



COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION

Financial Audit

Year ended December 31, 2014

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COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION

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COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION

Financial Audit

Report Summary

Year ended December 31, 2014

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, 2014. 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 2014 to June 2015.

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, 2014. 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, 2014.

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 2014 financial statements.

Summary of Progress in Implementing Prior Year Audit Recommendations

There were no outstanding prior year audit recommendations as of our 2013 audit.

COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION

Financial Audit

Recommendation Locator

Year ended December 31, 2014

<u>Rec. no</u>	<u>Page. no</u>	<u>Recommendation summary</u>	<u>PERA response</u>	<u>Implementation date</u>
		No significant deficiencies or material weakness in internal control were noted during our 2014 audit		

COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION

Financial Audit

Description of the Colorado Public Employees' Retirement Association

Year ended December 31, 2014

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, and Judicial Division Trust Fund, and a single-employer defined benefit plan for 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 multiple-employer private purpose trust fund (Life Insurance Reserve), two multiple-employer defined contribution plans and one single-employer defined contribution plan. 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 Division Trust Funds as of December 31, 2014 is listed below. The School and Denver Public Schools Divisions' employer counts include charter schools operating within the respective public school districts and under the Colorado Charter School Institute.

State	32
School	224
Local government	141
Judicial	2
Denver Public Schools	1
Total employers	<u>400</u>

COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION

Financial Audit

Findings and Recommendations

Year ended December 31, 2014

No significant deficiencies or material weaknesses were noted during our 2014 audit.



KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Colorado Public Employees' Retirement Association (Colorado PERA) as of and for the year ended December 31, 2014, and the related notes to the financial statements, 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, 2014, as displayed in Colorado PERA's basic financial statements. The prior year comparative combined financial information has been derived from Colorado PERA's December 31, 2013 financial statements, and in our report dated June 24, 2014, we expressed an unqualified opinion on the respective financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Colorado Public Employees' Retirement Association as of December 31, 2014, and the respective changes in fiduciary net position for the year then ended in accordance 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 fiduciary net position of each individual fund of the Colorado Public Employees' Retirement Association as of December 31, 2014, and the respective changes in fiduciary net position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2014, Colorado PERA adopted Governmental Accounting Standards Board No. 67, *Financial Reporting for Pension Plans – an amendment to GASB No. 25*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 28 to 57 and Required Supplementary Information including the schedules of changes in net pension liability, pension liability, employer contributions, investment returns, funding progress, and contributions from employers and other contributing entities on pages 97 to 110 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Colorado PERA's basic financial statements. The schedules of administrative expenses, other additions, other deductions, investment expenses and payments to consultants, and the Introductory, Investment, Actuarial and Statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of administrative expenses, other additions, other deductions, investment expenses and payments to consultants are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of administrative expenses, other additions, other



deductions, investment expenses and payments to consultants are fairly stated in all material respects in relation to the basic financial statements as a whole.

The information contained in the Introductory, Investment, Actuarial, and Statistical sections have 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2015 on our consideration of Colorado PERA's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Colorado PERA's internal control over financial reporting and compliance.

KPMG LLP

Denver, Colorado
June 23, 2015



KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

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, in accordance with the 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, the financial statements of Colorado Public Employees' Retirement Association (Colorado PERA) and each individual fund of Colorado PERA, as of and for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated June 23, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Colorado PERA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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.

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 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Colorado PERA's financial statements are free from 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*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Colorado PERA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Colorado PERA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Denver, Colorado
June 23, 2015



KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

June 23, 2015

Members of the Legislative Audit Committee

We have audited the basic financial statements of Colorado Public Employees' Retirement Association (Colorado PERA) and each individual fund of Colorado PERA as of and for the year ended December 31, 2014, and have issued our report thereon dated June 23, 2015. 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 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. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements as a whole 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 audit procedures that are appropriate in the circumstances 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 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.



Significant Accounting Policies and Unusual Transactions

Significant Accounting Policies

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

Unusual Transactions

During 2014, Colorado PERA settled its dispute with Memorial Health System (Memorial) regarding Memorial's termination of its affiliation with Colorado PERA. Colorado PERA received approximately \$190 million under this settlement. This matter is disclosed in note 7 to the financial statements.

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 the 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 Trust Funds' and the Health Care Trust Funds' actuarial liabilities are 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, 2014.



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 occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

Material Written Communications

Attached to this letter please find copies of the following material written communications between management and us:

- 1) Engagement letter
- 2) Management representation 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 23, 2015, 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