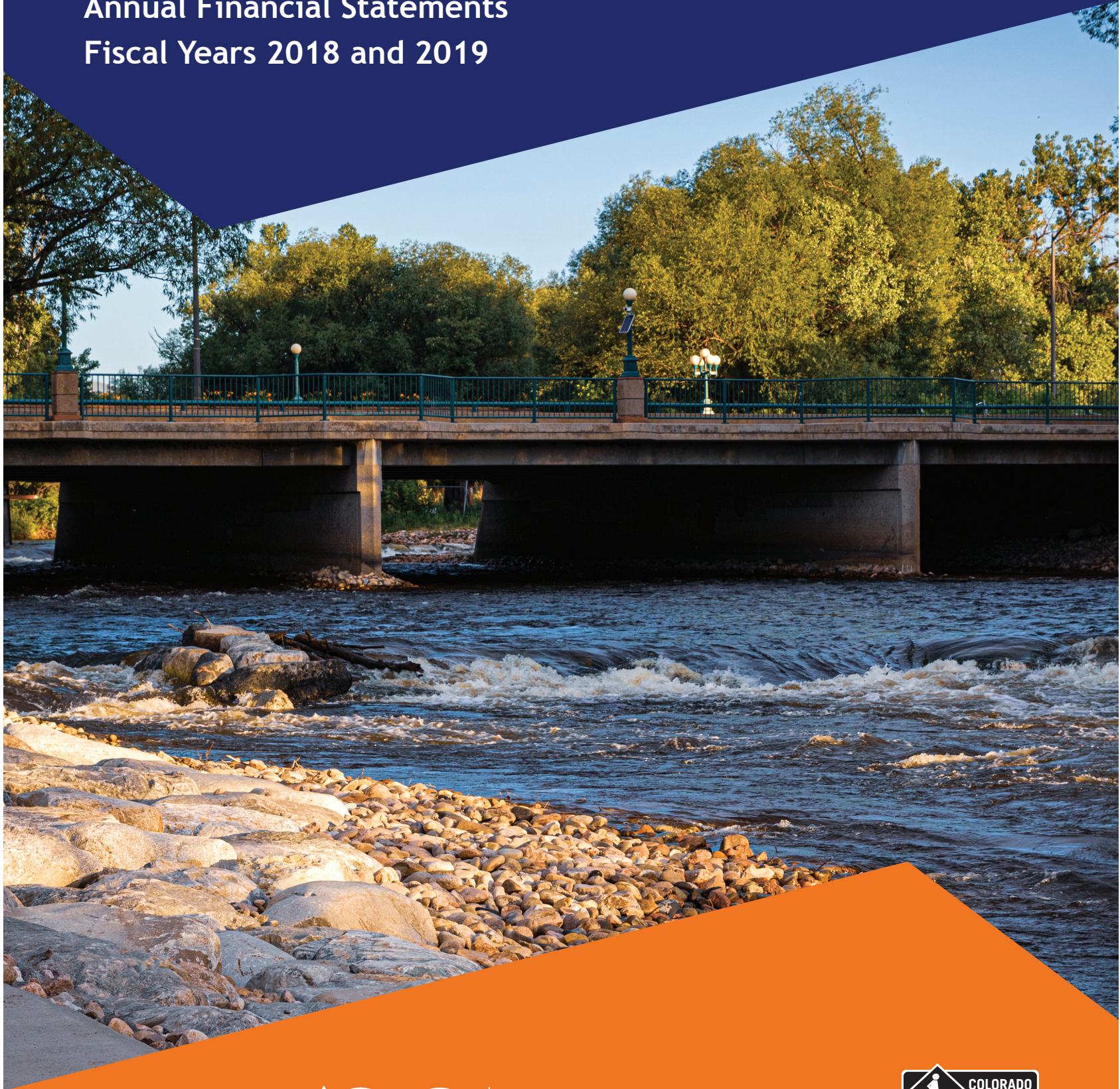


Colorado Bridge Enterprise

Annual Financial Statements
Fiscal Years 2018 and 2019



COLORADO
Department of Transportation



PROJECT FUNDED
BY YOUR
FASTER VEHICLE
REGISTRATION FEES

**Colorado Department of Transportation's Bridge Enterprise
Financial Statements and Independent Auditor's Reports
Financial Audit
Years Ended June 30, 2019 and 2018
Compliance Audit
Year Ended June 30, 2019**

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SECTION 2-3-103 (2) states in part:

All reports shall be open to public inspection except for that portion of any report containing recommendations, comments, and any narrative statements which is **released only upon the approval of a majority vote of the committee (emphasis supplied)**.

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Any State employee **or other individual acting in an oversight role as a member of a committee, board, or commission** who willfully and knowingly discloses the contents of any report prepared by, or at the direction of, the Office of the State Auditor prior to **the release of such report by a majority vote** of the committee as provided in Section 2-3-103 (2) is guilty of a misdemeanor and, upon conviction thereof, shall be punished by a fine of not more than five hundred dollars (emphasis supplied).

COSA - 201 04/00

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Members of the Legislative Audit Committee

We have completed the financial statement and compliance audits of the Colorado Department of Transportation's Bridge Enterprise (the Enterprise or the CBE) as of and for the years ended June 30, 2019 and 2018. Our audits were conducted 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 were engaged to conduct our audits pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct or cause to be conducted audits of all departments, institutions and agencies of State government. The reports which we have issued as a result of this engagement are set forth in the table of contents which follows.

BKD, LLP

Denver, Colorado
December 9, 2019

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Colorado Bridge Enterprise
June 30, 2019 and 2018

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Colorado Bridge Enterprise

Report Summary

Year Ended June 30, 2019

Purposes and Scope of Audit

The Office of the State Auditor engaged BKD, LLP (BKD) to conduct a financial and compliance audit of the Colorado Bridge Enterprise for the fiscal year ended June 30, 2019. BKD performed the audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The audit of the Colorado Bridge Enterprise (the Enterprise or the CBE) was performed under authority of Section 2-3-103, C.R.S.

The purposes and scope of this audit were to:

- Express an opinion on the financial statements of the Enterprise as of and for the years ended June 30, 2019 and 2018, including consideration of internal control over financial reporting as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards* for the year ended June 30, 2019.
- Review the CBE's compliance with rules and regulations governing the expenditure of State funds for the year ended June 30, 2019.
- Issue a report on the CBE's internal control over financial reporting and on compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters based on our audit of the financial statements performed in accordance with *Government Auditing Standards* for the year ended June 30, 2019.

Audit Opinions and Reports

The independent auditor's reports included herein expressed an unmodified opinion on the CBE's financial statements as of and for the years ended June 30, 2019 and 2018.

One material weakness in internal controls over financial reporting was identified. There is one finding and recommendation reported for the year ended June 30, 2019.

No instances of noncompliance considered material to the financial statements were disclosed by the audit.

Summary of Key Findings and Recommendations

There is one finding and recommendation reported for the year ended June 30, 2019.

Summary of Progress in Implementing Prior Year Audit Recommendations

There were no prior year audit recommendations.

Colorado Bridge Enterprise
Report Summary
Year Ended June 30, 2019

Significant Audit Adjustments

There was one significant audit adjustment proposed.

Summary of Audit Findings

Internal Controls Over Financial Reporting

There was one finding related to our testing of internal controls over financial reporting. The finding relates to capital assets. An audit adjustment was proposed as a result of this finding.

Recommendations and Responses

A summary of our recommendations and responses from CBE can be found in the Recommendation Locator Section of this report. CBE's response to the finding has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Auditor's Communication to Legislative Audit Committee

The auditor's communication to the Legislative Audit Committee describes the auditor's responsibility under auditing standards generally accepted in the United States of America and significant management judgments and estimates. This communication is located on page 73.

**Colorado Bridge Enterprise
Recommendation Locator
Year Ended June 30, 2019**

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
2019-01	5	<p>The CBE should improve its internal controls over adjusting accounting entries by:</p> <p>(A) Implementing additional levels of review over recorded journal entries and its annual financial statements. If CBE does not have the capacity within its employees, CBE should request assistance from Colorado Department of Transportation’s accounting personnel.</p> <p>(B) Providing additional training to CBE personnel, including those who work outside of the Accounting and Finance Division, on the importance of maintaining proper codes for projects and the effects of a change in a projects code between that of a capital project and a project that is expensed.</p>	Agree	<p>(A) June 2020</p> <p>(B) December 2019</p>

Colorado Bridge Enterprise

Background

Year Ended June 30, 2019

On March 2, 2009, former Governor Ritter signed into law Colorado SB 09-108, *Funding Advancements for Surface Transportation and Economic Recovery*, otherwise known as FASTER. The law created the Colorado Bridge Enterprise (the CBE) and also authorized a new bridge safety surcharge fee assessed as a motor vehicle registration fee. The surcharge is dedicated for Colorado's most deficient bridges based on federal bridge standards. The business purpose of the CBE is to finance, repair, and replace any designated bridge in the state.

The legislation appointed the Colorado Transportation Commission to serve as the CBE Board of Directors (Board) to provide oversight. Per statute, the Board has the authority to designate the Bridge Enterprise director, and the Board appointed the Colorado Department of Transportation (CDOT) executive director as the Bridge Enterprise director.

As provided in FASTER, the CBE constitutes an "enterprise" for purposes of Section 20 of Article X of the State Constitution (commonly referred to as "TABOR"), and accordingly, is not subject to the revenue and spending limitations of TABOR as long as it receives less than 10 percent of its total revenues in grants from the State and local governments. Management did not identify any violations of this enterprise status, for fiscal years 2018 or 2019.

Because it was constituted as a government-owned business, the CBE may issue revenue bonds to accelerate construction to replace or repair Colorado's most deficient bridges.

Colorado Bridge Enterprise

Findings and Recommendations

Year Ended June 30, 2019

Internal Controls Over Financial Reporting

The Colorado Bridge Enterprise (CBE) was formed in 2009 as part of Colorado’s Funding Advancement for Surface Transportation and Economic Recovery (FASTER) legislation, otherwise known as Senate Bill 09-108. CBE operates as a government-owned business within the Colorado Department of Transportation (CDOT). The purpose of CBE is to finance, repair, reconstruct and replace designated bridges throughout the State.

