

# State of Colorado



**Bill Owens**

*Governor*

**Jeffrey M. Wells**

*Acting Executive Director*

**Paul Farley**

*Deputy Executive Director*

**Richard Pennington**

*Division Director*

**Arthur L. Barnhart**

*State Controller*

## DPA

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October 31, 2003

The Honorable Bill Owens  
Governor  
136 State Capitol Building  
Denver, Colorado 80203

Dear Governor Owens:

I am submitting a Quarterly Financial Report on the status of the state's financial condition for the three-month period ended September 30, 2003. 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 September 30, 2003. Factors that contribute to the \$539.4 million deficit Total Fund Equity are addressed in the Exhibit B discussion below. When four percent of appropriations are reserved, as is required by current law, the General Fund unreserved fund balance deficit is \$761.1 million. This compares to the unreserved fund balance deficit of \$966.0 million at September 30, 2002, at which time a two percent reserve was required. In Fiscal Year 2002-03, the deficit was addressed by reserve spending and by \$555.8 million of transfers from cash funds. In the current year, \$7.0 million has been transferred in to augment the General Fund; however, that amount is offset by \$50.0 million that was transferred out to repay a portion of the prior year transfers. The September 20, 2003, Revenue Forecast, issued by your office, anticipates additional transfers into the General Fund of \$7.2 million.

The General Fund is normally in deficit at this time of year 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 approximated \$513.0 million of the \$761.1 million unreserved deficit.

The cash position of the General Fund shows improvement over September 30, 2002, although it remains a concern. 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 at June 27, 2004, reduced by investments available for liquidation) is \$732.7 in deficit. The state's General Fund deficit cash position was \$1,153.1 million and \$978.1 million at September 30, 2002, and 2001, respectively. The State Treasurer anticipates a General Fund cash deficit at fiscal year end. However, given the ability for the General Fund to access various cash funds, the state's overall cash position is best considered using the definition of borrowable resources, which currently shows resources in excess of \$1.0 billion.

Exhibit B provides a *Schedule of Revenues, Expenditures and Changes in Unreserved Fund Balance - General Fund - Budget and Actual* for the three-month period ended September 30, 2003. The Current Annual Estimate/Restricted Budget column reflects the most recent OSPB estimate of revenues on the modified accrual basis for the fiscal year and appropriations and transfers currently in law. The line item titled Appropriation Reductions Expected to Meet the Required Statutory Reserve primarily reflects that the OSPB estimate of expenditures includes a \$64.7 million reduction of General Fund match for Medicaid costs that is not yet reflected in the departmental budgets. It is expected that a supplemental appropriation will reduce the Department of Health Care Policy and Financing's appropriation by the amount of the Federal Medical Assistance Enhancement for Medicaid. Actual revenues reported on the September Year-to-Date Revenue Summary Report exceeded the estimate by \$37.3 million. This amount is not reflected in the Current Annual Estimate, and it is therefore not reflected in the anticipated \$8.2 million ending unreserved fund balance. The \$37.3 million is reflected in the actual unreserved fund balance deficit.

At the end of the first quarter, actual general-purpose revenues were \$1,416.1 million, which is 25.1 percent of the annual estimated revenue. Due to the deferral of payroll expenditures and Medicaid costs from Fiscal Year 2002-03 into Fiscal Year 2003-04 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. Prior year's expenditures are not comparable to current year expenditures due to the payroll and Medicaid cost deferrals. In addition, refinancing of General Fund expenditures to cash funds means that current year General Fund expenditures are not comparable to prior years. Departments have expended 37.9 percent of the appropriation at September 30, 2003, as compared to 39.3 percent at this same time in the prior fiscal year.

The Beginning Unreserved Fund Balance of \$93.7 million has been increased by \$1.9 million over the \$91.8 million shown in the Basic Financial Statements (page 85) dated September 26, 2003. The beginning balance was increased because we identified an error in the amount of Medicaid costs shown as deferred into Fiscal Year 2003-04.

