	
TOTAL TRANSFERS	75,500	(32,120)	
NET CHANGE IN GENERAL PURPOSE REVENUE FUND BALANCE RELATED TO BUDGETED OPERATIONS	335,285	(1,506,719)	
BEGINNING GENERAL PURPOSE REVENUE FUND BALANCE - BUDGET BASIS	-	-	
Deduct the GAAP Expenditures Not Budgeted		(5,143)	
Add GAAP Revenue Adjustments		5,551	
(Addition)/Reduction in Restricted Correction's Energy Performance Contract		4,965	
(Addition)/Reduction in Committed Statutory 4% Reserve	(122,600)	(122,652)	
Release of Committed Rollforward Balance		6,590	
Release of Assigned Rollforward Balance		109	
ENDING UNASSIGNED GENERAL PURPOSE REVENUE FUND BALANCE - GAAP BASIS	\$ 212,685	\$ (1,617,299)	

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - FUNDED BY GENERAL PURPOSE REVENUE
BUDGET AND ACTUAL - CAPITAL CONSTRUCTION FUND
FOR THE SIX MONTHS ENDED DECEMBER 31, 2011**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
General Fund Transfer-In	\$ 49,300	\$ 49,298	
Interest Earnings	800	467	
TOTAL CAPITAL CONSTRUCTION REVENUES	50,100	49,765	99.3%
EXPENDITURES:			
Agriculture	422	193	
Corrections	20,654	2,934	
Education	704	26	
Governor	865	326	
Higher Education	13,190	7,207	
Human Services	3,470	1,199	
Labor and Employment	-	15	
Military Affairs	5,662	1,040	
Personnel	7,566	2,333	
Public Health and Environment	75	68	
Public Safety	22	-	
Revenue	15,484	4,528	
Transportation	500	500	
Treasury	4,067	-	
Interfund Transfer-Out	1,258	1,258	
NET EXPENDITURES AND AUGMENTING REVENUES	73,939	21,627	29.2%
EXCESS GENERAL REVENUES OVER (UNDER) NET CAPITAL CONSTRUCTION EXPENDITURES	(23,839)	28,138	
EXCESS AUGMENTING REVENUES		1,832	
BEGINNING FUND BALANCE - GAAP BASIS	27,963	27,963	
Add GAAP Revenue Adjustments		(425)	
ENDING FUND BALANCE - GAAP BASIS	\$ 4,124	\$ 57,508	