CBE accounts for construction and repair/maintenance-related expenditures on a project basis. Projects for construction of new infrastructure with a useful life of more than a year are capitalized and then depreciated whereas items not meeting the criteria as a capital project are expensed in the year incurred. At the beginning of a project, each project is uniquely coded in the accounting system so projects are identified as either being eligible for capitalization or expensed in the current year. After the projects are coded as either being capitalized or expensed, CBE evaluates the coding when additional information is available to determine if the additional information would have changed the initial coding.

What was the purpose of our audit work and what work was performed?

The purpose of the audit work was to determine whether CBE had adequate internal controls in place during Fiscal Year 2019 over financial accounting and reporting of construction and related capital asset activity, and whether it ensured that CBE’s financial transactions were accurate and reliable, and conformed to state rules.

To assess CBE’s internal controls over its financial accounting and reporting processes, we requested that CBE provide its formal policies and procedures that were in place over all financial activities during Fiscal Year 2019. We performed physical walkthroughs over various transactions and made inquiries about the Department’s controls over significant accounts.

How were the results of the audit work measured?

We measured our results against generally accepted accounting principles that address the proper recognition and accounting of capital assets. Specifically, we measured our results against the following guidance provided by the Office of the State Controller (OSC):

- Section 1.7, *Capital Construction Fund Expenditures*, of the OSC’s Fiscal Procedures Manual (Manual) requires that departments perform certain procedures at the end of each fiscal year, including reviewing all capital construction projects to identify projects completed and closed during the year and to ensure that the entire total expenditures of those projects be transferred to the appropriate asset account. For capital construction projects not completed by the end of the year, the Manual requires departments to transfer the related expenditures to a construction in progress asset (CIP Asset) account.
- State Fiscal Rule 1-8, *Preaudit Responsibility for Accounting Documents and Financial Transactions*, issued by the OSC, requires state departments to “implement internal accounting and administrative controls that reasonably ensure that financial transactions are accurate,

Colorado Bridge Enterprise Findings and Recommendations Year Ended June 30, 2019

reliable, and conform to state fiscal rules.” Examples of these internal controls are written policies and procedures, periodic reconciliations of amounts to CORE, and periodic staff training on policies and procedures.

- Section 3.39, *Prior Period Adjustments*, of the OSC’s Manual requires departments to account for and report the correction of an error in previously issued financial statements as a prior period adjustment.

What problem did the audit work identify?

We found that CBE improperly reduced its capital asset related expenses by approximately \$7.3 million during Fiscal Year 2019 when correcting a prior year error. CBE staff were attempting to move prior year capital asset related expenses to a construction in progress asset account, but reduced the current year expenses rather than recording the entry as prior year activity. As a result, we noted that CBE’s Fiscal Year 2019 expenses and beginning net position were understated by \$7.3 million.

After we notified CBE staff about the error, they made a correcting entry in their accounting records.

Why did this problem occur?

CBE did not have adequate controls, including review of nonroutine journal entries and the review of the annual financial statements, in place to ensure that its financial records were materially correct at fiscal year end. Additionally, CBE staff were not trained on how to properly record journal entries related to a change in project coding from an expense item to a capital project item. While controls identified that items had been expensed in the prior year that should have been capitalized, there was not an adequate control in place to ensure the adjustment to correct the error was recorded correctly.

Why does this problem matter?

Without adequate controls, CBE cannot ensure that its financial records are reasonably stated, which could result in a misstatement of CBE and the State’s financial statements. If this problem was not corrected, CBE’s expenses and beginning net position would have been understated by \$7.3 million in Fiscal Year 2019.

Classification of Finding: Material Weakness

Recommendation No. 1:

The Colorado Bridge Enterprise (CBE) should improve its internal controls over adjusting accounting entries by:

- a) Implementing additional levels of review over recorded journal entries and its annual financial statements. If CBE does not have the capacity within its employees, CBE should request assistance from Colorado Department of Transportation’s accounting personnel.

Colorado Bridge Enterprise
Findings and Recommendations
Year Ended June 30, 2019

- b) Providing additional training to CBE personnel, including those who work outside of the Accounting and Finance Division, on the importance of maintaining proper codes for projects and the effects of a change in a projects code between that of a capital project and a project that is expensed.

Colorado Bridge Enterprise (CBE) Response:

- a) AGREE. IMPLEMENTATION DATE: JUNE 2020

CBE will develop effective policies and procedures that will strengthen controls over nonroutine journal entries review and approval process to ensure that these entries are complete, accurate, properly supported and approved prior to posting in the general ledger. The additional level of control in preparation of financial statements will consist of structural review of financial statements by a third-party accounting staff member who is not involved with the daily transactions of CBE.

- b) AGREE. IMPLEMENTATION DATE: DECEMBER 2019

CBE personnel has communicated to the Business Process Experts via the Business Support Team on the importance of informing them of all new codes for projects. The Business Support Team created a report comparing expenditures to capitalized asset expenditures for all projects by phases on an aggregate level. This report is incorporated in the monthly asset capitalization process to identify any missed expenditures that should have been capitalized prior to the period close. This new process is documented in the project asset capitalization procedure.

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Independent Auditor's Report

Members of the Legislative Audit Committee

Report on the Financial Statements

We have audited the accompanying financial statements of Colorado Bridge Enterprise (the Enterprise or CBE), an enterprise fund of the State of Colorado, Department of Transportation, as of and for the years ended June 30, 2019 and 2018, and the related notes to the basic financial statements, which collectively comprise the Enterprise's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 Controller 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 auditor's 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 Enterprise'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 Enterprise'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Enterprise as of June 30, 2019 and 2018, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 – Nature of Operations and Summary of Significant Accounting Policies, the financial statements of the Enterprise are intended to present the net position and changes in financial position and, cash flows for only that portion of the financial reporting entity, State of Colorado, Department of Transportation, that is attributable to the transactions of the Enterprise. They do not purport to, and do not present fairly the financial position of the State of Colorado, Department of Transportation as of June 30, 2019 and 2018 and the changes in its financial position, or cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 17 to the financial statements, the 2018 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and pension and other postemployment benefits information listed in the table of contents 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Enterprise's basic financial statements. The report summary and background as listed in the table of contents are presented for additional analysis and are not a required part of the basic financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2019, on our consideration of the Enterprise'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 solely 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Enterprise's internal control over financial reporting and compliance.

BKD, LLP

Denver, Colorado
December 9, 2019

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**Colorado Bridge Enterprise
Management’s Discussion and Analysis (Unaudited)
June 30, 2019 and 2018**

Management’s Discussion and Analysis (MD&A) was prepared by the Colorado Bridge Enterprise (the Enterprise or the CBE) and is designed to provide an analysis of the CBE’s financial condition and operating results for the fiscal years ended June 30, 2019 and 2018. The MD&A also informs the reader of the financial issues and activities related to the CBE. It should be read in conjunction with the CBE’s financial statements.

Designated Bridges

In fiscal year 2010-11, the CBE Board initially identified 128 bridges across the State highway system that qualified as “Designated Bridges”. Subsequently, an additional 227 bridges have qualified bringing the total number of bridges eligible to receive FASTER funding to 355 as of June 30, 2019.

In April 2018, the Transportation Commission (TC) adopted new National Performance Measure targets for infrastructure condition and system performance as required by Fixing America’s Surface Transportation (FAST) Act, including a performance target for the percentage of National Highway System (NHS) bridges with a classification of “poor”. By adopting these new performance measures, CDOT aligned its definition of a “poor” bridge with the Federal Highway Administration (FHWA) definition established by the Pavement and Bridge Condition performance Measures Final Rule in the Moving Ahead for Progress in the 21st Century Act (MAP-21). A comparison of the legacy and new “poor” definitions has been provided in the table below:

Legacy CDOT "poor" Definition	New CDOT "Poor" Definition=SD
Sufficiency Rating (SR)>50 (of 100) and Classified as Structurally Deficient (SD) or Functionally Obsolete (FO)	<u>Bridges</u> Superstructure, Substructure, or Deck rating of 4/10 or Less <u>Culverts</u> Culvert Rating of 4/10 or Less

To align with CDOT and FHWA, the CBE Board approved a resolution to adopt the new CDOT “poor” bridge definition in June 2018, which resulted in an increase to the eligible structure count in 2019 based on this policy change.

A designated bridge is defined as every bridge, including any roadways, sidewalks, or other infrastructure connected or adjacent to, or required for the optimal functioning of the bridge that:

- Is part of the state highway system
- Has been identified by CBE as structurally deficient or functionally obsolete
- Has been rated as “poor”

**Colorado Bridge Enterprise
Management’s Discussion and Analysis (Unaudited)
June 30, 2019 and 2018**

The list of designated bridges is supplemented and amended over time as bridges are repaired, replaced or otherwise removed from the list. Additional bridges are added to the list as they qualify under the eligibility criteria established under FASTER and the new CDOT “poor” bridge definition, which was adopted in June 2018. The CBE program has no mandate to address every eligible structure, however the program strives to address as many structures as available resources permit.

Bridge Completion Status

CBE projects may include the repair, replacement, ongoing maintenance, inspection, or any combination thereof, of these designated bridges. In conjunction with these projects, CBE funds the expenses incurred by CDOT’s specialty groups which work to complete the requisite approvals and permits associated with environmental, railroad, and utility clearances; securing the necessary Right-of-Way (ROW); and finalizing intergovernmental agreements (as required).

As of the end of June 2018, there were a total of 217 structures considered eligible to receive FASTER funding. Due to refinements to CBE eligibility criteria, the structure count increased to a total of 334 in July 2018. Subsequently, 21 structures have become program eligible, increasing the structure count to 355 as of June 30, 2019.

