Introductory Section

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2015

COLORADO
Office of the State Controller
Department of Personnel
& Administration

STATE · OF · COLORADO
UNION
AND
CONSTITUTION
NIL SINE NUMINE
1876

COLORADO
Office of the State Controller
Department of Personnel
& Administration

1525 Sherman St.
Denver, CO 80203

April 26, 2016

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, 2015. 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 and 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
Colorado 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 69). Audited financial reports are available from each of these entities.

PROFILE OF THE STATE OF COLORADO

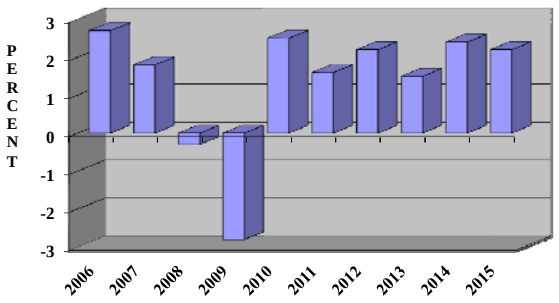
Colorado became the thirty-eighth state of the United States of America when it was admitted to the union in 1876. Its borders encompass 103,718 square miles of the high plains and the Rocky Mountains with elevations ranging from 3,315 to 14,433 feet above sea level. The State's major economic sectors 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.

PERCENT CHANGE IN REAL GROSS DOMESTIC PRODUCT



ECONOMIC CONDITION AND OUTLOOK

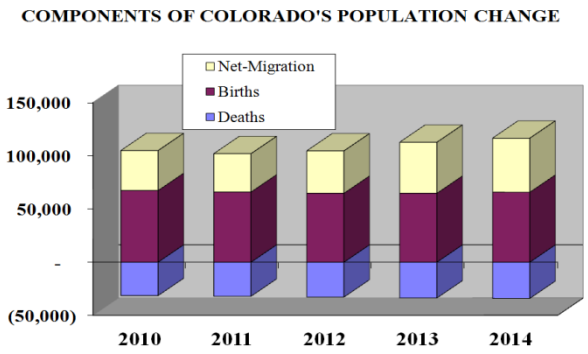
The State's General Fund general-purpose revenues reflect the overall condition of the State economy, which showed slower growth in Fiscal Year 2014-15; General Fund revenues increased by $669.0 million (7.4 percent) from the prior year. In absolute dollars, the Office of State Planning and Budgeting (OSPB) reports personal income in the State increased by approximately 6.2 percent for 2014 and is forecast to increase by 4.8 percent for 2015. State nonagricultural employment levels rose by 81,800 in 2014, and are forecasted to increase by another 69,000 in 2015.

The Bureau of Economic Analysis reports that inflation adjusted national gross domestic product (GDP) grew at an annualized rate of 2.0 percent in the third quarter of calendar year 2014 and 2.4 percent in the third quarter of 2015. Inflation adjusted GDP increased 2.1 percent from the third quarter of 2014 to the third quarter of 2015 (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 3.1 percent. The increase in personal consumption was led by an increase of 5.6 percent in durable goods, the most significant in recreational goods and vehicles. Additionally, private domestic investment increased 3.7 percent, primarily in the construction and acquisition of residential structures and information processing equipment offset by a declining investment in other equipment. Government spending increased quarter-over-quarter by 0.7 percent related to decreases in federal, and increases in state and local government spending. Quarter-over-quarter exports decreased by 3.3 percent and imports grew by 6.3 percent; net imports increased the GDP compared to the third quarter of 2014.

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 December, 2015 Economic and Revenue Forecast of the Colorado Legislative Council observed that:

"The state and national economies continue to see moderate, broad-based job growth across most industries. Rising household incomes have supported growth in consumer spending, which has propped up economic activity. Business conditions softened in 2015 for energy, manufacturing and export industries on low commodity prices, a stronger U.S. dollar, and slower global economic activity. These trends are expected to continue to moderate growth prospects for Colorado and the nation in 2016. The aging U.S. population, tighter monetary policy, and rising home prices in Colorado are also expected to moderate growth."

