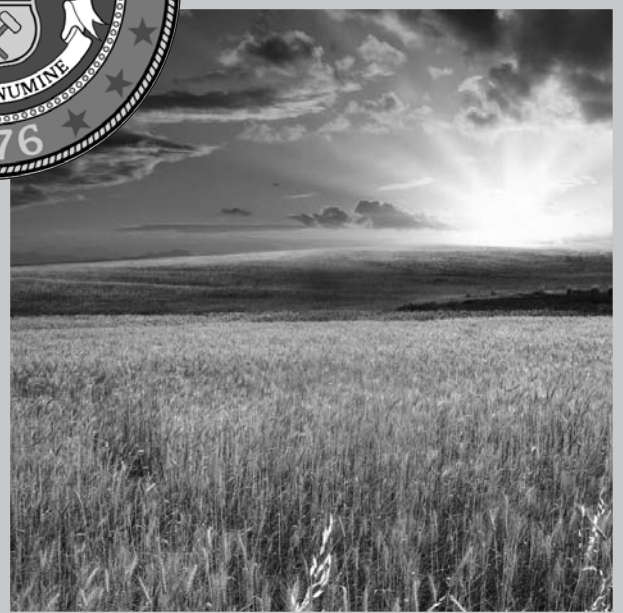
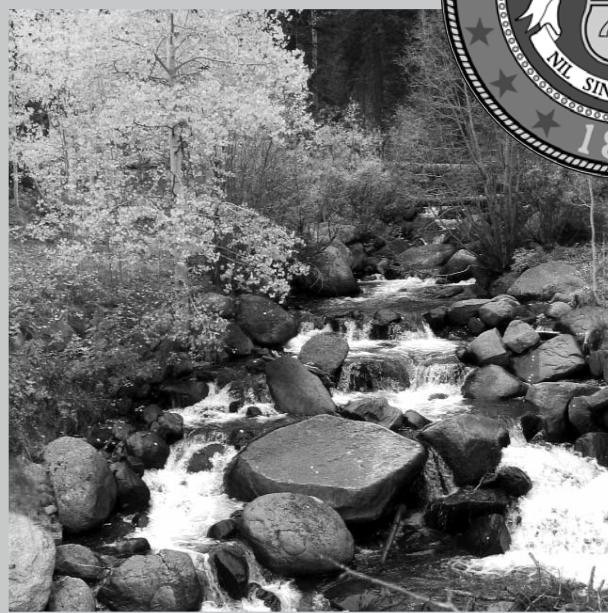


Introductory Section



Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2008



State of Colorado



Bill Ritter, Jr.
Governor

Rich Gonzales
Executive Director

Jennifer Okes
Deputy Executive Director

David J. McDermott
State Controller

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December 19, 2008

To the Citizens, Governor, and Legislators of the State of Colorado:

It is our privilege to present the Comprehensive Annual Financial Report (CAFR) on the operations of the State of Colorado for the fiscal year ended June 30, 2008. This report is prepared by the Office of the State Controller and is submitted as required by Section 24-30-204 of the Colorado Revised Statutes. The State Controller is responsible for managing the finances and financial affairs of the state and is committed to sound financial management and governmental accountability.

We believe the financial statements are fairly presented in all material aspects. They are presented in a manner designed to set forth the financial position, results of operations, and changes in net assets or fund balances of the major funds and nonmajor funds in the aggregate. All required disclosures have been presented to assist readers in understanding the state's financial affairs.

Except as noted below, the basic financial statements contained in the CAFR are prepared in conformity with generally accepted accounting principles (GAAP) applicable to governments as prescribed by the Governmental Accounting Standards Board (GASB), and except for the discretely presented component units, they are audited by the State Auditor of Colorado. The basic financial statements comprise the Management Discussion and Analysis (MD&A), financial statements, notes to the financial statements, and Required Supplementary Information. The MD&A, which begins on page 19, contains additional financial analysis and supplementary information that is required by GASB and should be read in conjunction with this transmittal letter. The schedules comparing budgeted to actual activity, included in the section titled Required Supplementary Information, are not presented in accordance with GAAP; rather, they reflect the budgetary basis of accounting which defers certain payroll, Medicaid, and other statutorily defined expenditures to the following fiscal year. (See additional information on "Cash Basis Accounting" on page 40 of the Management's Discussion and Analysis.) In addition to the basic financial statements, the CAFR includes: combining financial statements that present information by fund category, certain narrative information that describes the individual fund categories, supporting schedules, and statistical tables that present financial, economic, and demographic data about the state.