Below is the status of the 355 FASTER eligible bridges within the program:

Project Phase	FY 2018-19	FY 2017-18
Future projects	157	52
In design phase	36	6
Design complete	0	7
In constuction phase	14	20
Projects complete	148	132
Total	355	217

**Colorado Bridge Enterprise
Management’s Discussion and Analysis (Unaudited)
June 30, 2019 and 2018**

Below is the status, as of June 2019, of the 30 bridges originally identified as most deficient by the Board of Directors:

Status	Worst 30	
	FY 2018-19	FY 2017-18
Completed	29	28
In construction	1	2
Designed	0	0
In design	0	0
Remaining	0	0
Total	<u>30</u>	<u>30</u>

The CBE has completed 29 of the 30 bridges originally identified as the most deficient. The bridge that has not been completed is the “I-70 Viaduct”, which is currently in the construction phase.

Bridge Maintenance Program

In November 2010, Colorado Department of Transportation (CDOT) and CBE entered into an agreement that authorizes CDOT to inspect and provide maintenance to bridges owned by CBE. The CBE is invoiced by CDOT on a quarterly basis for expenses related to the maintenance and inspection of all bridges owned by the CBE.

Bridge Project Financing

In order to effectively and timely meet the goals of the program, the Board has used several funding mechanisms. These include:

Debt Issuance

In December 2010, the CBE issued \$300 million in Colorado Bridge Enterprise Revenue Bonds Series 2010A for the purpose of financing project costs. The Board has resolved to use the revenue bond proceeds and any earned interest to provide at least partial funding for the design and or construction of 89 of the bridges. These 89 bridges are tracked separately from the total population of designated bridges through a unique Provider Code. Projects partially funded with bond funds use other available sources revenue sources such as FASTER funds, federal funding and local agency contributions to complete the project.

The proceeds of debt issuance are recorded as long-term debt in the financial statements with interest payable as of June 30, 2019 recorded as current. Principal payments on the bonds begin in December 2025 with final maturity in December 2040. Interest payments, as well as principal when due, are payable on June 1 and December 1 of each year. The debt proceeds are held by the Trustee, Zions Bank, and

**Colorado Bridge Enterprise
Management's Discussion and Analysis (Unaudited)
June 30, 2019 and 2018**

invested by the State Treasury per written agreements. The CBE has agreed to place with the Trustee, on December 1st and June 1st of each year, an amount equal to the debt service costs for the year.

The Series 2010A Bonds were issued as taxable, Build America Bonds (BABs) as authorized by the federal American Recovery and Reinvestment Act (Recovery Act). Pursuant to the Recovery Act, the CBE expects to receive federal direct payments (subsidy) from the United States Treasury equal to 35 percent of the interest payable on the Series 2010A Bonds. The Internal Revenue Service (IRS) Code imposes requirements on the Series 2010A Bonds that the CBE must continue to meet after the Series 2010A Bonds are issued in order to receive the federal direct payments. These requirements generally involve the way that Series 2010A Bond proceeds must be invested and ultimately used, and the periodic submission of requests for payment. If the CBE does not meet these requirements, it is possible that the program may not receive the federal direct payments.

Pursuant to the requirements of the Balance Budget and Emergency Deficit Control Act of 1985, the BABs are subject to sequestration. In Fiscal Years 2014-15, 2015-16, 2016-17 and 2017-18 an executive order was signed reducing the federal direct payments. In Fiscal Year 2018-19 the subsidy was reduced by approximately 6.2 percent. In Fiscal Year 2017-18 the subsidy was reduced by 6.6 percent, and in Fiscal Year 2016-17 the subsidy was reduced by 3.97 percent.

For a comprehensive discussion of the bond issuance please refer to the Notes to Financial Statements.

Federal Funds

In November 2010, the Transportation Commission adopted a resolution expressing its intent to annually consider allocating \$15 million of eligible federal funds to the Colorado Bridge Enterprise. If allocated, such federal funds will be available to fund the net debt service on the Series 2010A Bonds. The net debt service is amount of debt service remaining after the application of BABs subsidy from the U.S. Department of Treasury. The resolution directs the CDOT Executive Director to include the allocation to the CBE of eligible federal funds in the specified amount in the budget proposal submitted to the Transportation Commission each year. However, the Transportation Commission is not obligated to allocate funds to the CBE. The resolution provides that it is the Transportation Commission's intention that any decision as to whether or not to allocate such funds in any year will be made by the Transportation Commission, in its sole discretion, in the year in which the allocation is to occur.

Each year since resolution adoption, for the period of Fiscal Year 2010-11 through 2016-17, the Transportation Commission allocated to the CBE \$15 million in federal funds. In November 2016, a memorandum of understanding was executed regarding the temporary suspension of the annual transfer of \$15 million in federal funds for three years starting in Fiscal Year 2017-18. The transfer of eligible federal funds is expected to be reinstated in Fiscal Year 2020-21. In November 2016, CDOT and CBE entered into a memorandum of understanding pursuant to which CDOT and the Bridge Enterprise agreed that CDOT would suspend making the annual transfer of federal funds to CBE in Fiscal Years 2018, 2019 and 2020. Between Fiscal Years 2011 and 2019, CBE received and used on average, approximately \$9.7 million of the available \$15 million of federal funds each year to pay debt services on the 2010A bonds. For Fiscal Years 2018 and 2019, even though CDOT did not transfer and allocate any new

Colorado Bridge Enterprise Management's Discussion and Analysis (Unaudited) June 30, 2019 and 2018

federal funds, CBE was still able to request reimbursement from the FHWA and use federal funds in the approximate amount of \$9.7 million each fiscal year to pay debt service on the 2010A bonds because of the remaining allocation balance from prior year \$15 million transfers. Beginning again in Fiscal Year 2021, the CBE expects to request a new transfer of federal funds from CDOT.

Highlights of Fiscal Year 2018-19

Prioritization Plan

The CBE continues to utilize a prioritization system whereas both quantitative and qualitative criteria are used to determine which FASTER eligible bridge(s) represent the current best use of available FASTER funding. This system provides a peer-wise comparison between eligible bridges. Bridge Enterprise and Region staff utilizes this tool to ensure funding is being directed to the most deserving structure. The latest prioritization rankings for eligible bridges were distributed in July 2018 and January 2019.

Ilex Design/Build in Pueblo, Colorado

The Ilex Design/Build project represents the first construction project of the new Pueblo Freeway. The first phase of the project reconstructed Interstate 25 between City Center Drive (1st Street) and Ilex Street through downtown Pueblo and was partially funded by CBE. CBE programmed and budgeted eight bridges on the project. The project started construction in the spring of 2015 and the ribbon cutting ceremony was held in June 2019.

Four Year (Fiscal Year 2019-20 to Fiscal Year 2022-23) Capital Project Plan

CBE completed an update of the Four Year Capital Project Plan in April 2019. The Four Year Capital Project Plan is updated yearly and the development of the document is timed to align with the Statewide Transportation Improvement Program (STIP) update. The STIP is federally required and is the planning document that identifies all the transportation projects that CDOT, including CBE, intends to fund over a rolling four-year period. It is prepared in cooperation with the FHWA and local government entities throughout the state, including Transportation Planning Regions (TPRs) and Metropolitan Planning Organizations (MPOs). The STIP is updated on an annual basis to incorporate a new fiscal year, however the current STIP process is being revised and therefore the new STIP (Fiscal Year 2019-20 to Fiscal Year 2022-23) update has not been adopted by the CDOT Transportation Commission yet. It is expected to be approved in December 2019. The current STIP (Fiscal Year 2019-20 to Fiscal Year 2021-22) is still active but does not include the updates from the current Four Year Plan Capital Project Plan. The current STIP and the Four Year Capital Project Plan reflect current funding commitment resolutions made by the CBE Board of Directors for the Central 70 project.

Central 70 Project

The reconstruction of Interstate 70 from Brighton Boulevard to Tower Road is slated to be the largest project in Colorado history. The approximately \$1.2 billion project was awarded to Kiewit Meridiam

**Colorado Bridge Enterprise
Management's Discussion and Analysis (Unaudited)
June 30, 2019 and 2018**

Partners LLC (KMP) with financial close occurring on December 21, 2017. The project is now in the construction phase. The project will replace the aging viaduct between Brighton Boulevard and Colorado Boulevard with a lowered section of highway and added managed lanes. This is a design/build/operate/maintain, public-private partnership procurement method, in which the concessionaire/developer will construct the project and operate and maintain the facilities they construct for a specified period.

A Settlement Agreement was executed on May 9, 2019 between CBE, the High Performance Transportation Enterprise (HPTE), and KMP, to resolve four Supervening Events (potential claim). The Settlement Agreement involved amendments to the project documents, including a settlement payment by CBE of \$7.6 million and time extension to address these events. The payment of \$7.6 million is due at substantial completion.

Other Supervening Events mainly related to Union Pacific Railroad Company (UPRR) related design processes, are not covered by the Settlement Agreement, and KMP is engaged in discussion with HPTE and Colorado Bridge Enterprise and UPRR to manage and mitigate any resulting impacts. Currently, there is a two month delay in Milestone 5, with a corresponding two month delay in the substantial completion. KMP is considering mitigating measures including adding double shifts and additional nightly closures to address this delay.

Speer Blvd and 23rd Avenue Over I-25

In Fiscal Year 2018-19, CBE funded the eligible portion of the preliminary design and investigation for the Speer Boulevard and 23rd over I-25 bridge replacement project. This project includes the replacement of three eligible structures, reconstruction and reconfiguration of the interchanges at Speer Boulevard and 23rd Avenue.

The project will eliminate existing substandard vertical clearance conditions, mitigating damaged caused by high frequency truck strikes and opening the corridor to unrestricted freight traffic. Additionally, the planned replacement structure will accommodate future corridor modifications of I-25 in through Central Denver. The ongoing I-25 Central Planning and Environmental Linkages (PEL) study, is evaluating various alternatives to improve local and regional mobility through the corridor segment. The estimated cost for this project is \$64.3 million.

