

State of Colorado



John W. Hickenlooper
Governor

Kathy Nesbitt
Executive Director

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April 26, 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 nine-month period ended March 31, 2012. 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 March 31, 2012. Factors that contribute to the General Purpose Revenue Fund \$956.3 million deficit are addressed in the exhibit B discussion below. When four percent of appropriations are reserved, 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 \$1,241.8 million. This compares to an unreserved fund balance deficit of \$1,187.9 million at March 31, 2011.

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 twelve months of public school moneys by the end of the third quarter. The accelerated transfers caused approximately \$443.4 million of the \$1,241.8 million unassigned fund balance deficit.

The cash position of the General Purpose Revenue Fund has improved as compared to March 31, 2011. The State's current General Purpose Revenue 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 \$1,169.3 million in deficit. The State's General Purpose Revenue Fund deficit cash position was \$1,345.4 million, and \$1,706.8 million, and \$2,065.9 million at March 31, 2011, 2010, and 2009 respectively. The improved cash position has resulted from an increase in general-purpose revenue. Despite the improvement in revenues (discussed below), it should be noted that the General Purpose Revenue Fund assets comprise tax 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 \$3,004.9 million (\$2,782.1 million at March 31, 2011). However, moving those cash resources to the General Purpose Revenue Fund has been contentious in the past.

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The Total Fund Balance of the Capital Construction Fund (\$30.6 million) decreased slightly from the March 31, 2011, balance (\$33.5 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 nine-month period ended March 31, 2012. 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 \$113.5 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 \$113.5 million in excess of estimate is reflected in the actual unassigned fund balance deficit.

The line item titled Difference Between Recorded and Estimated Appropriations (\$67.9 million) is primarily attributed to timing differences. The major difference is from budget adjustments the General Assembly is expected to make, such as for health care-related expenditures, and is currently estimated at \$61.4 million. The associated budget adjustment will be recorded on the accounting system upon final enactment.

At the end of the third quarter, actual general-purpose revenues were \$5,195.7 million, which is 70.2 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. However, similar expenditure deferrals and accelerated transfers existed in Fiscal Year 2010-11. Departmental expenditures of the General Purpose Revenue Fund at the third quarter of the current fiscal year were 88.9 percent of current appropriations, which compares with the prior year figure of 88.5 percent of appropriations at March 31, 2011. 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, 2012.

Exhibit C is a *Schedule of Revenues, Expenditures, and Changes in Unassigned Fund Balance - Funded By General Purpose Revenue - Budget and Actual - Capital Construction Fund* for the nine-month period ended March 31, 2012. The estimated expenditures of the Capital Construction Fund do not reflect budget restrictions. The revenues of the fund were \$49.9 million or 99.7 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.

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
MARCH 31, 2012

(DOLLARS IN THOUSANDS)	GENERAL PURPOSE REVENUE FUND	CAPITAL CONSTRUCTION
ASSETS:		
Cash and Pooled Cash	\$ -	\$ 34,211
Taxes Receivable, net	1,066,268	-
Other Receivables, net	36,993	32
Intrafund Receivables	15,560	-
Due From Other Governments	186,302	1,001
Due From Other Funds	2,970	6,678
Inventories	4,572	-
Prepays, Advances, and Deferred Charges	33,506	-
Investments	6,205	-
Other Long-Term Assets	-	102
TOTAL ASSETS	\$ 1,352,376	\$ 42,024
LIABILITIES:		
Liability to Pooled Cash	\$ 667,061	\$ -
Tax Refunds Payable	615,165	-
Accounts Payable and Accrued Liabilities	172,421	11,349
TABOR Refund Fiscal Year 2004-05	706	-
Due To Other Governments	30,969	-
Due To Other Funds	1,172	112
Intrafund Payables	9	-
Deferred Revenue	310,993	-
Other Current Liabilities	510,119	-
Deposits Held in Custody for Others	54	-
Other Long-Term Liabilities	9	-
TOTAL LIABILITIES	2,308,678	11,461
FUND BALANCES:		
Restricted	4,113	1,967
Committed	281,400	28,596
Unassigned	(1,241,815)	-
TOTAL FUND BALANCE	(956,302)	30,563
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,352,376	\$ 42,024

