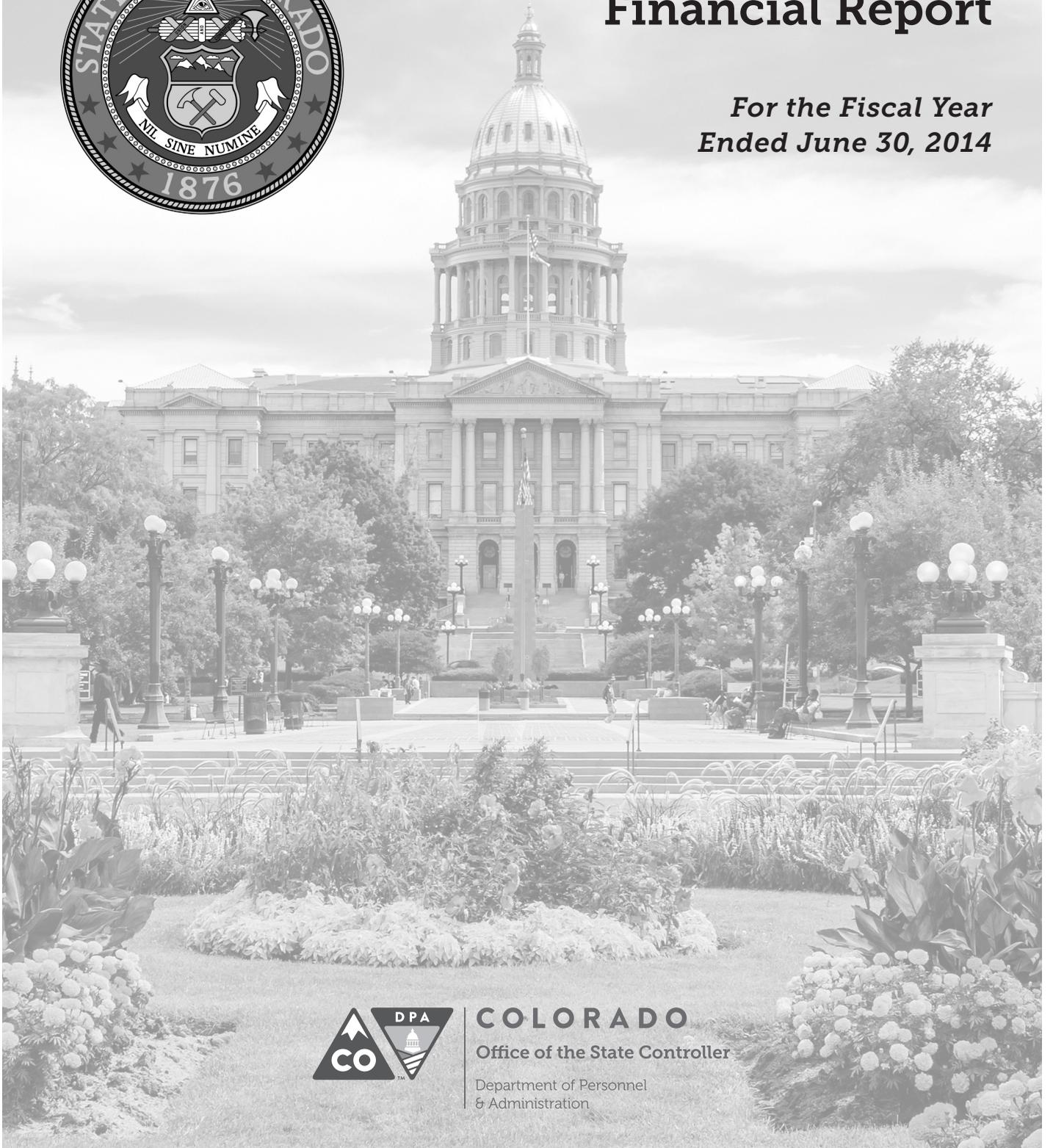


# Introductory Section

## Comprehensive Annual Financial Report

*For the Fiscal Year  
Ended June 30, 2014*



**COLORADO**  
Office of the State Controller  
Department of Personnel  
& Administration





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, 2014. 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. Except for certain institutions of higher education, 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 position 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 21, 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 39 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:

- 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
  - HLC @ Metro, Inc.

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 103,718 square miles of the high plains and the Rocky Mountains with elevations ranging from 3,315 to 14,433 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.