Colorado's economic growth slowed during the course of 2015 from its robust pace in 2014. The contraction in the oil and gas sector, a tighter labor market, and sluggish global growth all have contributed to the slowdown. However, much of the slowdown in economic activity worldwide has been confined to the manufacturing and mining sectors, which make up a relatively small portion of Colorado's economy. Therefore, the core of the state's economy, with its diverse industry base and stronger population growth, remains resilient in the face of these headwinds. Because of the state's favorable economic attributes, Colorado's economy is expected to continue to post stronger levels of growth than the nation overall, but slower than the high growth experienced in 2014.



Historically, Colorado economic activity and in-migration have been interdependent. Net migration has averaged approximately 42,400 from 2010 to 2014. In 2014, a 10 year high of approximately 50,800 net migrations occurred. International immigration increased from approximately 8,800 (2011) to 13,300 (2015). Similarly, domestic migration from other states increased from 24,900 (2011) to 54,500 (2015). The information in the adjacent chart is based on current Colorado Sate Demographer estimates. The Demographer forecasts net population growth of 90,141 for 2015 and 94,968 for 2016, and OSPB forecasts net migration of 68,800 and 63,400, for those years respectively, which indicates persistent immigration.

The OSPB December 21, 2015 quarterly estimate predicts slower growth in Colorado's economy in 2015; however, sluggish global economic conditions continue to pose downside risks to the forecast. Further, recent weakness in areas of corporate credit markets is making it harder for some businesses to borrow money and could imply broader deteriorating economic conditions. In addition, oil prices have dropped further recently and another major contraction in the industry presents a downside risk to the forecast.

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

- Unemployment will average 4.1 percent for 2015 compared with 5.0 and 6.8 percent in 2014 and 2013, respectively, and it is expected to slightly decrease in 2016 to 3.8 percent.
- Wages and salary income will increase by 4.8 percent in 2015, by 5.5 percent in 2016, and by 5.6 percent in 2017.
- Total personal income will increase by 4.8 percent in 2015, and reach 5.3 percent by 2016.
- Net migration is expected to be 68,800 in 2015 and 63,400 in 2016 with total population growth of about 1.8 percent, in both years.
- Retail trade sales will increase by 4.3 percent in 2015 followed by an increase of 5.5 percent in 2016.
- Colorado inflation will be 1.5 percent in 2015, and will increase to 2.5 percent in 2016.

MAJOR GOVERNMENT FISCAL INITIATIVES

The General Assembly enacted, and the Governor signed, many bills during the 2015 Legislative Session. There were several areas of focus including education, social programs and services, disaster recovery, high ground water mitigation, and adjustments to the disbursement of funds received from the taxation of recreational marijuana. In addition, new programs were created or transferred from one department to another, and the structure of the Colorado Department of Transportation was changed to more accurately reflect operations. The following measures had a significant financial impact:

