



**COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION**

Financial Audit

Year ended December 31, 2011

**LEGISLATIVE AUDIT COMMITTEE**

**2012 MEMBERS**

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*Deputy State Auditor*

KPMG LLP, *Contract Auditors*

## COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION

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# **COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION**

Financial Audit

Report Summary

Year ended December 31, 2011

## **Purpose and Scope**

The Office of the State Auditor engaged KPMG LLP (KPMG) to conduct a financial and compliance audit of the Colorado Public Employees' Retirement Association (Colorado PERA) for the year ended December 31, 2011. KPMG performed this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted the related fieldwork from December 2011 to June 2012.

The purpose and scope of our audit was to:

- Express an opinion on the basic financial statements of Colorado PERA as of and for the year ended December 31, 2011. This includes a consideration of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate Colorado PERA's compliance and report on internal control over financial reporting based on our audit of the basic financial statements performed in accordance with *Government Auditing Standards*.
- Evaluate progress in implementing prior audit findings and recommendations.

## **Audit Opinion and Reports**

We expressed an unqualified opinion on Colorado PERA's basic financial statements as of and for the year ended December 31, 2011.

There were no audit adjustments proposed and made to the financial statements.

We issued a report on Colorado PERA's internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards*. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We noted no instances involving the internal control over financial reporting and its operation that we consider to be a material weakness.

## **Summary of Key Findings**

We did not identify any significant deficiencies or material weaknesses in Colorado PERA's internal control during our audit of the 2011 financial statements.

**COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION**

Financial Audit

Report Summary

Year ended December 31, 2011

**Summary of Progress in Implementing Prior Year Audit Recommendations**

There were no outstanding prior year audit recommendations as of the completion of our 2011 audit.

**COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION**

Financial Audit

Recommendation Locator

Year ended December 31, 2011

<b>Rec. No.</b>	<b>Page No.</b>	<b>Recommendation summary</b>	<b>PERA response</b>	<b>Implementation date</b>
		No significant deficiencies or material weaknesses in internal control were noted during our 2011 audit.		

# **COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION**

## **Financial Audit**

### **Description of the Colorado Public Employees' Retirement Association**

**Year ended December 31, 2011**

#### **Organization**

Colorado PERA was established in 1931. Colorado PERA administers cost-sharing multiple-employer defined benefit plans for the State Division Trust Fund, School Division Trust Fund, Local Government Division Trust Fund, Judicial Division Trust Fund, and the Denver Public Schools Trust Fund (Division Trust Funds). Colorado PERA also administers cost-sharing multiple-employer defined benefit other postemployment benefit plans (Health Care Trust Fund and Denver Public Schools Health Care Trust Fund), a private purpose trust fund (Life Insurance Reserve), and three multiple-employer defined contribution plans. The purpose of the Division Trust Funds is to provide benefits to members at retirement or disability, or to their beneficiaries in the event of death. Members of Colorado PERA are employed by public employers located in the State of Colorado and affiliated with Colorado PERA.

Responsibility for the organization and administration of the Division Trust Funds, Health Care Trust Funds, the Life Insurance Reserve, and the defined contribution plans is placed with the board of trustees of Colorado PERA.

The number of active affiliated employers for the five Divisions is as follows as of December 31, 2011:

State	70
School	275
Local government	145
Judicial	6
Denver Public Schools	27
	<hr/>
Total employers	523
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**COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION**

Financial Audit

Findings and Recommendations

Year ended December 31, 2011

No significant deficiencies or material weaknesses were noted during our 2011 audit.





KPMG LLP  
Suite 2700  
707 Seventeenth Street  
Denver, CO 80202-3499

## Independent Auditors' Report

Legislative Audit Committee and Board of Trustees of  
Colorado Public Employees' Retirement Association:

We have audited the accompanying statement of net position and the related statement of changes in net position of the Colorado Public Employees' Retirement Association (Colorado PERA) as of and for the year ended December 31, 2011, which collectively comprise Colorado PERA's basic financial statements as listed in the table of contents. We have also audited the financial statements of each individual fund of Colorado PERA as of and for the year ended December 31, 2011, as displayed in Colorado PERA's basic financial statements. These financial statements are the responsibility of Colorado PERA's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative combined information has been derived from Colorado PERA's December 31, 2010 financial statements, and in our report dated June 17, 2011, we expressed an unqualified opinion on the respective financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Colorado PERA's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Colorado Public Employees' Retirement Association as of December 31, 2011, and the respective changes in net position for the year then ended, in conformity with U.S. generally accepted accounting principles. In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective net position of each individual fund of the Colorado Public Employees' Retirement Association as of December 31, 2011, and the respective changes in net position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

As described in note 10 to the financial statements, the funded ratio of the actuarial accrued liability as of December 31, 2011 was 57.7% for the State Division, 60.2% for the School Division, 69.3% for the Local Government Division, 69.3% for the Judicial Division, 81.5% for the Denver Public Schools Division, 16.5% for the Health Care Trust Fund, and 18.6% for the Denver Public Schools Health Care Trust Fund. These funded ratios were derived using an 8% investment rate of return and discount rate and the actuarial value of assets. Any significant deviation in the actual rate of return over a 30-year period would have a material impact on the reported actuarial accrued liability as of December 31, 2011.