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNASSIGNED FUND BALANCE - GENERAL PURPOSE REVENUE FUND
BUDGET AND ACTUAL - BUDGETARY BASIS
FOR THE NINE MONTHS ENDED MARCH 31, 2012**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
Sales and Use Tax	\$2,270,000	\$1,711,138	
Other Excise Taxes	94,100	69,983	
Individual Income Tax, net	4,405,900	3,001,162	
Corporate Income Tax, net	382,100	229,631	
Estate Tax	-	301	
Insurance Tax	197,900	149,474	
Parimutuel, Courts, and Other	21,600	24,892	
Investment Earnings	8,400	9,130	
Gaming	20,100	-	
TOTAL GENERAL PURPOSE REVENUES	7,400,100	\$5,195,711	70.2%
EXPENDITURES:			
Agriculture	5,164	4,023	
Corrections	637,780	524,917	
Education	2,833,702	2,824,541	
Governor	11,231	9,342	
Health Care Policy and Financing	1,647,981	1,354,110	
Higher Education	635,233	543,818	
Human Services	614,971	484,609	
Judicial Branch	339,830	276,795	
Law	9,717	7,796	
Legislative Branch	34,704	24,860	
Local Affairs	10,473	8,434	
Military Affairs	5,429	4,140	
Natural Resources	23,429	19,052	
Personnel and Administration	6,281	6,533	
Public Health and Environment	27,473	19,012	
Public Safety	82,728	68,722	
Regulatory Agencies	1,600	1,316	
Revenue	159,781	125,417	
Treasury	11,941	2,755	
SUBTOTAL DEPARTMENTAL EXPENDITURES	7,099,448	6,310,207	88.9%
Difference Between Recorded and Estimated Appropriations	67,852		
TOTAL GENERAL FUNDED EXPENDITURES	7,167,300	6,310,207	
EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES	232,800	\$(1,114,496)	
EXCESS AUGMENTING REVENUES		19,070	
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	308,300	(1,127,546)	
BEGINNING GENERAL PURPOSE REVENUE FUND BALANCE - BUDGET BASIS	-	-	
Deduct the GAAP Expenditures Not Budgeted		(7,936)	
Add GAAP Revenue Adjustments		5,551	
(Addition)/Reduction in Restricted Correction's Energy Performance Contract		6,169	
(Addition)/Reduction in Committed Statutory 4% Reserve	(124,700)	(124,752)	
Release of Committed Rollforward Balance		6,590	
Release of Assigned Rollforward Balance		109	
ENDING UNASSIGNED GENERAL PURPOSE REVENUE FUND BALANCE - GAAP BASIS	\$ 183,600	\$ (1,241,815)	

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - FUNDED BY GENERAL PURPOSE REVENUE
BUDGET AND ACTUAL - CAPITAL CONSTRUCTION FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2012**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
General Fund Transfer-In	\$ 49,300	\$ 49,298	
Interest Earnings	800	627	
TOTAL CAPITAL CONSTRUCTION REVENUES	50,100	49,925	99.7%
EXPENDITURES:			
Agriculture	422	214	
Corrections	20,654	19,680	
Education	122	29	
Governor	865	462	
Higher Education	15,218	10,367	
Human Services	3,450	1,397	
Military Affairs	5,662	2,302	
Personnel	7,657	3,350	
Public Health and Environment	75	73	
Public Safety	22	1	
Revenue	15,484	9,278	
Transportation	500	500	
Treasury	4,067	-	
Interfund Transfer-Out	1,258	1,258	
NET EXPENDITURES AND AUGMENTING REVENUES	75,456	48,911	64.8%
EXCESS GENERAL REVENUES OVER (UNDER) NET CAPITAL CONSTRUCTION EXPENDITURES	(25,356)	1,014	
EXCESS AUGMENTING REVENUES		2,011	
BEGINNING FUND BALANCE - GAAP BASIS	27,963	27,963	
Add GAAP Revenue Adjustments		(425)	
ENDING FUND BALANCE - GAAP BASIS	\$ 2,607	\$ 30,563	