

State of Colorado



John W. Hickenlooper
Governor

Kathy Nesbitt
Executive Director

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January 25, 2013

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, 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 December 31, 2012. Factors that contribute to the General Purpose Revenue Fund \$257.4 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 are considered, the General Purpose Revenue Fund unassigned fund balance deficit is \$555.4 million. The unassigned fund balance deficit was \$1,617.3 million at December 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 nine months of public school moneys by the end of the second quarter. Without this transfer of \$634.5 million, there would have been a positive unassigned fund balance of \$79.1 million.

The cash position of the General Purpose Revenue Fund has improved as compared to December 31, 2011. 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 \$570.5 million in deficit. The State's General Purpose Revenue Fund deficit cash position was \$1,502.0 million, \$1,270.0 million, and \$1,656.7 million at December 31, 2011, 2010, and 2009 respectively. The improved cash position has resulted from a combination of increases in general-purpose revenue, a reduction in expenditures smaller General Purpose Revenue Fund transfers to the Department of Education, and increased beginning of the year cash balances as compared to the prior year. 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 \$3,865.4 million (\$2,939.6 million at December 31, 2011). Moving those cash resources to the General Purpose Revenue Fund has been contentious in the past.

The Total Fund Balance of the Capital Construction Fund (\$65.8 million) increased from the December 31, 2011, balance (\$57.5 million). The balance increased due to higher transfers-in from the General Purpose Revenue Fund as compared to the prior year. Although the balance has increased, there is a general downward trend over time in project funding from general-purpose revenue resources.

Exhibit B provides a *Schedule of Revenues, Expenditures and Changes in Unassigned Fund Balance - General Fund - Budget and Actual* for the six-month period ended December 31, 2012. 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 December Year-to-Date Revenue Summary Report were more than the estimate by \$85.0 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 \$85.0 million in excess of estimate is reflected in the actual unassigned fund balance deficit.

The line item titled Difference Between Recorded and Estimated Appropriations (\$9.0 million) is primarily attributed to legislatively authorized rollforwards and timing differences in the recording of budget transactions on the accounting system.

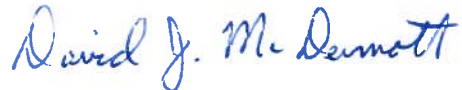
At the end of the second quarter, actual general-purpose revenues were \$3,903.8 million, which is 48.1 percent of the annual estimated revenue. Due to the deferral of payroll expenditures and Medicaid costs from Fiscal Year 2011-12 into Fiscal Year 2012-13 and the accelerated transfers to the Public 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 2011-12. Departmental expenditures of the General Fund at the second quarter of the current fiscal year were 64.0 percent of current appropriations, which compares with the prior year figure of 71.0 percent of appropriations at December 31, 2011. The primary reason for reduction in expenditures is due to smaller transfers to the Public School Fund as compared to the prior year which was abnormally high. 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, 2012.

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, 2012. The estimated expenditures of the Capital Construction Fund do not reflect budget restrictions. Estimated expenditures exceed current year budgeted revenues due to outstanding prior year appropriations. The prior year outstanding appropriations will be covered by fund balance from prior year transfers-in from the General Purpose Revenue Fund. The Legislature plans to expend all available resources resulting in a zero ending budgeted fund balance. The revenues of the fund were \$61.4 million or 99.5 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.

Governor John W. Hickenlooper
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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 PURPOSE REVENUE AND CAPITAL CONSTRUCTION FUNDS
DECEMBER 31, 2012

(DOLLARS IN THOUSANDS)	GENERAL PURPOSE REVENUE FUND	CAPITAL CONSTRUCTION
ASSETS:		
Cash and Pooled Cash	\$ -	\$ 71,445
Taxes Receivable, net	1,197,215	-
Other Receivables, net	35,314	1,507
Intrafund Receivables	16,649	-
Due From Other Governments	224,624	661
Due From Other Funds	12,530	5,853
Inventories	2,481	-
Prepays, Advances, and Deferred Charges	46,195	-
Investments	6,573	-
Other Long-Term Assets	4	92
TOTAL ASSETS	\$ 1,541,585	\$ 79,558
LIABILITIES:		
Liability to Pooled Cash	\$ 66,830	\$ -
Tax Refunds Payable	656,124	-
Accounts Payable and Accrued Liabilities	215,928	9,633
TABOR Refund Fiscal Year 2004-05	706	-
Due To Other Governments	51,000	-
Due To Other Funds	5,475	4,168
Intrafund Payables	457	-
Deferred Revenue	285,003	-
Other Current Liabilities	517,063	-
Deposits Held in Custody for Others	388	-
Other Long-Term Liabilities	9	-
TOTAL LIABILITIES	1,798,983	13,801
FUND BALANCES:		
Fund Balances:		
Nonspendable		
Restricted	527	-
Committed	297,500	65,757
Unassigned	(555,425)	
TOTAL FUND BALANCE	(257,398)	65,757
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,541,585	\$ 79,558