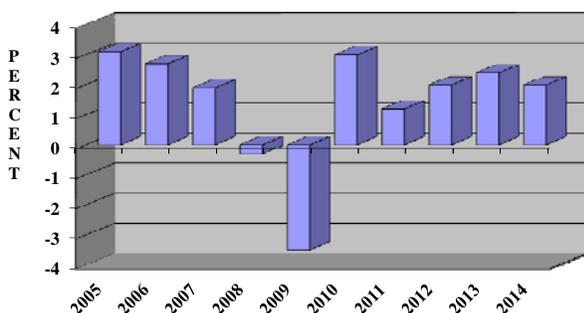
The State maintains a separation of powers utilizing three branches of government – executive, legislative, and judicial. The executive branch comprises four major elected officials – Governor, State Treasurer, Attorney General, and Secretary of State. Most departments of the State report directly to the Governor; however, the Departments of Treasury, Law, and State report to their respective elected officials, 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 to sign 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 or the General Assembly 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 more than 300 justices and judges in 22 judicial districts across the State (excluding 23 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

PERCENT CHANGE IN REAL GROSS DOMESTIC PRODUCT



The State's General Fund general-purpose revenues reflect the overall condition of the State economy, which showed improved growth in Fiscal Year 2013-14; General Fund revenues increased by \$434.7 million (5.1 percent) from the prior year. In absolute dollars, the Office of State Planning and Budgeting (OSPB) reports personal income in the State increased by approximately 3.4 percent for 2013 and is forecast to increase by 5.8 percent for 2014. State nonagricultural employment levels rose by 69,100 in 2013, and are forecast to increase by another 71,600 in 2014.

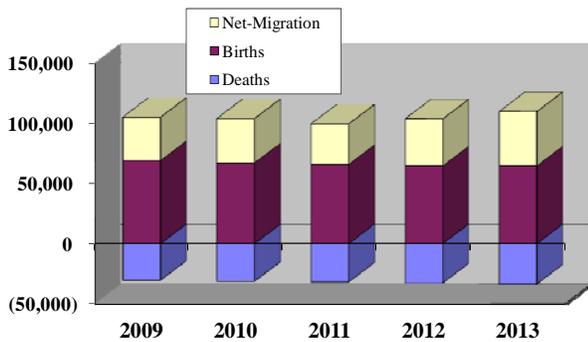
The Bureau of Economic Analysis reports that inflation adjusted national gross domestic product (GDP) grew at an annualized rate of 2.4 percent in the third quarter of calendar year 2013 and 2.0 percent in the third quarter of 2014. Inflation adjusted GDP increased 2.3 percent from

the third quarter of 2013 to the third quarter of 2014 (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 over two-thirds of GDP and increased 2.3 percent. The increase in personal consumption was led by an increase of 7.5 percent in durable goods, the most significant in motor and recreational vehicle and household equipment sales. Additionally, private domestic investment increased 3.8 percent, primarily in the construction and acquisition of nonresidential structures and equipment offset by a declining investment in the maintenance of inventory levels. Government spending increased quarter-over-quarter by 0.4 percent related to decreases in federal, and increases in state and local government spending. Quarter-over-quarter exports

increased by 4.6 percent and imports grew by 3.2 percent; net imports continued to be a reduction of GDP at a slightly greater amount than in the third quarter of 2013.

The national economy is continuing through a prolonged, anemic recovery resulting from the credit and housing boom and bust of the past two decades. This has been compounded by uncertainties in global markets and debates in the U.S. Congress over increases to federal debt ceiling, automatic tax increases and spending cuts. The September, 2014 Economic and Revenue Forecast of the Colorado Legislative Council observed that:

COMPONENTS OF COLORADO'S POPULATION CHANGE



*“Economic activity is expected to continue to grow throughout 2014 and 2015, despite a stumble in the first quarter of 2014. The first quarter decline was largely attributable to unusually harsh weather and a response to a previous buildup in inventories. The labor market continues to slowly improve with more jobs and fewer people looking for work. Personal income is on the rise and business activity has been increasing over the past several years. Overall, economic conditions have improved throughout 2014 and are expected to do so through the forecast period. Because of momentum in the economy, the Federal Reserve has indicated that they will stop purchasing assets to expand the money supply by the end of the year. This may dampen economic growth if the asset reduction occurs too quickly.”*

Colorado’s economy continues to expand at a pace that is among the best in the nation. The state’s concentration of individuals and businesses focused on products that are in high demand in today’s economy, such as those involving information technology, bioscience, engineering and aerospace continue to feed economic growth. Colorado also benefits from a high degree of business dynamism, as well as a growing culture for innovation and collaboration among individuals and firms.