- To implement the Public School Finance Act of 1994, the General Assembly appropriated an additional $25.0 million in general fund moneys to the Department of Education (CDE), primarily for the state share of districts' total program funding. In addition, they appropriated for fiscal year 2015-16:
    - $5.0 million from the State Public School Fund to the department for at-risk per pupil additional funding.
    - $3.7 million to the department for the accelerating students through concurrent enrollment program (ASCENT). The program was increased by $3.7 million in order to assist small rural school districts and institute charter schools located in small rural districts.
    - $10.0 million was appropriated to be distributed on a per pupil basis and are to be used in accordance with the provisions that created the state education fund at Article IX of the Colorado State Constitution.
- The General Assembly appropriated a total of $1.3 million to the Department of Human Services for use by their regional centers for individuals with developmental disabilities. The bill contains an appropriation for both Fiscal Year 2014-15 ($0.6 million) and Fiscal Year 2015-16 ($0.7 million) both of which are from the newly created depreciation account within the capital construction fund.
- The General Assembly addressed the capital construction needs of the state for Fiscal Year 2015-16 with an appropriation of $396.2 million to fund 30 capital construction projects, 26 controlled maintenance projects, 1 lease purchase, and an additional 10 major information technology projects. The capital construction general purpose revenues portion of the appropriation is $248.5 million, $166.9 million is from cash funds, $13.9 million is from reappropriated funds, and the remaining $15.4 is from federal funds.
- For Fiscal Year 2015-16, an appropriation of $1.0 million was made to the Colorado Department of Health and Environment (CDPHE) from the marijuana cash tax fund. These monies were further reappropriated to the Office of Information Technology to assist with the implementation of the requirement that CDPHE establish guidelines for primary caregivers, the mandate that primary caregivers register with CDPHE, and the requirement that CDPHE convene a group to explore laboratory testing options for unlicensed medical marijuana.
- The General Assembly appropriated $5.2 million in a combination of general funds and cash funds from the autism treatment fund to the Department of Health Care Policy and Financing. The funds are to support administration, medical services premiums, and behavioral health capitation payments. Generally, the Department receives federal funds in addition to state funds for these same purposes.
- The General Assembly enacted legislation creating the cross-system response for behavioral health crises pilot program fund and making an appropriation thereto of $1.7 million. The funds are further reappropriated to the Department of Health Care Policy and Finance for use by the Division of Intellectual and Development Disabilities in providing crisis intervention, stabilization, and follow up services to their clients.
- With respect to collaborative management of multi-agency services program, the General Assembly made a general fund appropriation to the Department of Human Services in the amount of $1.9 million for use by the Division of Child Welfare for implementation of the program, administration, program incentives, and annual program evaluations.
- The Department of Human Services received an appropriation of $6.3 million that consists of over $5.0 million in general funds and a small amount from local cash funds. The act directs the Child Welfare Allocations Committee to develop a formula to allocate this additional funding to counties in addition to the child welfare block grant for the specific purpose of hiring new child welfare staff at the county level.

- The General Assembly appropriated $3.3 million from the general fund to the skilled worker outreach, recruitment, and key training grant program fund. This amount is further reappropriated to the Department of Labor and Employment's Employment and Training Division for a mix of personal services, operating expenditures, and grant awards.

- The Colorado Water Conservation Board (CWCB) was appropriated $5.6 million by the General Assembly from the CWCB Construction Fund for a total of 10 projects. In addition, the General Assembly enacted legislation that created the Natural Hazard Mapping Fund which consists of gifts, grants and donations and revenues transferred from the general fund – all of which are continuously appropriated to the CWCB. The transfer from the general fund for Fiscal Year 2015-16 will be $3.8 million with an additional transfer of $2.4 million in Fiscal Year 2016-17.

- The General Assembly made two separate appropriations from the Marijuana Tax Cash Fund for Fiscal Year 2015-16. The first appropriation was a combination of $1.9 million to various agencies including funding for government retail marijuana impact grants, legal services, offender treatment services, jail based behavioral health services, and agricultural plant services. Additionally, the General Assembly appropriated an additional $15.1 million to fund various health and educational programs that became effective with voters approving Proposition AA in the November 2015 elections.

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 in its newly implemented accounting system, CORE, along with nonappropriated budgets for most federal awards, statutory cash funds, and custodial funds of the various departments. With the implementation of the new accounting system, revenues and expenditures are tracked by funding source – general, general exempt, cash, reappropriated and federal funds and are designated appropriated or non-appropriated. Appropriated budgets include amounts that require a legislative appropriation authorizing spending, whereas non-appropriated budgets represent amounts that do not require an act of the legislature and are often referred to as informational only appropriations. The accounting system flags monies to be disbursed without sufficient 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 40).