In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2012, on our consideration of Colorado PERA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 22 through 47 and Required Supplementary Information on pages 80 through 87 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules included on pages 88 through 90 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The schedules have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information contained in the Introductory, Investment, Actuarial, and Statistical sections is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

June 26, 2012



KPMG LLP  
Suite 2700  
707 Seventeenth Street  
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**Independent Auditors' Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with *Government Auditing Standards***

Legislative Audit Committee and Board of Trustees of  
Colorado Public Employees' Retirement Association:

We have audited the financial statements of the Colorado Public Employees' Retirement Association (Colorado PERA) and each individual fund of Colorado PERA as of and for the year ended December 31, 2011, and have issued our report thereon dated June 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Colorado PERA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Colorado PERA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Colorado PERA's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Colorado PERA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



This report is intended solely for the information of the Legislative Audit Committee, the Audit Committee of Colorado PERA, and management, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 26, 2012



KPMG LLP  
Suite 2700  
707 Seventeenth Street  
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June 26, 2012

Members of the Legislative Audit Committee

We have audited the basic financial statements of the Colorado Public Employees' Retirement Association (Colorado PERA) and each individual fund of PERA as of and for the year ended December 31, 2011, and have issued our report thereon, dated June 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audit.

### **Our Responsibility under Professional Standards**

We are responsible for forming and expressing an opinion about whether the financial statements, that have been prepared by management with the oversight of the audit committee, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the financial statements in accordance with professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected. Our audit does not relieve management or the audit committee of their responsibilities.

In addition, in planning and performing our audit of the financial statements, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Colorado PERA's internal control. Accordingly, we do not express an opinion on the effectiveness of Colorado PERA's internal control.

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of the audit committee in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

### **Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in documents containing Colorado PERA's financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents. We have, however, read the other information included in Colorado PERA's Comprehensive Annual Financial Report, and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.



Members of the Legislative Audit Committee  
June 26, 2012

## **Significant Accounting Policies and Unusual Transaction**

### ***Significant Accounting Policies***

The significant accounting policies used by Colorado PERA are described in note 2 to the financial statements.

### ***Unusual Transaction***

There were no unusual transactions entered into during 2011.

### ***Qualitative Aspects of Accounting Practices***

We have discussed with the audit committee and management our judgments about the quality, not just the acceptability, of Colorado PERA's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of Colorado PERA's accounting policies and their application, and the understandability and completeness of Colorado PERA's financial statements, which include related disclosures.

## **Management Judgments and Accounting Estimates**

The preparation of the financial statements requires management of Colorado PERA to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of contributions, investment income (loss), and deductions during the reporting period.

Management's estimate of the valuation of alternative investments is based on periodic relevant financial information, the value of comparables, independent appraisals, or other relevant data. We evaluated the key factors and assumptions used to develop the valuations, including possible management bias in developing the estimate, in determining that the valuation of alternative investments is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the Division and Health Care Trust Funds' pension liability is based on various actuarial assumptions. We evaluated the key factors and assumptions used to develop the pension liability, including possible management bias in developing the estimate, in determining that the estimate of the pension liability is reasonable in relation to the financial statements taken as a whole.

## **Uncorrected and Corrected Misstatements**

In connection with our audit of Colorado PERA's financial statements, we did not identify any uncorrected or corrected misstatements.

## **Disagreements with Management**

There were no disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our auditors' reports on Colorado PERA's financial statements.

## **Management's Consultation with Other Accountants**

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended December 31, 2011 as it relates to the 2011 audit of Colorado PERA.



Members of the Legislative Audit Committee  
June 26, 2012

**Significant Issues Discussed, or Subject to Correspondence, with Management**

***Major Issues Discussed with Management prior to Retention***

We generally discuss a variety of matters with the audit committee and management each year prior to our retention as Colorado PERA's auditors. However, these discussions occur in the normal course of our professional relationship, and the result of these discussions was not a condition to our retention.

***Material Written Communications***

Management has been provided copies of the following material written communications between management and us:

- 1) Management representation letter
- 2) Engagement letter

**Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

**Independence**

Our professional standards and other regulatory requirements specify that we communicate to you in writing, at least annually, all relationships between our firm and Colorado PERA and persons in a financial reporting oversight role at Colorado PERA and provide confirmation that we are independent accountants with respect to Colorado PERA.

We are not aware of any independence-related relationships between our firm and Colorado PERA.

***Confirmation of Audit Independence***

We hereby confirm that as of June 26, 2012, we are independent accountants with respect to Colorado PERA under all relevant professional and regulatory standards.

\* \* \* \* \*

This letter to the Legislative Audit Committee is intended solely for the information and use of the Legislative Audit Committee, the Audit Committee of Colorado PERA, and management, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**

The electronic version of this report is available on the website of the  
Office of the State Auditor  
**[www.state.co.us/auditor](http://www.state.co.us/auditor)**

A bound report may be obtained by calling the  
Office of the State Auditor  
**303.869.2800**

Please refer to the Report Control Number below when requesting this report.

**Report Control Number 2067-12**



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