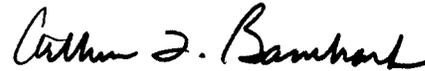
Exhibit C is a *Schedule of Revenues, Expenditures and Changes in Unreserved Fund Balance - Regular Capital Construction Fund - Budget and Actual* for the three-month period ended September 30, 2003. The estimated expenditures of the Capital Construction Fund reflect budget restrictions. Actual expenditures of the Capital Construction Fund are expected to be less than outstanding appropriations because of

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the multi-year nature of the appropriations compared to current fiscal year expenditures. The \$22.6 million deficit unreserved fund balance reflects the fact that departments have encumbered projects for which they have legal commitments but for which the cash funded revenue has not yet been earned.

Based on a review of the attached financial reports and 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,



Arthur L. Barnhart  
State Controller

Attachments

cc: Jeffrey M. Wells, DPA  
Nancy McCallin, OSPB  
John Ziegler, JBC

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**BALANCE SHEET  
GENERAL AND CAPITAL CONSTRUCTION FUNDS  
SEPTEMBER 30, 2003**

<b>(DOLLARS IN THOUSANDS)</b>	<b>UNRESTRICTED</b>	
	<b>GENERAL FUND</b>	<b>CAPITAL CONSTRUCTION</b>
<b>ASSETS:</b>		
Cash and Cash Equivalents	\$ -	\$ 51,352
Taxes Receivable, net	752,224	-
Other Receivables, net	52,038	284
Intrafund Receivables	14,826	17
Due From Other Governments	292,307	8,387
Due From Other Funds	4,852	1,259
Inventories	7,183	-
Prepays, Advances, and Deferred Charges	36,118	5,615
Investments	4,566	-
Other Long-Term Assets	231	172
<b>TOTAL ASSETS</b>	<b>\$ 1,164,345</b>	<b>\$ 67,086</b>
<b>LIABILITIES</b>		
Liability to Pooled Cash	\$ 432,200	\$ -
Tax Refunds Payable	427,743	-
Accounts Payable and Accrued Liabilities	361,401	12,352
Due To Other Governments	44,187	22
Due To Other Funds	2,393	339
Intrafund Payables	2,033	-
Deferred Revenue	128,636	4,732
Other Current Liabilities	305,106	-
Deposits Held in Custody for Others	38	-
Other Long-Term Liabilities	6	-
<b>TOTAL LIABILITIES</b>	<b>1,703,743</b>	<b>17,445</b>
<b>FUND EQUITY:</b>		
Fund Balances:		
Reserved For:		
Encumbrances	-	66,561
Other Specific Purposes	-	5,553
Long-Term Assets and Loans Receivable	231	172
Statutory Reserve	221,500	-
Unreserved:		
Designated	-	(22,645)
Undesignated	(761,129)	-
<b>TOTAL FUND EQUITY</b>	<b>(539,398)</b>	<b>49,641</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 1,164,345</b>	<b>\$ 67,086</b>