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 18 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, 2014. This was the eighteenth 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

Robert Jaros, CPA, MBA, JD
Colorado State Controller

Government Finance Officers Association

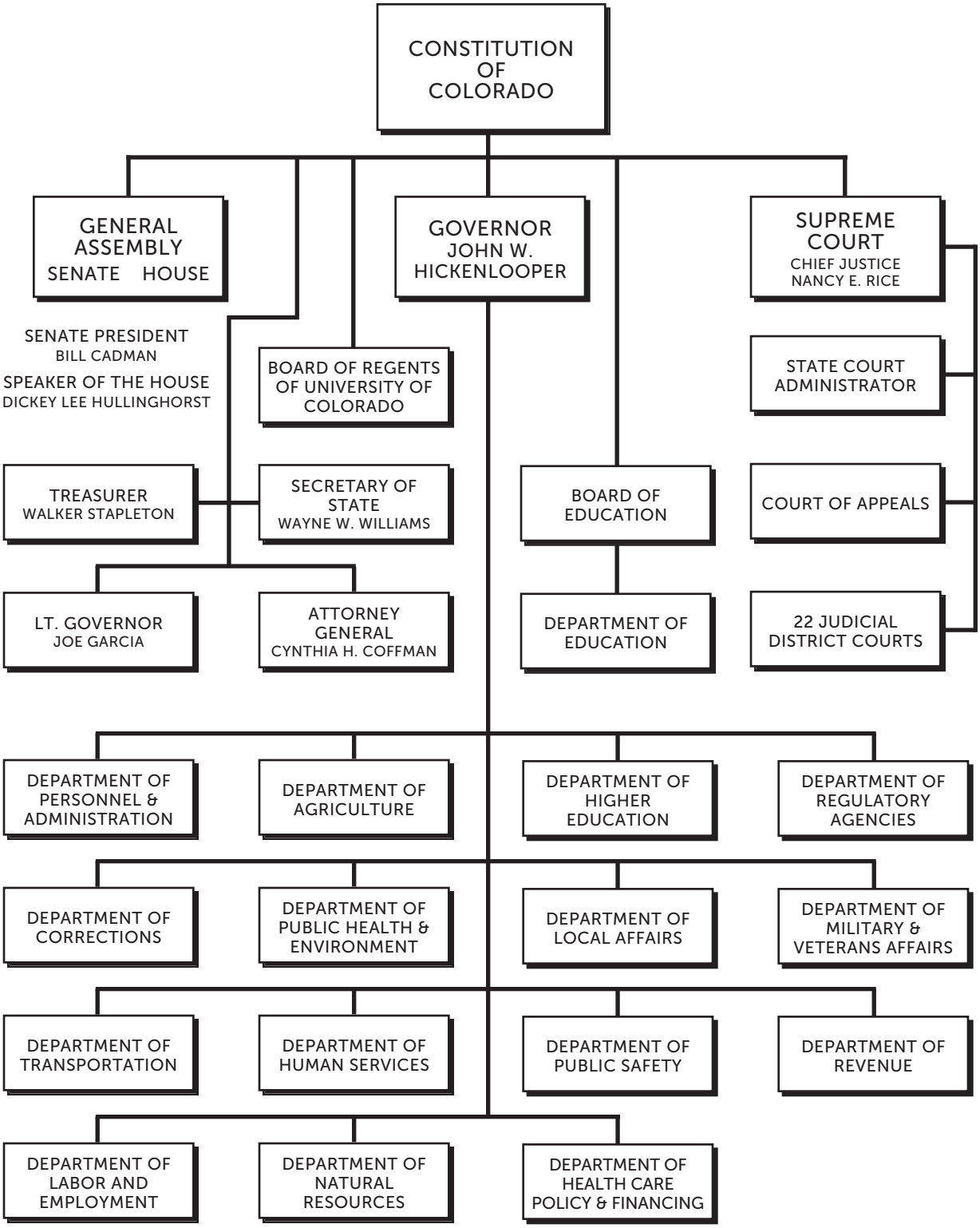
Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Colorado

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

PRINCIPAL ORGANIZATIONS AND KEY OFFICIALS