The funds and entities included in the CAFR are those for which the state is financially accountable based on criteria for defining the financial reporting entity as prescribed by GASB. The primary government is the legal entity that comprises the major and nonmajor funds of the state, its departments, agencies, and state institutions of higher education. It also includes certain university activities that are legally separate but have been blended with the accounts of the institution that is financially accountable for the activity.

The state's elected officials are financially accountable for other legally separate entities that qualify as discretely presented component units. The following entities qualify as discretely presented component units of the state:

University of Colorado Hospital Authority
Colorado Water Resources and Power Development Authority
University of Colorado Foundation
Colorado State University Foundation
Colorado School of Mines Foundation
University of Northern Colorado Foundation
Other Component Units (nonmajor):
 Denver Metropolitan Major League Baseball Stadium District
 CoverColorado
 Venture Capital Authority
 Renewable Energy Authority

Additional information about these component units and other related entities is presented in Note 2 of the financial statements (see page 71). Audited financial reports are available from each of these entities.

PROFILE OF THE STATE OF COLORADO

Colorado became the thirty-eighth state of the United States of America when it was admitted to the union in 1876. Its borders encompass 104,247 square miles of the high plains and the Rocky Mountains with elevations ranging from 3,350 to 14,431 feet above sea level. The state's major economic sectors include agriculture, manufacturing, technology, tourism, energy production, and mining. Considerable economic activity is generated in support of these sectors by government, wholesale and retail trade, transportation, communications, public utilities, finance, insurance, real estate, and other services. Given the state's semi-arid climate, water resource development, allocation, and conservation are ongoing challenges for state management.

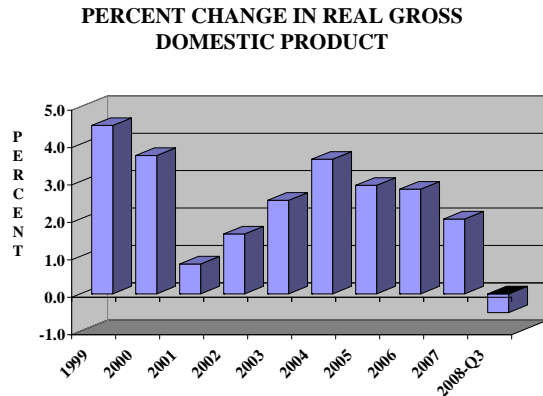
The state maintains a separation of powers utilizing three branches of government – executive, legislative, and judicial. The executive branch comprises four major elected officials – Governor, State Treasurer, Attorney General, and Secretary of State. Most departments of the state report directly to the Governor; however, the Departments of Treasury, Law, and State report to their respective elected officials, and the Department of Education reports to the elected State Board of Education. The elected officials serve four-year terms with a limit on the number of terms allowed.

The Legislature is bicameral and comprises thirty-five senators and sixty-five representatives who are also term limited. It is a citizen legislature whose general session lasts 120 days beginning in January of each year. Special sessions may be called by the Governor at his discretion and are limited to the topics identified by the Governor. The Legislature's otherwise plenary power is checked by the requirement for the Governor's signature of its legislation and by specific limitations placed in the State Constitution by voters. The most significant fiscal limitation is the restriction related to issuing debt, raising taxes, and changing existing spending limits. From a fiscal perspective, the Joint Budget Committee of the Legislature, because of its preparation of the annual budget and supplemental appropriations bills, holds the most important power vested in the Legislature. The Committee is bipartisan with members drawn from each of the houses of the Legislature. The Governor's Office of State Planning and Budgeting develops and submits an executive branch budget proposal, but there is no requirement for the Joint Budget Committee to adopt that proposal.

The Judicial Branch is responsible for resolving disputes within the state, including those between the executive and legislative branches of government, and for supervising offenders on probation. The branch includes the Supreme Court, Court of Appeals, and district and county courts, served by 304 justices and judges in 22 judicial districts across the state (excluding 17 Denver county court judges). Municipal courts are not part of the state system. There are also seven water courts, one in each of the state's major river basins. The Judicial Branch budget is appropriated by the Legislature, and it is funded primarily from general-purpose revenues of the General Fund.