I-25 South Gap Project

The Gap project will provide capacity, safety, and access improvements to an 18 mile stretch of I-25 from Castle Rock to Monument, and it is being delivered through a construction manager/general contract (CM/GC) procurement method. In Fiscal Year 2018-19, CBE funded the construction phase for two eligible structures being addressed by the Gap project, both bridges are over Upper Lake Gulch Road. CBE anticipates that the cost to replace the structures will be reduced due to the economy of scale of the Gap Project as compared to a standalone project. Coordination is also ongoing between the project team, CBE staff, and local agencies to determine if a third eligible structure, County Road 404 over I-25 can be addressed by the project. The total estimated cost for both structures is \$5.04 million.

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USDOT Competitive Highway Bridge Program

The Fiscal Year 2018-19 USDOT Competitive Highway Bridge Program Notice of Funding Opportunity (NOFO) was released on September 5, 2018. In response, CBE and CDOT Staff Bridge Division developed an evaluation model to identify the candidate structure bundles with the highest probability of award based on the Selection Criteria outlined in the NOFO. The selected projects are shown in the table below and will be funded with the NOFO funds. The proposed projects would address high priority structures in the Denver metro area and various rural areas throughout northwestern and southern Colorado. Each of these bundles will address numerous structures from the CBE Prioritization Plan and will aim to reduce the number of planned and unplanned (emergency) lane/bridge closures required to perform bridge repairs.

App Number	Location	Description	Number CBE Eligible Structures	Number of Structures
1	Region 1	I-70 between Colfax Avenue and Harlan Street	6	10
2	Region 2	Concrete Box Culvert and Corrugated Metal Pipe Culvert Program	13	14
3	Regions 1 and 4	Eastern Plains Timber Bridge Replacement Program	7	9

The CBE program plans to provide the bulk of the required funding match since most of the structures included in the grant applications are eligible. Ineligible structures are funded through other sources. CBE staff worked closely with CDOT and a consultant team to develop the grant applications, which were submitted in advance of the December 4, 2018 deadline. In September 2019, the USDOT awarded CBE \$12.48 million for the Region 2 Concrete Box Culvert and Corrugated Metal Pipe Program.

New Projects

During the Fiscal Year 2018-19, 13 projects went to design, seven projects went to construction and 13 projects were completed. The current Four Year Capital Project Plan has programmed projects in Fiscal Year 2018-19 through Fiscal Year 2021-22.

CBE Website Maintenance

CBE staff, in collaboration with the CDOT Communications Office, continues to provide up to date bridge data and material for the website found at [http://www.coloradodot.info/programs/Bridge Enterprise](http://www.coloradodot.info/programs/Bridge%20Enterprise). The site contains items such as frequently asked questions, a comprehensive list of FASTER eligible bridges, an expanded section on business opportunities with a link to the current bid list, a project/program progress status updated monthly, and an interactive State map of all FASTER eligible bridges with relevant statistical information.

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Using This Annual Report

This annual report consists of a series of financial statements.

The statements of net position include the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, and provides information about the CBE assets, liabilities, deferred outflows of resources and deferred inflows of resources and reflects the financial position of the CBE as of June 30, 2019 and 2018. Over time, increases or decreases in the net position continues to serve as a useful indicator of whether the financial position of the CBE is improving or deteriorating.

The statements of revenues, expenses, and changes in net position present the revenues earned and expenses incurred for the years ended June 30, 2019 and 2018. Revenues and expenses are reported on the accrual basis. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future fiscal years.

The statements of cash flows present information of cash inflows and outflows related to the CBE's activities for the years ended June 30, 2018 and 2019.

**Colorado Bridge Enterprise
Management's Discussion and Analysis (Unaudited)
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Net Position Analysis

Condensed Statements of Net Position

	June 30, 2019	June 30, 2018**	June 30, 2017*
Assets			
Current Assets	\$ 258,476,695	\$ 219,651,190	\$ 218,738,338
Noncurrent Assets	18,305,791	18,289,079	18,269,353
Capital Assets	<u>1,042,225,602</u>	<u>959,157,089</u>	<u>829,172,784</u>
Total Assets	1,319,008,088	1,197,097,358	1,066,180,475
Deferred Outflows of Resources	<u>2,093,206</u>	<u>1,741,739</u>	<u>6,259,336</u>
Liabilities			
Current Liabilities	9,242,022	5,374,576	8,528,293
Noncurrent Long-term Liabilities	<u>306,207,507</u>	<u>308,637,914</u>	<u>319,835,129</u>
Total Liabilities	315,449,529	314,012,490	328,363,422
Deferred Inflows of Resources	<u>5,512,895</u>	<u>6,194,967</u>	<u>624,200</u>
Net Position			
Net Investment in Capital Assets	741,976,073	655,066,938	522,256,660
Restricted for Debt Service	18,305,791	18,289,079	18,269,353
Unrestricted	<u>239,857,006</u>	<u>205,275,623</u>	<u>202,926,153</u>
Total Net Position	<u>\$ 1,000,138,870</u>	<u>\$ 878,631,640</u>	<u>\$ 743,452,166</u>

*The prior period was not restated for the adoption of GASB 75 as it was impractical to do so.

**Fiscal Year 2017-18 has been restated for an error. See Note 17 for more information.

Fiscal Year 2018-19 Analysis

Assets

Total assets increased in Fiscal Year 2018-19 by \$121.9 million, due to explanations provided below.

Current Assets

Current assets increased by \$38.8 million in Fiscal Year 2018-19. The increase in cash of \$39.6 million was partially due to an increase in interest earnings. The annual interest rate increased from 1.66% to 2.22%, which resulted in an increase of interest earnings of \$9 million. In addition, in Fiscal Year 2017-18, CBE made a payment of \$12.7 million to the City and County of Denver, related to the

Colorado Bridge Enterprise
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Central 70 project. In Fiscal Year 2018-19, CBE did not have any large payments related to the Central 70 project. The decrease in intergovernmental receivables of \$1.1 million is due to payments being received by a local government for completion of the Grand Avenue project.

Noncurrent Assets

Noncurrent assets, excluding capital assets, increased by \$16,712 due to an increase in long-term investments. An increase in interest earnings on the 2010A debt service reserve accounts caused the increase in long-term investments.

Capital Assets

Completed bridge projects increased by \$125.9 million, net of accumulated depreciation. This increase is due to the capitalization of the Grand Avenue project. The increased amount also includes a portion of debt interest that has been capitalized based on bond proceeds directly attributable to the costs of the bridges being constructed. Majority of the right-of-way property for the Central 70 project was purchased in Fiscal Year 2017-18 and capitalized in Fiscal Year 2018-19. This caused the increase of \$7.9 million in land and the reduction of \$50.7 million in assets under construction.

Liabilities

Total liabilities increased by \$1.4 million in Fiscal Year 2018-19, due to explanations provided below.

Current Liabilities

Current liabilities increased by \$3.9 million in Fiscal Year 2018-19 caused by an increase in accrued liabilities. At fiscal year-end, CBE accrued change orders and drainage work completed by the City and County of Denver which are related to the Central 70 project.

Noncurrent Liabilities

Noncurrent liabilities decreased by \$2.4 million in Fiscal Year 2018-19 due to a decrease in the net pension liability.

Net Position

Total net position increased by \$121.5 million in Fiscal Year 2018-19. Of the ending balance \$18.3 million is restricted for payment of debt service in the following year. Also \$734.6 million represents the net amount invested in capital assets. This amount includes capitalized assets and construction in progress. The remainder of the net position is unrestricted.

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The total net position is affected by the PERA pension and other postemployment benefit (OPEB) liabilities as detailed in the table below:

	Fiscal Year 2018-19	Fiscal Year 2017-18	Fiscal Year 2016-17
Net Position (GAAP Basis)	\$ 1,000,138,870	\$ 878,631,640	\$ 743,452,166
GASB 68-Pension Related Items			
Net Pension Liability	5,957,055	8,444,751	19,828,708
Deferred Outflows of Resources	(2,042,950)	(1,733,382)	(6,259,336)
Deferred Inflows of Resources	<u>5,310,572</u>	<u>5,940,419</u>	<u>624,223</u>
Total GASB 68 Pension	9,224,677	12,651,788	14,193,595
GASB 75 OPEB Related Items			
Postemployment Benefit Liability	250,452	193,163	-
Deferred Outflows of Resources	(50,256)	(8,357)	-
Deferred Inflows of Resources	<u>202,323</u>	<u>254,548</u>	<u>-</u>
Total GASB 75 OPEB	<u>402,519</u>	<u>439,354</u>	<u>-</u>
Net Position excluding Pension and OPEB	<u>\$ 1,009,766,066</u>	<u>\$ 891,722,782</u>	<u>\$ 757,645,761</u>

CBE's net position increase was also caused by the change in net pension expense. In Fiscal Year 2018-19 net pension expense (credit) totaled (\$3,427,111) and (\$1,289,783) in Fiscal Year 2017-18, resulting in an increase of \$2.1 million. The credit to the expense was primarily a result of CBE's proportional share of the net pension liability decreasing from .05% to .04% from January 1, 2018 to December 31, 2018 and also the State's contribution to the Trust Fund in accordance with C.R.S. § 24-51-413.

Fiscal Year 2017-18 Analysis (Restated)

Assets

Total assets increased in Fiscal Year 2017-18 by \$130.9 million, due to explanations provided below.

Current Assets

Current assets increased by \$912,852 in Fiscal Year 2017-18. The increase in cash of \$2.3 million is due to the increase in collections of FASTER fees. The decrease in intergovernmental receivables of \$636,742 is due to the completion of the Grand Avenue project.

Colorado Bridge Enterprise
Management's Discussion and Analysis (Unaudited)
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Noncurrent Assets

Noncurrent assets, excluding capital assets, increased by \$19,726 due to an increase in long-term investments. An increase in interest earnings on the 2010A debt service reserve accounts caused the increase in long-term investments.

Capital Assets

Completed bridge projects increased by \$22.2 million, net of accumulated depreciation. The increased amount also includes a portion of debt interest that has been capitalized based on bond proceeds directly attributable to the costs of the bridges being constructed. Assets under construction increased by \$77.1 million due to the Central 70 project. The increase in land is due to right-of-way purchased for the Central 70 project.

Liabilities

Total liabilities decreased by \$14.3 million in Fiscal Year 2017-18, due to explanations provided below.