**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, 2012**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
Sales and Use Tax	\$2,414,400	\$1,211,490	
Other Excise Taxes	94,500	48,015	
Individual Income Tax, net	4,758,900	2,267,226	
Corporate Income Tax, net	536,600	270,565	
Estate Tax	45,000	2	
Insurance Tax	208,000	88,751	
Parimutuel, Courts, and Other	23,700	9,922	
Investment Earnings	14,100	7,821	
Gaming	20,400	-	
TOTAL GENERAL PURPOSE REVENUES	8,115,600	\$3,903,792	48.1%
EXPENDITURES:			
Agriculture	6,860	3,881	
Corrections	652,511	354,222	
Education	3,015,494	2,341,912	
Governor	18,320	10,104	
Health Care Policy and Financing	1,858,819	942,869	
Higher Education	619,594	477,056	
Human Services	645,995	332,348	
Judicial Branch	352,087	217,661	
Labor and Employment	-	594	
Law	9,990	6,544	
Legislative Branch	35,960	16,975	
Local Affairs	11,098	7,666	
Military Affairs	6,681	3,269	
Natural Resources	23,740	13,429	
Personnel and Administration	9,009	6,271	
Public Health and Environment	30,725	12,084	
Public Safety	84,630	55,674	
Regulatory Agencies	1,714	1,062	
Revenue	157,838	87,834	
Treasury	127,746	14,457	
SUBTOTAL DEPARTMENTAL EXPENDITURES	7,668,811	4,905,912	64.0%
Difference Between Recorded and Estimated Appropriations	9,005		
TOTAL GENERAL FUNDED EXPENDITURES	7,677,816	4,905,912	
EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES	437,784	\$(1,002,120)	
EXCESS AUGMENTING REVENUES		9,538	
TRANSFERS:			
Transfers from the General Fund for the Older Coloradans Act	(8,000)	(8,000)	
Transfers from General Fund to Capital Construction	(61,000)	(60,991)	
Other Net Transfer to/(from) General Fund	(2,500)	(4,560)	
TOTAL TRANSFERS	(71,500)	(73,551)	
NET CHANGE IN GENERAL PURPOSE REVENUE FUND BALANCE RELATED TO BUDGETED OPERATIONS	366,284	(1,066,133)	
BEGINNING GENERAL PURPOSE REVENUE FUND BALANCE - BUDGET BASIS	514,700	514,727	
Add Budgeted Non-GAAP Expenditures		442	
Deduct the GAAP Expenditures Not Budgeted		(1,459)	
(Increase)/Decrease - Restricted		3,607	
(Increase)/Decrease - Committed - Statutory 4% Reserve	(16,384)	(16,384)	
(Increase)/Decrease - Committed - Other Purposes		9,755	
(Increase)/Decrease - Assigned		20	
ENDING UNASSIGNED GENERAL PURPOSE REVENUE FUND BALANCE - GAAP BASIS	\$ 864,600	\$ (555,425)	

**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, 2012**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
General Fund Transfer-In	\$ 61,000	\$ 60,991	
Interest Earnings	700	375	
TOTAL CAPITAL CONSTRUCTION REVENUES	61,700	61,366	99.5%
EXPENDITURES:			
Agriculture	769	59	
Corrections	21,176	1,903	
Education	1,005	147	
Governor	2,522	116	
Higher Education	24,707	8,721	
Human Services	4,126	436	
Military Affairs	4,678	1,645	
Personnel	9,470	1,614	
Public Safety	80	68	
Revenue	9,665	918	
Transportation	500	500	
Intrafund Transfer-Out	572	577	
NET EXPENDITURES AND AUGMENTING REVENUES	79,270	16,704	21.1%
EXCESS GENERAL REVENUES OVER (UNDER)			
NET CAPITAL CONSTRUCTION EXPENDITURES	(17,570)	44,662	
EXCESS AUGMENTING REVENUES		(736)	
BEGINNING FUND BALANCE - GAAP BASIS		22,889	
Add GAAP Revenue Adjustments		(1,058)	
ENDING FUND BALANCE - GAAP BASIS		\$ 65,757	