ECONOMIC CONDITION AND OUTLOOK

The state's General Fund revenues reflect the overall condition of the state economy, which showed a declining rate of growth in Fiscal Year 2007-08; General Fund revenues increased by \$192.0 million (2.6 percent) over the prior year. In absolute dollars, personal income in the state grew by approximately 6.0 percent for 2007 and is forecast to grow by 5.2 percent for 2008. The growth in new state employment declined with 51,100 jobs added in 2007 and 30,400 forecast to be added in 2008.

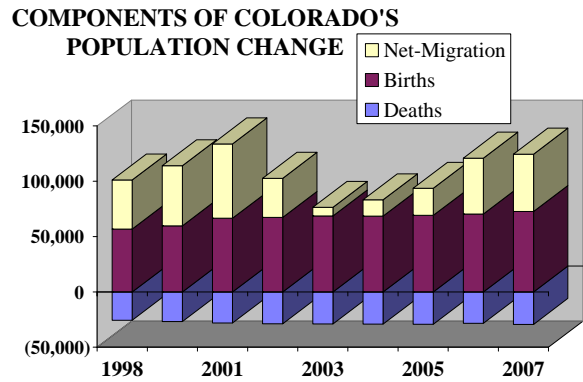


Inflation adjusted national gross domestic product (GDP) grew at an annual rate of 2.0 percent in calendar year 2007 and declined by an estimated 0.5 percent in the third quarter of 2008. Inflation adjusted GDP increased 0.7 percent from the third quarter of 2007 to the third quarter of 2008 (all percentage changes in the balance of this paragraph are measured on the third quarter to third quarter basis). National personal consumption expenditures account for approximately two-thirds of GDP and were down 0.2 percent, while private domestic investment (including nonresidential structures, equipment and software, residential, and changes in inventories) was down 7.3 percent in aggregate. Residential investment declined 20.9 percent (tenth consecutive quarter of

decline) offsetting a 10.5 percent increase in private investment related to nonresidential structures. Government spending exceeded the quarter-over-quarter growth rate at 3.0 percent largely related to a 7.7 percent increase in national defense expenditures as well as an increase in federal nondefense spending of 3.1 percent. Quarter-over-quarter export growth at 6.2 percent significantly outpaced imports which declined by 3.4 percent as the weakness of the U.S. dollar makes our products less expensive on the world market.

Nationally, the 20.9 percent decline in residential investment is a continuing indicator of a significantly depressed housing market with home values declining nationwide. During Fiscal Year 2007-08, the credit markets saw the collapse of the auction rate debt securities market (adversely affecting some Colorado outstanding debt), and shortly after fiscal year-end nearly all credit markets froze, including the municipal bond markets. While the municipal market has currently begun to thaw, other credit markets remain on hold. The root cause of the credit market problem was commonly believed to be the large number of home mortgage defaults caused by home mortgages exceeding home values that declined with the collapse of a long-growing housing bubble. After fiscal year-end the conditions worsened when a general decline in the national economy added job loss as an additional cause for mortgage default. Consumer confidence eroded significantly as the media reported expectations of the worst economic decline since the Great Depression. With the globalization of the world economy, conditions world-wide are similar, and a general constriction in economic activity is affecting most nations. The United States, like other nations, has lowered interest rates and poured large sums of cash into the financial sector and other industries. The effects of these policies are not measurable, but there is little evidence of the economy responding as consumers, businesses, and the financial sector convert investments to cash or government securities in an attempt to ride out the financial storm. It is unknown at this time whether the significant United States deficit spending required to maintain these policies will continue to be supported by international purchases of United States debt securities – significant inflation could occur in the long term. There is also significant short-term risk of deflation resulting from a self-feeding cycle of consumer spending reductions, business production declines, and job losses. In the long-term, state government cannot remain immune from these conditions. However, Colorado's economy normally lags the national economy, and the national conditions discussed above have not yet affected the state's revenues.