**UNRESERVED FUND BALANCE - GENERAL FUND  
BUDGET AND ACTUAL - BUDGETARY BASIS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ RESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
<b>REVENUES:</b>			
Sales and Use Tax	\$ 1,908,600	\$ 489,110	
Other Excise Taxes	96,000	24,961	
Individual Income Tax, net	3,112,800	765,999	
Corporate Income Tax, net	156,900	63,883	
Estate Tax	53,300	14,582	
Insurance Tax	175,400	38,963	
Parimutuel, Courts, and Other	88,500	15,595	
Investment Earnings	11,000	2,963	
Gaming	39,600	-	
<b>TOTAL GENERAL PURPOSE REVENUES</b>	<b>5,642,100</b>	<b>1,416,056</b>	25.1%
<b>EXPENDITURES:</b>			
Agriculture	4,153	1,946	
Corrections	469,772	140,813	
Education	2,417,663	1,160,852	
Governor	13,165	6,299	
Health Care Policy and Financing	1,171,225	382,790	
Higher Education	591,428	175,207	
Human Services	454,458	116,056	
Judicial Branch	207,297	64,678	
Law	6,748	1,755	
Legislative Branch	27,147	7,616	
Local Affairs	4,779	1,391	
Military Affairs	3,839	955	
Natural Resources	19,528	5,993	
Personnel and Administration	7,728	3,527	
Public Health and Environment	12,448	3,410	
Public Safety	54,179	13,016	
Regulatory Agencies	1,054	338	
Revenue	172,337	42,745	
Treasury	4,553	7,467	
<b>SUBTOTAL DEPARTMENTAL EXPENDITURES</b>	<b>5,643,501</b>	<b>2,136,854</b>	37.9%
Appropriation to Capital Construction Fund	9,500	9,490	
Appropriation Reductions Expected to Meet the Required Statutory Reserve	(59,501)		
<b>TOTAL GENERAL FUNDED EXPENDITURES</b>	<b>5,593,500</b>	<b>2,146,344</b>	
<b>EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES</b>	<b>48,600</b>	<b>(730,288)</b>	
<b>EXCESS AUGMENTING REVENUES</b>	<b>-</b>	<b>8,594</b>	
<b>TRANSFERS:</b>			
Transfers from Cash Funds to General Fund	14,200	7,089	
Transfers from General Fund to Repay Cash Funds	(56,200)	(50,000)	
<b>TOTAL TRANSFERS</b>	<b>(42,000)</b>	<b>(42,911)</b>	
<b>BEGINNING UNRESERVED FUND BALANCE - BUDGET BASIS - UNAUDITED</b>	<b>91,800</b>	<b>93,659</b>	
Add Budgeted Non-GAAP Expenditures	-	3	
Deduct the GAAP Expenditures Not Budgeted	-	43	
Add GAAP Revenue Adjustments	-	11	
(Additions) Deductions to the Statutory Four Percent Reserve	(90,200)	(90,240)	
<b>ENDING UNRESERVED FUND BALANCE - BUDGET BASIS</b>	<b>\$ 8,200</b>	<b>\$ (761,129)</b>	

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
UNRESERVED FUND BALANCE - FUNDED BY GENERAL PURPOSE REVENUE  
BUDGET AND ACTUAL - CAPITAL CONSTRUCTION FUND  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ RESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
General Fund Transfer-In	\$ 9,490	\$ 9,490	
Interest Earnings	1,800	370	
<b>TOTAL CAPITAL CONSTRUCTION REVENUES</b>	<b>11,290</b>	<b>9,860</b>	87.3%
EXPENDITURES:			
Agriculture	167	6	
Corrections	4,586	526	
Governor	390	52	
Health Care Policy and Financing	4,957	1,149	
Higher Education	27,760	3,305	
Human Services	5,068	1,557	
Judicial Branch	190	15	
Law	5	3	
Military Affairs	27	6	
Natural Resources	835	838	
Personnel	7,960	920	
Public Health and Environment	1,758	610	
Public Safety	1,669	554	
Revenue	661	-	
Transportation	8	-	
Intrafund Transfer-Out	69	69	
<b>NET EXPENDITURES AND AUGMENTING REVENUES</b>	<b>56,110</b>	<b>9,610</b>	17.1%
EXCESS GENERAL REVENUES OVER (UNDER) NET CAPITAL CONSTRUCTION EXPENDITURES	(44,820)	250	
EXCESS AUGMENTING REVENUES	-	4,055	
BEGINNING UNRESERVED FUND BALANCE - GAAP BASIS - UNAUDITED	4,555	4,555	
(Additions) Deductions to Reserve for Encumbrances - All Funding Sources	35,023	(31,538)	
(Additions) Deductions to Reserve for Other Specific Purposes	-	33	
<b>ENDING UNRESERVED FUND BALANCE - GAAP BASIS</b>	<b>\$ (5,242)</b>	<b>\$ (22,645)</b>	