Historically, Colorado economic activity and in-migration have been interdependent. Net migration has averaged approximately 38,300 from 2009 to 2013. In 2013, a 10 year high of approximately 45,300 net migrations occurred. International immigration decreased from approximately 12,400 (2008) to 8,573 (2013). Similarly, domestic migration from other states decreased from 38,500 (2008) to 36,284 (2013). The information in the adjacent chart is based on current Census Bureau estimates. The Colorado State Demographer forecasts net population growth of 85,682 for 2014 and 88,718 for 2015, and OSPB forecasts net migration of 49,500 and 51,900, for those years respectively, which indicates persistent immigration.

The OSPB September 20, 2014 quarterly estimate predicts continued growth in Colorado’s economy in 2014; however, federal fiscal policy issues surrounding debt and budget levels could result in larger-than-expected negative economic consequences. Additionally, current weaker global economic conditions, as well as continued geo-political tensions, are concerns. Unexpected events surrounding these issues could have negative implications on the global financial system and economy.

OSPB has made the following calendar year forecast for Colorado’s major economic variables:

- ♦ Unemployment will average 5.5 percent for 2014 compared with 6.8 and 7.8 percent in 2013 and 2012, respectively, and it is expected to slightly decrease in 2015 to 4.7 percent.
- ♦ Wages and salary income will increase by 6.2 percent in 2014, by 6.0 percent in 2015, and by 5.8 percent in 2016.
- ♦ Total personal income will increase by 5.8 percent in 2014, and reach 5.7 percent by 2015.
- ♦ Net migration is expected to be 49,500 in 2014 and 51,900 in 2015 with total population growth of about 1.5 and 1.6 percent, respectively.
- ♦ Retail trade sales will increase by 6.0 percent in 2014 followed by an increase of 5.8 percent in 2015.
- ♦ Colorado inflation will be 2.8 percent in 2014, and decrease to 2.6 percent in 2015.

## MAJOR GOVERNMENT FISCAL INITIATIVES

The General Assembly enacted and the Governor signed a large number of bills during the 2014 session. There were several areas of focus including education, social programs and services, disaster mitigation and recovery, disbursement of funds received from the taxation of recreational marijuana, and capital spending. The following measures had the most significant financial impact:

- ♦ To implement the Public School Finance Act of 1994, the General Assembly provided an appropriation for an additional \$55.4 million for fiscal year 2013-14, primarily for the State share of school districts' total program funding. In addition, for fiscal year 2014-15 the General Assembly made several adjustments to appropriations, including an increase of \$152.4 million, for the state share of districts' total program funding, as well as an increase for state aid to charter school facilities and additional support for the intervention funding for the early literacy program. The General Assembly also made several changes to the existing school counselor corps grant program and increased support for categorical programs such as special education programs for gifted and talented children. Additionally, the General Assembly created the School Turnaround Leaders Development Programs to develop high quality leadership for low performing schools.
- ♦ The General Assembly enacted legislation that made several modifications to the Colorado child care assistance program (CCCAP). Also related to CCCAP the General Assembly extended the repeal date of the cliff effect pilot program. The cliff effect pilot program allows families to remain in the child care assistance program when working parents receive a small increase in salary that would otherwise make them ineligible for CCCAP; however, the increase of salary is not enough to cover the costs of the child care without assistance.
- ♦ The General Assembly enacted legislation to extend the repeal date for the breast and cervical cancer prevention and treatment program and additional funding was provided for allocation to the intellectual and developmental disabilities services cash fund for increasing system capacity for home-based and community-based intellectual and developmental disability programs, services and support.
- ♦ To address the concern of the use of long-term isolated confinement for inmates with serious mental illness the General Assembly provided funding to create a work group that shall advise the Department of Corrections (DOC) on policies and procedures related to this concern. The General Assembly also provided DOC with funds to develop and implement programs to assist offenders in correction facilities to prepare for release and transition into the community.
- ♦ For the purpose of assisting law enforcement agencies pertaining to the enforcement of driving under the influence of alcohol or drugs, the General Assembly directed the Colorado Bureau of Investigation to operate a state toxicology laboratory by July 1, 2015.
- ♦ The General Assembly enacted several disaster mitigation and recovery efforts, including:
  - Legislation that allows payment of claims resulting from the Lower North Fork wildfire, in excess of the State's maximum liability. Under this act, the general assembly approved payment of the total claims specified in the act. The act also states that in accepting the payment, a claimant agrees to release the State from any future claims arising from the wildfire.
  - Direction to the State Board of Education to pay funds from the contingency reserve to school districts that were in financial need due to problems related to the flood of September 2013.
  - Additional support to the Colorado firefighting air corps.
  - Creation of a natural disaster grant fund within the Water Quality Control Division of the Colorado Department of Public Health and Environment. The act requires that the division award grants to eligible local governments that have domestic wastewater treatment works, public drinking water systems, or on-site wastewater treatments systems that were impacted, damaged or destroyed as a result of the flood of September 2013.
  - Authorization to reimburse county treasurers that either issued a tax credit or a tax reimbursement on real or business personal property that was destroyed by a natural cause during calendar year 2013.
  - Creation of a stream restoration grant account in the flood and drought response fund to the Colorado Water Conservation Board. Funds will be used by the Board to make grants to help pay the costs of watershed cleanup and stream restoration affected by the flood.
- ♦ The General Assembly passed a measure making a disposition of tax money collected on the sale of marijuana and marijuana products. After the transfer of the first \$40.0 million of revenue to the Public School Capital Construction Assistance Fund, after the required 15 percent to local governments, and all revenue from the 2.9 percent state sales tax on the sale of medical and retail marijuana and marijuana products will be deposited in a newly created marijuana tax cash fund. The act also appropriated marijuana tax cash funds to:
  - Support for the school health professional grant program,