Colorado economic activity and in-migration are interdependent. A relatively stable state economy resulted in in-migration increasing only slightly from approximately 50,500 in 2006 to 51,800 in 2007. It remains slightly off its peak amount of about 67,200, which occurred in 2001, but is significantly in excess of its low of about 7,800 in 2003. International in-migration decreased slightly from approximately 19,300 to 18,400 for 2006 and 2007, respectively, however, in-migration from other states increased slightly from about 31,800 to about 33,400. An increase in migration from other states should benefit Colorado's economy as it likely represents an influx of more established households as compared to international in-migration. The information in the adjacent chart is based on current Census Bureau estimates, which were revised again during the past year. Data for the year 2000 is not included in the chart because a large adjustment was made to total state population for that year, and reliable annual estimates for deaths and births are not available for that year.



The Governor's Office of State Planning and Budgeting's (OSP) latest available quarterly estimate predicts that Colorado's economy will maintain its current growth in the near term, and it has made the following calendar year forecast for Colorado's major economic variables:

- Employment will grow by 1.3 percent in calendar years 2008 and 2009.
- Unemployment will average 4.9 percent for 2008 compared with 3.8 percent and 4.3 percent in 2007 and 2006, respectively, and it is expected to remain stable in 2009 at 4.9 percent.
- Wages and salary income will grow by 4.9 percent in 2008 and by only 4.0 percent in 2009 before increasing to 5.9 percent growth in 2010.
- Total personal income will increase by 5.2 percent in 2008 and by 4.4 percent in 2009.
- Net in-migration is expected to be 60,300 in 2008 and 61,000 in 2009 with total population growth of about 2.0 percent in each year.
- Retail trade sales will increase 4.0 percent in 2008 and 5.2 percent in 2009.
- Colorado inflation will increase from 2.2 percent in 2007 to 3.7 percent in 2008 and decline to 3.0 percent in 2009.

MAJOR GOVERNMENT FISCAL INITIATIVES

The General Assembly enacted and the Governor signed a large number of bills during the 2008 legislative session. The main focus of the session from a programmatic perspective was on education, health care/social services, and criminal justice and court issues. Because of the debt, tax, and revenue limitations in the State Constitution, most of the legislation reallocated existing state revenues to different spending patterns rather than creating new revenue streams or new spending programs.

The General Assembly enacted the following measures that had financial management effects:

- The General Assembly continued its focus on capital construction by appropriating approximately \$180.6 million for new construction and capital asset maintenance. These funds were available because of the absence of TABOR refunds, a stable state economy and the six percent limit on expenditure growth in the General Fund. The General Assembly also utilized alternative mechanisms to fund capital construction as noted below.
- The State of Colorado issued approximately \$230.8 million in certificates of participation (COPs) to fund capital construction at twelve state institutions of higher education. The COPs were collateralized with existing properties at eleven of the twelve institutions and the General Assembly anticipates appropriating federal mineral leasing revenues to repay the debt. The General Assembly has also authorized \$269.0 million of COPs to pay for a new state Judicial Center and \$84.0 million of COPs for a new location for the State Museum.

- ♦ The Build Excellent Schools Today (BEST) Act changed the state’s method of financing capital construction of public school buildings. The Act allows the Department of Education to issue COPs to finance public school construction projects in amounts resulting in maximum debt service payments of \$80.0 million in Fiscal Year 2011-12 and future years. The state will contribute up to 50% of the specified limit with the remaining match paid by the districts or by local Boards of Cooperative Educational Services.
- ♦ The state increased spending on a variety of health care and social services programs either by increasing client eligibility or the programs’ reimbursement rates or benefits. The changes include:
 - Increasing eligibility levels in the Children’s Basic Health Plan for both children and pregnant women and increasing mental health benefits to be comparable with the Medicaid program requiring an additional appropriation of \$2.3 million.
 - Creating the Child Welfare and Mental Health Services Pilot program to provide for mental health services to abused children between the ages of four and ten requiring an additional appropriation of \$2.1 million.
 - Increasing funding by \$2.1 million annually to the Old Age Pension Health and Medical Program which provides health care to low-income elderly individuals who do not qualify for Medicaid.
 - Increasing the reimbursement rate for nursing facilities providing Medicaid services resulting in \$6.1 million of additional funding if certain waivers are approved by the federal government.
 - Removing the cap on payment rates to providers for the Program of All-Inclusive Care for the Elderly which required an additional appropriation of \$1.7 million.
 - Increasing the transfer of receipts from state sales and use taxes to the Older Coloradans program by \$3.0 million to support statewide assistance to the elderly.
- ♦ The state also increased funding for a variety of natural resource and conservation-related projects including \$11.2 million for preservation of endangered species, \$8.1 million for Colorado Water Conservation Board projects, \$3.9 million for regulation related to aquatic nuisance species, and \$3.5 million in reallocation of severance tax revenues for state parks and the Division of Wildlife.