Current Liabilities

Current liabilities decreased by \$3.2 million in Fiscal Year 2017-18 caused by an increase in accrued liabilities. CBE had more liabilities to accrue due to the start of construction of the Central 70 project.

Noncurrent Liabilities

Noncurrent liabilities decreased by \$11.2 million in Fiscal Year 2017-18 due to a decrease in the net pension liability.

Net Position

Total net position increased by \$135.2 million in Fiscal Year 2017-18. Of the ending balance \$18.3 million is restricted for payment of debt service in the following year. Also \$655.1 million represents the net amount invested in capital assets. This amount includes capitalized assets and construction in progress. The remainder of the net position is unrestricted.

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Management's Discussion and Analysis (Unaudited)
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The total net position is affected by the PERA pension and other postemployment benefit (OPEB) liabilities as detailed in the table below:

	Fiscal Year 2017-18 (As Restated)	Fiscal Year Fiscal Year 2016-17
Net Position (GAAP Basis)	\$ 878,631,640	\$ 743,452,166
GASB 68-Pension Related Items		
Net Pension Liability	8,444,751	19,828,708
Deferred Outflows of Resources	(1,733,382)	(6,259,336)
Deferred Inflows of Resources	<u>5,940,419</u>	<u>624,223</u>
Total GASB 68 Pension	12,651,788	14,193,595
GASB 75 OPEB Related Items		
Postemployment Benefit Liability	193,163	-
Deferred Outflows of Resources	(8,357)	-
Deferred Inflows of Resources	<u>254,548</u>	<u>-</u>
Total GASB 75 OPEB	<u>439,354</u>	<u>-</u>
Net Position excluding Pension and OPEB	<u>\$ 891,722,782</u>	<u>\$ 757,645,761</u>

CBE's net position increase was also caused by the change in net pension expense. In Fiscal Year 2017-18 net pension expense (credit) totaled (\$1,289,783) and \$2,749,021 in Fiscal Year 2016-17, resulting in a decrease of \$4 million. The net position change was additionally attributed to the implementation of GASB 75, which resulted in OPEB expenses (credit) of (\$47,631). The credit to the expense was primarily a result of CBE's proportional share of the net pension liability decreasing from .11% to .04% from January 1, 2017 to December 31, 2017.

Colorado Bridge Enterprise
Management's Discussion and Analysis (Unaudited)
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Revenue and Expense Analysis

Condensed Statements of Net Revenues, Expenses, and Changes in Net Position

	June 30, 2019	June 30, 2018**	June 30, 2017*
Operating Revenues			
FASTER Revenues	\$ 105,700,925	\$ 106,023,648	\$ 103,985,122
Federal Revenues	9,920,525	9,391,400	10,964,036
Other Revenues	201,334	26,834,933	3,861,823
Total Operating Revenues	115,822,784	142,249,981	118,810,981
Operating Expenses			
Program Management	(860,837)	(25,780)	6,175,923
Bridge Operations and Maintenance Expense	358,456	395,140	100,810
Depreciation Expense	9,284,227	8,172,908	7,490,850
Total Operating Expenses	8,781,846	8,542,268	13,767,583
Net Operating Income	107,040,938	133,707,713	105,043,398
Net Nonoperating Revenues (Expenses)	11,357,564	1,958,746	(1,154,303)
Transfer of I-76 over Clear Creek From CDOT	3,108,728	-	-
Change in Net Position	121,507,230	135,666,459	103,889,095
Beginning Net Position	878,631,640	742,965,181	639,563,071
Net Position, End of year	\$ 1,000,138,870	\$ 878,631,640	\$ 743,452,166

*The prior periods were not restated for the adoption of GASB 75 as it was not practical to do so.

**Fiscal Year 2017-18 has been restated for an error. See Note 17 for more information.

Colorado Bridge Enterprise
Management's Discussion and Analysis (Unaudited)
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Fiscal Year 2018-19 Analysis

Revenues

Total operating revenues decreased by \$26.4 million in Fiscal Year 2018-19, due to the explanations provided below.

The primary source of operating revenues for the CBE is from the bridge surcharge authorized in the FASTER legislation. The FASTER legislation authorizes a surcharge upon the registration of a motor vehicle with the amount of the surcharge ranging from \$13 to \$32 depending on the type and weight of the vehicle. FASTER revenues decreased by \$322,723. Other operating revenues decreased by \$26.6 million due to a payment from KMP of \$25 million in Fiscal Year 2017-18. This payment was due at financial close of the Central 70 project which occurred in December 2017.

Expenses

Total operating expenses increased by \$239,578. The majority of the increase in operating expenses was from program management and depreciation. Program management primarily consists of salary and benefits. Items related to pension and OPEB benefits can have a significant effect on the amounts recorded. This credit is a result in proportionate share of the net pension liability. Program management decreased by \$835,057 due to the reduction of expenditures related to the capitalization process of assets under construction. Depreciation expense increased due to the increased number of completed bridges.

Nonoperating Revenues (Expenses)

Net nonoperating revenues increased by \$9.3 million.

The Build America Bonds (BABs) subsidy increased by \$12,763, due to the effects of the federal sequester. Additionally, investment income increased by \$7.9 million due to an increase in interest earnings. Interest rates increased from 1.66% to 2.22% in Fiscal Year 2018-19.

CBE received non-cash TABOR transfers of bridges from CDOT totaling \$3.1 million related to the I-76 over Clear Creek.

Change in Net Position

The effect of these changes was an increase in net position in the amount of \$121.5 million in Fiscal Year 2018-19 compared to an increase of \$135.7 for Fiscal Year 2017-18. The implementation of GASB 75 in Fiscal Year 2017-18 resulted in a \$486,985 adjustment, reducing beginning net position to a balance of \$743.0 million and an ending balance of \$878.6 million. Prior year information contained herein has not been restated for the adoption of GASB 75, as it was impractical to do so. Additionally, there was a correction of an error totaling \$7.4 million from Fiscal Year 2017-18. Fiscal Year 2017-18 was restated for the correction of this error.

Colorado Bridge Enterprise
Management's Discussion and Analysis (Unaudited)
June 30, 2019 and 2018

Fiscal Year 2017-18 Analysis (Restated)

Revenues

Total operating revenues increased by \$23.4 million in Fiscal Year 2017-18, due to the explanations provided below.

The primary source of operating revenues for the CBE is from the bridge surcharge authorized in the FASTER legislation. The FASTER legislation authorizes a surcharge upon the registration of a motor vehicle with the amount of the surcharge ranging from \$13 to \$32 depending on the type and weight of the vehicle. FASTER revenues increased by \$2 million primarily due to increased car registrations. Other operating revenues received from local governments as matching funds for construction projects increased by \$23 million due to a payment from KMP of \$25 million which was due at financial close of the Central 70 project.

Expenses

Total operating expenses decreased by \$5.2 million. The majority of the decrease in operating expenses was from program management. Program management primarily consists of salary and benefits, items related to pension and OPEB benefits can have a significant effect on the amounts recorded. Included in program management in Fiscal Year 2017-18 is pension credit of \$1,289,793. This credit is a result of the proportional share of the net pension liability

Nonoperating Revenues (Expenses)

Net nonoperating revenues increased by \$3.1 million.

The Build America Bonds (BABs) subsidy increased by \$19,146, due to the effects of the federal sequester. Additionally, investment income increased by \$215,515, and interest expense decreased by \$3.8 million.

Change in Net Position

The effect of these changes was an increase in net position in the amount of \$135.7 million. The implementation of GASB 75 in Fiscal Year 2017-18 resulted in a \$486,985 adjustment, reducing beginning net position to a balance of \$743.0 million and an ending balance of \$878.6 million. Prior year information contained herein has not been restated for the adoption of GASB 75, as it was impractical to do so.

**Colorado Bridge Enterprise
Management's Discussion and Analysis (Unaudited)
June 30, 2019 and 2018**

Capital Assets

Capital Assets and Debt Administration

	June 30, 2019	June 30, 2018*	June 30, 2017
Bridges	\$ 708,381,608	\$ 582,501,923	\$ 560,269,100
Land	95,440,789	87,547,480	56,945,400
Assets Under Construction	238,403,205	289,107,686	211,958,300
Capital Assets, Net of Accumulated Depreciation	\$ 1,042,225,602	\$ 959,157,089	\$ 829,172,800

*Fiscal Year 2017-18 has been restated for an error. See Note 17 for more information.

CBE's investment in capital assets includes land, capital assets under construction and completed bridge projects. Total capital assets as of June 30, 2019 are \$1 billion, net of accumulated depreciation of \$39.7 million. Significant capital assets events during the current fiscal year include:

- Construction of the Central 70 project began in Fiscal Year 2018-19, with an overall budget of \$400 million. Construction expenditures totaled approximately \$23.6 million.
- Grand Avenue/SH 82 project was completed in June 2018 with a budget of \$98 million. Construction expenditures for Fiscal Year 2018-19 totaled \$6.6 million compared to \$14 million in the prior fiscal year.
- Ilex project is in the construction phase and has a budget of \$60 million. Construction started in the spring of 2015 and was completed in Fiscal Year 2018-19. Total construction expenditures in Fiscal Year 2018-19 was approximately \$5.2 million.

Long-term Debt

The long-term portion of the bond debt remained at \$300 million in Fiscal Year 2018-19. Principal payments do not begin until December 2025.

