

State of Colorado



Bill Ritter, Jr.
Governor

Rich Gonzales
Executive Director

Jennifer Okes
Deputy Executive Director

Leslie M. Shenefelt
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 31, 2008

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

Dear Governor Ritter:

I am submitting a Quarterly Financial Report on the status of the state's financial condition for the six-month period ended December 31, 2007. 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 December 31, 2007. Factors that contribute to the General Fund \$968.8 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 \$1,252.3 million. This compares to the unreserved fund balance deficit of \$1,089.6 million at December 31, 2006.

The General 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. This transfer caused approximately \$706.1 million of the \$1,252.3 million unreserved fund balance deficit.

The cash position of the General Fund has declined significantly as compared to December 31, 2006. 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 in June 2008, reduced by investments available for liquidation) is \$1,447.8 million in deficit. Approximately \$159.7 million of this deficit is related to accelerated disbursements (as compared to the prior year) from the General Fund to the College Opportunity Fund by the Department Higher Education. The state's General Fund deficit cash position was \$1,158.2 million, \$977.4 million, and \$1,102.1 million at December 31, 2006, 2005, and 2004, respectively. The trend in the cash balance is concerning because the cash deficit would likely worsen in the event of an economic downturn. The cash deficit is partly due to lower beginning cash balances related to recurring year-end General Fund Surplus transfers. In effect these transfers have reduced the liquidity of the General Fund. The General Fund reserve increasingly comprises tax and other receivables of unpredictable liquidity. The General Fund has access to the cash balance of various cash funds, and therefore, the state's overall cash position must also be considered using the definition of borrowable resources, which currently shows available cash resources in excess of \$2,124.2 million (\$1,864.7 million at December 31, 2006). However, moving those cash resources to the General Fund has been contentious in the past.

The Total Fund Equity of the Capital Construction Fund (\$470.8 million) increased significantly over the December 31, 2006, balance (\$354.9 million). The increase is primarily related to the General Fund

Governor Bill Ritter
Page 2 of 2
January 31, 2008

Surplus transfers required by CRS 24-75-218 and interest earnings on a growing cash balance in the Fund.

Exhibit B provides a *Schedule of Revenues, Expenditures, and Changes in Unreserved Fund Balance - General Fund - Budget and Actual* for the six-month period ended December 31, 2007. The Current Annual Estimate/Unrestricted 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 without consideration of restrictions. Actual revenues reported on the December Year-to-Date Revenue Summary Report were more than the estimate by \$2.5 million. This amount is not reflected in the Current Annual Estimate, and it is therefore not reflected in the projected ending unreserved fund balance. However, the \$2.5 million revenue excess is reflected in the actual unreserved fund balance deficit. The line item titled Difference Between Recorded and Estimated Appropriations (\$6.5 million) is primarily related to the rollforward of prior year appropriations that are being expended in the current year.

At the end of the second quarter, actual general-purpose revenues were \$3,483.8 million, which is 45.8 percent of the annual estimated revenue. Due to the deferral of payroll expenditures and Medicaid costs from Fiscal Year 2006-07 into Fiscal Year 2007-08 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 occurred in Fiscal Year 2006-07. Departmental expenditures of the General Fund at the second quarter of the current fiscal year were 63.9 percent of current appropriations, which compares with the prior year figure of 60.6 percent of appropriations at December 31, 2006. In compliance with statutory requirements to report Medicaid expenditures on the cash basis, the Department of Health Care Policy and Financing is not required to prepare an accrual of Medicaid costs.

Exhibit C is a *Schedule of Revenues, Expenditures, and Changes in Unreserved Fund Balance - Funded By General Purpose Revenue - Budget and Actual - Capital Construction Fund* for the six-month period ended December 31, 2007. The estimated expenditures of the Capital Construction Fund do not reflect budget restrictions. The revenues of the fund were \$140.0 million or 66.5 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. The \$210.4 million unreserved fund balance has been reduced by \$260.2 million of encumbrances that are legal commitments of cash and federally funded projects (\$132.2 million), as well as general funded projects (\$128.0 million). Not all of the revenue expected to support the cash and federally funded projects has been earned at December 31, 2007.

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,



Leslie M. Shenefelt
State Controller

Attachments

cc: Rich Gonzales, DPA
Todd Saliman, OSPB
John Ziegler, JBC
Website

**BALANCE SHEET
GENERAL AND CAPITAL CONSTRUCTION FUNDS
DECEMBER 31, 2007**

(DOLLARS IN THOUSANDS)	UNRESTRICTED GENERAL FUND	CAPITAL CONSTRUCTION
ASSETS:		
Cash and Pooled Cash	\$ -	\$ 481,671
Taxes Receivable, net	1,032,217	-
Other Receivables, net	48,309	5,322
Intrafund Receivables	24,552	-
Due From Other Governments	136,518	2,076
Due From Other Funds	1,544	4,818
Inventories	3,570	-
Prepays, Advances, and Deferred Charges	53,893	931
Investments	4,420	-
Other Long-Term Assets	9	139
TOTAL ASSETS	\$ 1,305,032	\$ 494,957
LIABILITIES		
Liability to Pooled Cash	\$ 949,603	\$ -
Tax Refunds Payable	471,803	-
Accounts Payable and Accrued Liabilities	163,347	21,272
TABOR Refund Fiscal Year 2004-05	706	-
Due To Other Governments	43,101	-
Due To Other Funds	1,579	779
Intrafund Payables	38	-
Deferred Revenue	138,969	2,156
Other Current Liabilities	504,549	-
Deposits Held in Custody for Others	107	-
Other Long-Term Liabilities	7	-
TOTAL LIABILITIES	2,273,809	24,207
FUND EQUITY:		
Fund Balances:		
Reserved For:		
Encumbrances	-	260,231
Long-Term Assets and Loans Receivable	9	139
Statutory Reserve	283,500	-
Unreserved:		
Designated	-	210,380
Undesignated	(1,252,286)	-
TOTAL FUND EQUITY	(968,777)	470,750
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,305,032	\$ 494,957