In response to concerns regarding accountability of state agencies for the contracting process and performance of vendors related to information technology projects, the General Assembly passed legislation consolidating the Office of Information Technology (OIT) at a statewide level and expanding its role. OIT is now part of the Governor’s Office and will oversee information technology procurement and performance across the Executive Branch, with certain agency information technology staff reporting to OIT.

Several measures were enacted related to criminal justice matters, including requirements for DNA testing and maintenance of evidence. Specifically, legislation was passed allowing defendants a new trial if certain DNA evidence is lost or destroyed and expanding the evidence collected and preserved for certain crimes. Other measures focused on preventing sexual exploitation of children and protecting children from sexual predators, and increasing penalties for current criminal offenses including retaliating against a judge for a decision rendered in a legal matter.

Finally, there were numerous citizen ballot initiatives and legislatively referred measures in the 2008 General Election. Although most failed, the two that passed had a financial impact. Amendment 50 enabled local jurisdictions that permitted limited gaming to vote to extend casino hours, approve additional games and raise the maximum allowed wager. If changes are approved by local jurisdictions, a majority of the increased taxes, fees and fines resulting from these changes will be used to fund financial aid and classroom instruction at state community, junior and district colleges. Amendment 54 prohibited certain government contractors from contributing to a political party for the duration of the contract and two years after. The state is required to create a database to publish and maintain a summary of each covered contract issued by the state and all local government entities.

BUDGETARY AND OTHER CONTROL SYSTEMS

The General Assembly enacts the annual state budget for all ongoing programs, except for federal and custodial funds. New programs are funded for the first time in enabling legislation and are continued through the Long Appropriations Act in future periods. For the most part, appropriations lapse at the end of the fiscal year unless extenuating circumstances permit the State Controller to approve an appropriation rollforward. Capital construction appropriations are normally effective for three years.

The state records the budget in its accounting system along with estimates of federal awards and custodial funds of the various departments. Revenues and expenses/expenditures are accounted for on the basis used for the fund in which the budget is recorded except for certain budgetary basis exceptions (see Note RSI-1A). Encumbrances are also recorded and result in a reduction of the budgeted spending authority. Encumbrances represent the estimated amount of expenditures that will be incurred when outstanding purchase orders, contracts, or other commitments are fulfilled. Encumbrances in the General Fund are not reported as a reservation of fund balance unless the related appropriations are approved for rollforward to the subsequent fiscal year. Fund balance is reserved for encumbrances that represent legal or contractual obligations in the Capital Projects Fund and the Department of Transportation's portion of the Highway Users Tax Fund.

In developing the state's accounting system, consideration has been given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition. Those controls also assure the reliability of financial records for preparing financial statements and maintaining the accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from that control. The evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within this framework. We believe that the state's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

INDEPENDENT AUDIT

The State Auditor performs an audit of the Basic Financial Statements. The opinion of the auditor is on page 16 of this report. Besides annually auditing the statewide financial statements, the auditor has the authority to audit the financial statements and operations of the departments and institutions within state government.

In 1996, the United States Congress amended the Single Audit Act of 1984. The amended act clarifies the state's and the auditor's responsibility for ensuring that federal moneys are used and accounted for properly. Under the requirements of this act, transactions of major federal programs are tested. The state prepares a Schedule of Expenditures of Federal Awards for inclusion in the State Auditor's Statewide Single Audit Report. The State Auditor issues reports on the schedule, the financial statements, internal controls, and compliance with the requirements of federal assistance programs.

CERTIFICATE OF ACHIEVEMENT

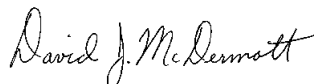
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Colorado for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the eleventh consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

In conclusion, I thank my staff and the controllers, accountants, auditors, and program managers in the state departments and branches whose time and dedication have made this report possible. I reaffirm our commitment to maintaining the highest standards of accountability in financial reporting.

Sincerely,



David J. McDermott
State Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Colorado

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

PRINCIPAL ORGANIZATIONS AND KEY OFFICIALS