Financial Contact

If you have questions about this report please contact:

Colorado Bridge Enterprise
2829 West Howard Place
Denver, Colorado 80204

Attn: Kay Hruska

Colorado Bridge Enterprise

Statements of Net Position

June 30, 2019 and 2018

	June 30, 2019	(Restated) June 30, 2018
Assets		
Current assets:		
Cash and pooled cash investments	\$ 248,437,988	\$ 208,832,310
Receivables, net of allowance	10,035,832	9,717,755
Intergovernmental receivables	-	1,100,000
Prepaid items	2,875	1,125
Total current assets	<u>258,476,695</u>	<u>219,651,190</u>
Noncurrent assets:		
Long-term investments	18,305,791	18,289,079
Land	95,440,789	87,547,480
Assets under construction	238,403,205	289,107,686
Bridges, net of accumulated depreciation	708,381,608	582,501,923
Total noncurrent assets	<u>1,060,531,393</u>	<u>977,446,168</u>
Total assets	<u>1,319,008,088</u>	<u>1,197,097,358</u>
Deferred Outflows of Resources		
Related to pensions	2,042,950	1,733,382
Related to other postemployment benefits	50,256	8,357
Total deferred outflows of resources	<u>2,093,206</u>	<u>1,741,739</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	9,242,022	5,374,576
Total current liabilities	<u>9,242,022</u>	<u>5,374,576</u>
Noncurrent liabilities:		
Long-term debt	300,000,000	300,000,000
Net other postemployment benefits liability	250,452	193,163
Net pension liability	5,957,055	8,444,751
Total noncurrent liabilities	<u>306,207,507</u>	<u>308,637,914</u>
Total liabilities	<u>315,449,529</u>	<u>314,012,490</u>
Deferred Inflows of Resources		
Related to pensions	5,310,572	5,940,419
Related to other postemployment benefits	202,323	254,548
Total deferred inflow of resources	<u>5,512,895</u>	<u>6,194,967</u>
Net Position		
Net investment in capital assets	741,976,073	655,066,938
Restricted for debt service	18,305,791	18,289,079
Unrestricted	239,857,006	205,275,623
Total net position	<u>\$ 1,000,138,870</u>	<u>\$ 878,631,640</u>

The accompanying notes are an integral part of these financial statements

Colorado Bridge Enterprise
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2019 and 2018

	June 30, 2019	(Restated) June 30, 2018
Operating Revenues		
FASTER revenues	\$ 105,700,925	\$ 106,023,648
Federal revenues	9,920,525	9,391,400
Other operating revenues	201,334	26,834,933
	<hr/>	<hr/>
Total operating revenues	115,822,784	142,249,981
Operating Expenses		
Program management	(860,837)	(25,780)
Bridge operations and maintenance expense	358,456	395,140
Depreciation expense	9,284,227	8,172,908
	<hr/>	<hr/>
Total operating expenses	8,781,846	8,542,268
Operating income	107,040,938	133,707,713
Nonoperating Revenues (Expenses)		
Build America Bonds subsidy (BABs)	5,973,458	5,960,695
Investment income, net	9,207,496	1,263,064
Loss on disposal of capital assets	-	(967,914)
Interest expense	(3,823,390)	(4,297,099)
	<hr/>	<hr/>
Net nonoperating revenues (expenses)	11,357,564	1,958,746
Transfer of I-76 over Clear Creek from CDOT	3,108,728	-
Change in Net Position	121,507,230	135,666,459
Beginning Net Position	878,631,640	742,965,181
Net Position, End of year	\$ 1,000,138,870	\$ 878,631,640

The accompanying notes are an integral part of these financial statements

Colorado Bridge Enterprise
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	June 30, 2019	(Restated) June 30, 2018
Cash Flows from Operating Activities		
Cash received from users and grants	\$ 116,565,776	\$ 143,686,883
Cash payments to employees and suppliers of goods and services	(2,833,581)	(5,120,782)
Net cash provided by operating activities	113,732,195	138,566,101
Cash Flows from Noncapital Financing Activities		
Interest subsidy received	5,973,458	5,960,695
Acquisition and construction of capital assets	(74,165,487)	(125,188,226)
Interest paid on capital debt	(18,234,000)	(18,234,000)
Net cash used in noncapital financing activities	(86,426,029)	(137,461,531)
Cash Flows from Investing Activities		
Purchase of investments and related fees	(24,190,037)	(18,506,215)
Proceeds from sales and maturities of investments	27,282,053	18,486,489
Investment income	9,207,496	1,263,064
Net cash provided by investing activities	12,299,512	1,243,338
Net increase in cash and cash equivalents	39,605,678	2,347,908
Cash and cash equivalents, beginning of period	208,832,310	206,484,402
Cash and cash equivalents, end of period	\$ 248,437,988	\$ 208,832,310
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 107,040,938	\$ 133,707,713
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	9,284,227	8,172,908
Adjustment to net pension liability	(2,487,696)	(11,383,957)
Adjustment to postemployment benefits	57,289	(293,822)
Direct state allocation to pension - expense	38,931	-
Direct state allocation to pension - revenue	(38,931)	-
Changes in assets and liabilities:		
Receivables, net	781,923	800,158
Intergovernmental receivables	-	636,742
Compensated absences	243	2,041
Deferred inflows of resources - related to pension and other postemployment benefits	(682,072)	5,570,744
Deferred outflows of resources - related to pension and other postemployment benefits	(351,467)	4,517,597
Prepaid expense	(1,750)	(539)
Accounts payable and accrued liabilities	90,560	(3,153,717)
Unearned revenue	-	(6,421)
Net cash provided by operating activities	\$ 113,732,195	\$ 138,569,447
Noncash Investing, Capital and Financing Activities		
Acquisition of capital assets, on account	\$ 7,611,477	\$ 4,090,152
Loss on disposal of assets	\$ -	\$ 967,914
Unrealized gain (loss)	\$ 1,165,020	\$ (2,551,656)
Capitalized interest	\$ 14,410,610	\$ 13,936,901
Transfer of I-76 over Clear Creek From CDOT	\$ 3,108,728	\$ -

The accompanying notes are an integral part of these financial statements

Colorado Bridge Enterprise

Notes to Financial Statements

June 30, 2019 and 2018

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Colorado Bridge Enterprise (CBE or the Enterprise) is a self-supporting enterprise fund of the State of Colorado. It was established as an entity of the Colorado Department of Transportation (CDOT) pursuant to Colorado Revised Statutes (C.R.S) Section 43-4-805. The statute authorized a new bridge safety surcharge fee dedicated specifically to address Colorado’s most deficient bridges. These bridges meet specific measures identified by statutes based upon federal criteria. The statute also created the Colorado Bridge Enterprise board to provide oversight for the CBE. The CDOT Executive Director serves as the CBE Director.

The CBE constitutes an enterprise for purposes of Section 20 of Article X of the State Constitution. The legislation appointed the Transportation Commission to serve as the Colorado Bridge Enterprise Board of Directors (Board). The business purpose of the CBE is to “finance, repair, reconstruct, and replace any designated bridge in the state.” Because it was constituted as a government-owned business, the CBE may issue revenue bonds to accelerate construction to replace or repair Colorado’s poor bridges.

Basis of Accounting and Presentation

For financial reporting purposes, the CBE is considered a special-purpose government entity engaged only in business-type activities. Accordingly, the CBE uses the accrual basis of accounting to summarize its activities. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation is incurred.

The financial statements of the CBE have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The basic financial statements of the CBE present the financial position, results of operations, and cash flows for only the Enterprise. They do not purport to, and do not present, the financial position of CDOT as of June 30, 2019 and 2018 or the results of operations, or cash flows, for the years then ended.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Pooled Cash Investments

Cash and pooled cash investments consist of cash on deposit with the State Treasurer. For purposes of the

Colorado Bridge Enterprise

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statements of cash flows, cash and pooled cash investments are defined as instruments with maturities of three months or less at date of acquisition, and pooled cash held by the Colorado State Treasurer.

Receivables

Receivables are recorded for charges for services as well as funds due from other governments. CBE receivables are detailed in Note 4.

Capital Assets

The Colorado Bridge Enterprise records its property and equipment at historical cost. Contributed capital assets are recorded at acquisition value on the date they are accepted into the CBE. Maintenance and repairs are charged to current period operating expense; additions and improvements are capitalized. Interest cost relating to construction is capitalized. Certain applicable labor costs are also capitalized. The CBE's capitalization level is \$500,000 for infrastructure and \$5,000 for other capital assets. Upon retirement or other disposition of property and equipment, the costs and related accumulated depreciation will be removed from the respective accounts and any gains or losses will be included in nonoperating expenses.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflows of resources (expense or reduction of liability) until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future reporting period(s) and so will not be recognized as an inflows of resources (revenue) until that time.

CBE's deferred outflows of resources and deferred inflows of resources consist of pension and Other Postemployment Benefits (OPEB) related items. These amounts will be amortized to pension and OPEB expense in a later period, or in the case of the deferred outflows of resources relating to contributions made subsequent to the measurement date, will be recognized as a reduction of the net pension liability and net OPEB liability in the subsequent year.

Capitalized Interest

Interest incurred during construction is reflected in the capitalized value of the asset constructed. Total interest incurred during the years ended June 30, 2019 and 2018 was \$18,234,000. Interest expense capitalized during the years ended June 30, 2019 and 2018 was \$14,410,610 and \$13,936,901, respectively.

Liabilities

Amounts due within one year are reported as current liabilities. Amounts owed after one year are reported as noncurrent liabilities. CBE liabilities are detailed in Note 6 and Note 8.

Colorado Bridge Enterprise

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Unearned Revenue

Unearned revenue consists of contributions made by local entities under various Intergovernmental Agreements related to several CBE projects. As many of these projects are not yet completed, the payments made by the local entities are not considered earned revenue, and therefore, are not recognized as such. The revenue will be recognized when the construction has been completed for the projects.

Net Position

The net position of the CBE is classified as follows:

Net investment in capital assets

Net investment in capital assets represents capital assets, less accumulated depreciation reduced by the outstanding balances of debt attributable to the acquisition, construction or improvement of these assets.

Restricted net position

Restricted net position represent resources in which the CBE is contractually obligated to spend or reserve in accordance with restrictions imposed by external parties.

Unrestricted net position

Unrestricted net position represents resources that are not restricted for any project or other purpose. These resources are used to pay the operating costs of the CBE and are also available for future construction.

Classification of Revenues and Expenses

The CBE has classified its revenues and expenses as either operating or nonoperating. Operating revenues and expenses generally result from providing services or incurring expenses in connection with the CBE's principal activities. Nonoperating revenues and expenses include transactions such as interest earned on deposits and interest expense.