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE - GENERAL FUND
BUDGET AND ACTUAL - BUDGETARY BASIS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2007**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
Sales and Use Tax	\$2,102,400	\$1,054,277	
Other Excise Taxes	91,700	47,850	
Individual Income Tax, net	4,681,100	2,044,643	
Corporate Income Tax, net	467,900	220,798	
Estate Tax	500	129	
Insurance Tax	186,600	82,131	
Parimutuel, Courts, and Other	51,400	24,217	
Investment Earnings	28,800	9,756	
TOTAL GENERAL PURPOSE REVENUES	7,610,400	3,483,801	45.8%
EXPENDITURES:			
Agriculture	7,414	3,963	
Corrections	636,588	335,512	
Education	3,064,216	2,321,467	
Governor	12,635	8,452	
Health Care Policy and Financing	1,427,876	722,502	
Higher Education	746,554	566,043	
Human Services	647,336	353,277	
Judicial Branch	297,822	174,422	
Labor and Employment	-	14	
Law	9,549	4,656	
Legislative Branch	32,948	15,987	
Local Affairs	11,568	6,651	
Military Affairs	5,521	3,019	
Natural Resources	30,345	18,558	
Personnel and Administration	10,855	6,779	
Public Health and Environment	24,104	11,029	
Public Safety	73,453	36,803	
Regulatory Agencies	1,417	916	
Revenue	184,025	100,732	
Treasury	127,428	3,912	
SUBTOTAL DEPARTMENTAL EXPENDITURES	7,351,654	4,694,694	63.9%
Difference Between Recorded and Estimated Appropriations	(6,454)	-	
TOTAL GENERAL FUNDED EXPENDITURES	7,345,200	4,694,694	
EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES	265,200	(1,210,893)	
EXCESS AUGMENTING REVENUES		9,079	
TRANSFERS:			
Transfers from General Fund to Capital Construction	(109,700)	(45,887)	
Transfer of Excess Beginning Reserve to Highways and Capital Construction	(249,300)	(249,273)	
TOTAL TRANSFERS	(359,000)	(295,160)	
NET CHANGE IN UNRESERVED FUND BALANCE RELATED TO BUDGETED OPERATIONS	(93,800)	(1,496,974)	
BEGINNING UNRESERVED FUND BALANCE - BUDGET BASIS	249,300	249,273	
Deduct the GAAP Expenditures Not Budgeted		(1,052)	
Add GAAP Revenue Adjustments		1,031	
(Additions) Deductions to Reserve for Encumbrance		11,912	
(Additions) Deductions to the Long-Term Loan Reserve		4	
(Additions) Deductions to the Statutory Four Percent Reserve	(16,500)	(16,480)	
ENDING UNRESERVED FUND BALANCE - BUDGET BASIS	\$ 139,000	\$ (1,252,286)	

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE - FUNDED BY GENERAL PURPOSE REVENUE
BUDGET AND ACTUAL - CAPITAL CONSTRUCTION FUND
FOR THE SIX MONTHS ENDED DECEMBER 31, 2007**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET		ACTUAL	PERCENT OF ESTIMATE
REVENUES:				
General Fund Transfer-In	\$	109,700	\$ 45,887	
Beginning General Fund Excess Reserve Transfer		83,100	83,091	
Interest Earnings		17,600	10,976	
TOTAL CAPITAL CONSTRUCTION REVENUES		210,400	139,954	66.5%
EXPENDITURES:				
Agriculture		3,744	1,490	
Corrections		69,156	6,231	
Education		2,104	801	
Governor		57	-	
Health Care Policy and Financing		112	-	
Higher Education		178,644	32,765	
Human Services		70,520	18,973	
Judicial Branch		834	237	
Labor and Employment		-	2,097	
Military Affairs		4,321	93	
Natural Resources		1,140	1,140	
Personnel		13,686	1,900	
Public Health and Environment		2,960	960	
Public Safety		10,206	540	
Revenue		18,998	654	
Transportation		45,000	-	
Intrafund Transfer-Out		3,002	3,002	
NET EXPENDITURES AND AUGMENTING REVENUES		424,484	70,883	16.7%
EXCESS GENERAL REVENUES OVER (UNDER) NET CAPITAL CONSTRUCTION EXPENDITURES				
		(214,084)	69,071	
EXCESS AUGMENTING REVENUES				
			5,659	
BEGINNING UNRESERVED FUND BALANCE - GAAP BASIS				
Release of the Beginning Reserve For Encumbrances - All Funding Sources		199,126	199,126	
(Additions) Deductions to Reserve for Encumbrances - General Funded		192,635	192,635	
(Additions) Deductions to Reserve for Encumbrances - Non-General Funded			(128,047)	
(Additions) Deductions to Reserve for Other Specific Purposes		-	(132,184)	
			4,120	
ENDING UNRESERVED FUND BALANCE - GAAP BASIS	\$	177,677	\$ 210,380	