- Enhance the Tony Grampsas youth services program, for the provision of substance use disorder treatment services for adolescents and pregnant women, for the expansion and enhancement of jail-based behavioral health services, for the enhancement of programs to provide services to juvenile offenders, and for child welfare training specific to issues arising from marijuana use and abuse,
  - Expand training for the peace officer standards and training board,
  - Provide services for school-based substance abuse intervention and prevention grant programs, and for behavioral health community programs for school-based prevention and early intervention substance use disorder services to be provided by behavioral health organizations, and
  - Create the Office of Marijuana Coordination.
- ♦ The General Assembly addressed the State's capital needs with the appropriation of \$364.4 million of general-purpose revenues to fund 30 capital projects, 66 controlled maintenance projects, and 4 lease purchase payments for Fiscal Year 2014-15. To maintain the infrastructure of the digital trunked radio system the General Assembly passed a measure for the replacement of legacy radio equipment and hardware at radio tower sites used for the statewide digital trunked radio system. The General Assembly appropriated approximately \$136.6 million from the Colorado Water Conservation Board Construction Fund for 12 projects and for loans to special water districts to enable them to purchase storage space in the Chatfield reallocation project. Finally, the State continued efforts to replace its internal statewide financial system with a modern enterprise solution, known as the Colorado Operations Resource Engine (CORE).

## **BUDGETARY AND OTHER CONTROL SYSTEMS**

The General Assembly appropriates the annual State budget for ongoing programs at a line item level segregated by department, except for custodial funds, certain statutory cash funds, and most federal funds. New programs are funded for the first time through enabling legislation and are continued through the Long Appropriations Act in future periods. For the most part, operating appropriations lapse at the end of the fiscal year unless the State Controller approves, at a line item level, an appropriation rollforward based on express legislative direction or extenuating circumstances. The State Controller, with the approval of the Governor, may also allow expenditures in excess of the appropriated budget. This approval occurs at a budget line item level. Capital construction appropriations are normally effective for three years and do not require State Controller rollforward approval.

The State records the appropriated budget and certain nonappropriated spending authority (including most institutions of higher education activity) in its accounting system along with estimates of federal awards, statutory cash funds, and custodial funds of the various departments. The accounting system will not disburse monies without spending authority. 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 recorded throughout the year and result in a reduction of the available spending authority. Encumbrances represent the estimated amount of expenditures that will be incurred when outstanding purchase orders, contracts, or other commitments are fulfilled. At fiscal year end, encumbrances lapse except those that represent appropriations that are approved for rollforward into the subsequent fiscal year, and legal or contractual obligations in the Capital Projects Fund and the Department of Transportation's portion of the Highway Users Tax Fund (see Note 41).

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 State Auditor is on page 16 of this report. Besides annually auditing the statewide financial statements, the State 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, 2013. This was the seventeenth 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,



Robert Jaros, CPA, MBA, JD  
Colorado State Controller



Government Finance Officers Association

**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, 2013**

Executive Director/CEO

# PRINCIPAL ORGANIZATIONS AND KEY OFFICIALS