Budgets and Budgetary Accounting

By statute, the CBE is continuously funded through user surcharge fees. Therefore, the budget is not legislatively adopted and budgetary comparison information is not a required part of these financial statements.

Application of Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available to pay an expense, the CBE's policy is to first use unrestricted resources per State policy.

Colorado Bridge Enterprise

Notes to Financial Statements

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Reclassification

Certain prior year amounts have been reclassified for consistency with the current year presentation.

NOTE 2 – CASH AND POOLED INVESTMENTS

The CBE deposits its cash with the Colorado State Treasurer as required by Colorado Revised Statutes (C.R.S.). The State Treasurer pools these deposits and invests them in securities authorized by Section 24-75-601.1, C.R.S. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Monies deposited in the Treasury are invested until the cash is needed. As of June 30, 2019 and 2018, the CBE had cash on deposit with the State Treasurer of \$248,437,988 and \$208,832,310, respectively, which represented approximately three percent of the total \$9,096.5 million fair value of investments in the State Treasurer's Pool (Pool) and approximately 3 percent of the total \$7,635.8 million fair value of investments in the Pool as of June 30, 2018. As of June 30, 2019, the Pool's resources included \$73.7 million of cash on hand and \$9,022.8 million of investments.

On the basis of CBE's participation in the Pool, CBE reports as an increase or decrease in cash for its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The State Treasurer does not invest any of the Pool's resources in any external investment pool, and there is no assignment of income related to participation in the Pool. The unrealized gains/losses included in income reflect only the change in fair value for the fiscal year.

Additional information on investments of the State Treasurer's Pool may be obtained in the State's Comprehensive Annual Financial Report for the year ended June 30, 2019.

NOTE 3 – LONG-TERM INVESTMENTS

The CBE has also recorded long-term investments as of June 30, 2019 and 2018 in the amount of \$18,305,791 and \$18,289,079, respectively. These amounts represent debt proceeds and debt service reserve held by CBE's trustee, Zions Bank. Zions Bank has entered into an investment agreement with the State Treasury to hold the proceeds in a separate account to be invested in the Pool as disclosed in Note 2. The State Treasurer pools these deposits and invests them in securities approved by C.R.S. Section 24-75-601.1.

Investments in the State Treasurer's Pool are recorded at fair value as of June 30, 2019. Fair value is the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent

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available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 Investments

Values are based on quoted prices (unadjusted) for identical assets (or liabilities) in active markets that a government can access at the measurement date.

Level 2 Investments

Other than quoted prices included within Level 1 that are observable for an asset (or liability), either directly or indirectly.

Level 3 Investments

Investments classified as Level 3 have unobservable inputs for an asset (or liability) and may require a degree of professional judgment.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using market prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such securities are classified in Level 2 of the valuation hierarchy.

CBE's only investments with recurring measurements are its investments with State Treasury in the amount of \$18,305,791 and \$18,289,079 for the years ended June 30, 2019 and 2018, respectively. CBE's equity in the Pool is valued using the equivalent of the net asset value, and thus is not included in the fair value hierarchy.

NOTE 4 – ACCOUNTS RECEIVABLE

CBE records a receivable for FASTER revenues earned at year-end and paid in the subsequent month. The amount is calculated by the State Department of Revenue based on historical collections.

CBE also expects to receive matching funds from local governments and from the federal government for approved projects. The amounts are recorded in CBE financial statements directly from CDOT's federal aid billing system based on the project status.

Debt proceeds are retained by Zions Bank acting as trustee and invested for the trustee by the Colorado

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State Treasury per an investment agreement. Interest due on the year-end balances is recorded by CBE.

The amounts recorded as receivables as of June 30 are as follows:

	2019	2018
FASTER revenues receivable	\$ 9,848,478	\$ 9,545,221
Trustee interest receivable	82,862	63,872
Other receivable	104,492	108,662
Total accounts receivable	\$ 10,035,832	\$ 9,717,755

The amounts recorded as intergovernmental receivables as of June 30 are as follows:

	2019	2018
Local government receivable	\$ -	\$ 1,100,000
Total intergovernment receivable	\$ -	\$ 1,100,000

CBE believes all receivable amounts are collectable and therefore no allowance is recorded.

NOTE 5 – CAPITAL ASSETS

By the end of Fiscal Year 2018-19, as a result of construction projects, a total of 108 bridges have been capitalized. They are depreciated using straight-line methodology over a useful life of 75 years. Costs capitalized include all expenses directly associated with the construction of the asset.

A summary of changes in capital assets is as follows for the years ended June 30, 2019 and 2018:

	Balance at June 30, 2018	Additions	Disposals	Transfers	Balance at June 30, 2019
Capital assets, not being depreciated					
Land	\$ 87,547,480	\$ -	\$ -	\$ 7,893,309	\$ 95,440,789
Assets under construction	289,107,686	89,244,012	-	(139,948,493)	238,403,205
Total capital assets, not being depreciated	376,655,166	89,244,012	-	(132,055,184)	333,843,994
Capital assets, being depreciated					
Bridges	612,960,437	3,108,728	-	132,055,184	748,124,349
Accumulated depreciation	(30,458,514)	(9,284,227)	-	-	(39,742,741)
Total capital assets, being depreciated, net	582,501,923	(6,175,499)	-	132,055,184	708,381,608
Capital assets, net	\$ 959,157,089	\$ 83,068,513	\$ -	\$ -	\$ 1,042,225,602

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	Balance at June 30, 2017	(Restated) Additions	Disposals	Transfers	(Restated) Balance at June 30, 2018
Capital assets, not being depreciated					
Land	\$ 56,945,454	\$ 1,440,999	\$ -	\$ 29,161,027	\$ 87,547,480
Assets under construction	211,958,269	137,684,127	(967,914)	(59,566,796)	289,107,686
Total capital assets, not being depreciated	<u>268,903,723</u>	<u>139,125,126</u>	<u>(967,914)</u>	<u>(30,405,769)</u>	<u>376,655,166</u>
Capital assets, being depreciated					
Bridges	582,554,668	-	-	30,405,769	612,960,437
Accumulated depreciation	(22,285,607)	(8,172,907)	-	-	(30,458,514)
Total capital assets, being depreciated, net	<u>560,269,061</u>	<u>(8,172,907)</u>	<u>-</u>	<u>30,405,769</u>	<u>582,501,923</u>
Capital assets, net	<u>\$ 829,172,784</u>	<u>\$ 130,952,219</u>	<u>\$ (967,914)</u>	<u>\$ -</u>	<u>\$ 959,157,089</u>

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Liabilities due and payable as of June 30 have been calculated and recorded as follows:

	<u>2019</u>	<u>2018</u>
Accrued interest expense on debt issuance	\$ 1,519,500	\$ 1,519,500
Retainage payable	1,277,528	1,677,682
Accrued project costs payable	6,333,949	2,157,152
Other payables	111,045	20,242
Total accrued liabilities	<u><u>\$ 9,242,022</u></u>	<u><u>\$ 5,374,576</u></u>

NOTE 7 – COMMITMENTS

The CBE had outstanding commitments for construction in the amount of \$68,664,734 at June 30, 2019.

Colorado Bridge Enterprise
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NOTE 8 – LONG-TERM LIABILITIES

The CBE has recorded debt for the years ended June 30, 2019 and 2018 as follows:

	Balance at June 30, 2018	Issuances/ Additions	Retirements	Balance at June 30, 2019	Amount Due Within One Year
Bridge Enterprise revenue bonds	\$ 300,000,000	\$ -	\$ -	\$ 300,000,000	\$ -
Net pension liability	8,444,751	-	2,487,696	5,957,055	-
Net other postemployment benefits/liability	193,163	63,915	6,626	250,452	-
	<u>\$ 308,637,914</u>	<u>\$ 63,915</u>	<u>\$ 2,494,322</u>	<u>\$ 306,207,507</u>	<u>\$ -</u>

	Balance at June 30, 2017	Issuances/ Additions	Retirements/ Reductions	Balance at June 30, 2018	Amount Due Within One Year
Bridge Enterprise revenue bonds	\$ 300,000,000	\$ -	\$ -	\$ 300,000,000	\$ -
Net pension liability	19,828,708	74,185	11,458,142	8,444,751	-
Net other postemployment benefits/liability	493,398	-	300,235	193,163	-
	<u>\$ 320,322,106</u>	<u>\$ 74,185</u>	<u>\$ 11,758,377</u>	<u>\$ 308,637,914</u>	<u>\$ -</u>

On December 10, 2010, the CBE issued \$300 million in Colorado Bridge Enterprise Revenue Bonds Series 2010A for the purpose of financing the project costs. The Series 2010A Bonds were issued as taxable, Build America Bonds (BABs), as authorized by the federal American Recovery and Reinvestment Act. Pursuant to the Act, the CBE expects to receive federal direct payments from the United States Treasury equal to 35 percent of the interest payable on the Series 2010A Bonds. The Bonds were issued with a coupon rate of 6.078 percent but with the federal subsidy, the net interest cost of the Bonds for the CBE is approximately 3.97 percent.

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, the BABs are subject to sequestration. In Fiscal Year 2018-19, an executive order was signed reducing the federal direct payments by 6.2 percent and in Fiscal Year 2017-18 the federal direct payment was reduced by 6.6 percent.

The IRS Code imposes requirements on the Series 2010A Bonds that the CBE must continue to meet after the Series 2010A Bonds are issued in order to receive the federal direct payments. These requirements generally involve the way that Series 2010A Bond proceeds must be invested, ultimately used, and the periodic submission of requests for payment. If the CBE does not meet these requirements, it is possible that the program may not continue to receive the federal payments.

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The proceeds of this issuance are recorded as long-term debt in the financial statements with interest payable as of June 30, 2019 recorded as current. Interest payments are due on June 1 and December 1 of each year. A portion of the Bonds mature in December 2025 with the balance due by December 2040. The debt proceeds are held by the Trustee, Zions Bank, and invested by the State Treasury per written agreement.

The primary source of revenues to repay the debt obligations comes from bridge surcharges as defined in statute and from the BABs subsidy. The Transportation Commission has also committed, subject to annual approval, up to \$15 million in Federal Highway Authority funds annually to pay a portion of the debt service costs of the bonds. Please see further discussion of availability of these funds in Note 9.

This agreement is detailed in a Memorandum of Agreement between the Federal Highway Administration and CBE.

Total future debt service payments over the remaining life of the bonds are as follows:

Fiscal Year	Interest Due	Principal Due	Less BAB Subsidy	Net Debt Service Payment
2020	\$ 18,234,000	\$ -	\$ 6,056,423	\$ 12,177,577
2021	18,234,000	-	6,056,423	12,177,577
2022	18,234,000	-	6,056,423	12,177,577
2023	18,234,000	-	6,056,423	12,177,577
2024	18,234,000	-	6,056,423	12,177,577
2025 to 2029	84,262,657	58,260,000	27,987,841	114,534,816
2030 to 2034	60,656,617	87,040,000	20,147,095	127,549,522
2035 to 2039	31,407,305	106,055,000	10,431,936	127,030,369
2040 to 2041	2,985,969	48,645,000	991,790	50,639,179
Total payments	<u>\$ 270,482,548</u>	<u>\$ 300,000,000</u>	<u>\$ 89,840,777</u>	<u>\$ 480,641,771</u>

The BABs subsidy is received prior to the due date of the semi-annual debt service payments.

NOTE 9 – AVAILABILITY OF FEDERAL FUNDS

Although the Transportation Commission adopted resolution TC-1925 in November 2010 expressing its intent to annually consider allocating and transferring from CDOT to the CBE \$15 million of eligible federal funds, the Transportation Commission is not obligated to make such transfers. The decision whether or not to allocate and transfer such federal funds will be made on an annual basis and will be at the sole discretion of the Transportation Commission. Such decision may be affected by the amounts of such federal funds that are available to CDOT in the future, which may be adversely impacted by federal budgeting and appropriation constraints or changes in federal law.

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In November 2016, a memorandum of understanding was executed regarding the temporary suspension of the annual transfer of \$15 million in federal funds for three years starting in Fiscal Year 2017-18. The transfer of eligible federal funds will be reinstated in Fiscal Year 2020-21.

NOTE 10 – DEFINED BENEFIT PENSION PLAN

The CBE participates in the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employee's Retirement Association of Colorado (PERA). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the SDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. The bill was signed into law by Governor Hickenlooper on June 4, 2018. A brief description of some of the major changes to plan provisions required by SB 18-200 for the SDTF are listed below. A full copy of the bill can be found online at www.leg.colorado.gov.

- Increases employer contribution rates for the SDTF by 0.25 percent on July 1, 2019.
- Increases employee contribution rates for the SDTF by a total of 2 percent (to be phased in over a period of three years starting on July 1, 2019).
- As specified in C.R.S. § 24-51-413, the State is required to contribute \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SDTF based on the proportionate amount of annual payroll of the SDTF to the total annual payroll of the SDTF, School Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund. The allocation recorded by CBE amounted to \$38,931.
- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, increases the highest average salary for employees with less than five years of service credit on December 31, 2019 and raises the retirement age for new employees.
- Member contributions, employer contributions, the direct distribution from the State, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years.
- Expands eligibility to participate in the PERA DC Plan to certain new members of the State Division hired on or after January 1, 2019, who are classified State College and University

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employees. Beginning January 1, 2021, and every year thereafter, employer contribution rates for the SDTF will be adjusted to include a defined contribution supplement based on the employer contribution amount paid to defined contribution plan participant accounts that would have otherwise gone to the defined benefit trusts to pay down the unfunded liability plus any defined benefit investment earnings thereon.

A. Plan Description

Eligible employees of the CBE are provided with pensions through the SDTF a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.copera.org/investments/pera-financial-reports.

B. Benefits Provided as of December 31, 2018

PERA provides retirement, disability and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit.
- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100 percent of the highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether five years of service credit has been obtained and the benefit structure under which contributions were made.

As of December 31, 2018, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments in certain years, referred to as annual increases in the C.R.S. Pursuant to SB 18-200, there are no annual increases (AI) for 2018 and

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2019 for all benefit recipients. Thereafter, benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure will receive an annual increase, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 1.5 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 will receive the lesser of an annual increase of 1.5 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA’s Annual Increase Reserve (AIR) for the SDTF. The automatic adjustment provision may raise or lower the aforementioned AI for a given year by up to one-quarter of 1.0 percent based on the parameters specified in C.R.S. § 24-51-413. Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

C. Contributions provisions as of June 30, 2019

Eligible employees and CBE are required to contribute to the SDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, et seq and § 24-51-413. Employee contribution rates for the period of July 2018 through June 2019 are summarized in the table below:

	Fiscal Year 2018-19		Fiscal Year 2019-20
	CY18	CY19	CY19/20
	1-1-18 to 12-31-18	01-01-19 to 06-30-19	07-01-19 to 06-30-20
Employer Contribution Rate ¹	10.15%	10.15%	10.40%
Amount of Employer Contribution Apportioned to the Heath Care Trust Fund as specified in C.R.S. Section 24-51-208(1)(f) ¹	-1.02%	-1.02%	-1.02%
Amount Apportioned to the SDTF	9.13%	9.13%	9.38%
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411 ¹	5.00%	5.00%	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411 ¹	5.00%	5.00%	5.00%
Total Employer Contribution Rate to the SDTF ¹	19.13%	19.13%	19.38%

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¹ Contribution rates for the SDTF are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

As specified in C.R.S. § 24-51-413, the State is required to contribute \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SDTF based on the proportionate amount of annual payroll of the SDTF to the total annual payroll of the SDTF, School Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund. The allocation recorded by CBE amounted to \$38,931.

Employer contributions are recognized by the SDTF in the period in which the compensation becomes payable to the member and the CBE is statutorily committed to pay the contributions to the SDTF. Employer contributions recognized by the SDTF from the CBE were \$336,026 and \$251,976 for the years ended June 30, 2019 and 2018, respectively.

D. Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of December 31, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017 and 2016, respectively. Standard update procedures were used to roll forward the total pension liability to December 31, 2018 and 2017. The CBE proportion of the net pension liability was based on CBE's contributions to the SDTF for the calendar year associated with the measurement date, relative to the total contributions of participating employers and, as applicable, the State as a nonemployee contributing entity for participating employers of the SDTF that are outside of the State's financial reporting entity.

At June 30, 2019, the CBE reported a liability of \$5,957,055 and \$8,444,751 at June 30, 2018 for its proportionate share of the net pension liability.

At December 31, 2018, the CBE proportion was .0523 percent, which was an increase of .010 percent from its proportion measured as of December 31, 2017.

At December 2017 the CBE proportion was .0422 percent, which was a decrease of .0678 percent from its proportion measured as of December 31, 2016.

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For the years ended June 30, 2019 and 2018, the CBE recognized a pension expense (credit) of \$3,427,111 and \$1,289,783 for the year ended June 30, 2019. At June 30, 2019 and 2018, the CBE reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 170,352	\$ -	\$ 131,673	\$ -
Changes of assumptions	313,669	3,076,131	1,466,331	-
Net difference between projected and actual earnings on pension plan investments	300,899	-	-	318,059
Changes in proportion and differences between CBE contributions and proportionate share of contributions	1,131,321	2,234,441	-	5,622,360
CBE contributions subsequent to the measurement date	126,709	-	135,378	-
Total	<u>\$ 2,042,950</u>	<u>\$ 5,310,572</u>	<u>\$ 1,733,382</u>	<u>\$ 5,940,419</u>

\$126,709 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30, 2019	
2020	\$ (2,723,912)
2021	(849,981)
2022	14,782
2023	164,780
2024	-
Thereafter	-
	<u>\$ (3,394,331)</u>

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E. Actuarial Assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50-9.17 percent
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	4.72 percent
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to January 1, 2007 and DPS Benefit Structure (automatic)	2.00 percent compounded annually
PERA Benefit Structure hired after December 31, 2006	Financed by the Annual

The revised assumptions shown below were reflected in the roll-forward calculation of the total pension liability from December 31, 2017 to December 31, 2018:

Discount Rate	7.25 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to January 1, 2007 and DPS benefit structure (automatic)	0% through 2019 and 1.5% compounded annually thereafter
PERA benefit structure hired after December 31, 2006 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

Healthy mortality assumptions for active members reflect the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Healthy, post-retirement mortality assumptions reflect the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

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For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012 through December 31, 2015, as well as the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016 Board meeting.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016.

Several factors were considered in evaluating the long-term rate of return assumption for the SDTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent adoption of the current long-term expected rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income-Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	100.00%	

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In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25 percent.

F. Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate applied to the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50 percent.
- Employee contributions were assumed to be made at the member contribution rates in effect for each year, including scheduled increases in SB 18-200. Employee contributions for future plan members were used to reduce the estimated amount of total service for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law for each year, including the scheduled increase in SB 18-200. Employer contributions also include current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103 percent, at which point, the AED and SAED will drop 0.50 percent each year until they are zero. Additionally estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- As specified in law, the State will provide an annual direct distribution of \$225 million (actual dollars), commencing July 1, 2018, that is proportioned between the State, School, Judicial and DPS Division Trust Funds based upon the cover payroll of each Division. The annual direct distribution ceases when all Division Trust Funds are fully funded.
- Employer contributions and the amount of total service costs for future plan members were based upon a process to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the middle of the year.

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Based on the above assumptions and methods, the projection test indicates the SDTF’s fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on pension plan investments was applied to all periods of projected benefit payments to determine the pension liability. The discount determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent.

As of the prior measurement date, the long-term expected rate of return on plan investments of 7.25 percent and the municipal bond index rate of 3.43 percent were used in the discount rate determination resulting in a discount rate of 4.72 percent, 2.53 percent lower compared to the current measurement date.

G. Sensitivity of the CBE Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	June 30, 2019		
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability	<u>\$ 7,405,645</u>	<u>\$ 5,957,055</u>	<u>\$ 4,731,415</u>

H. Pension Plan Fiduciary Net Position

Detailed information about the SDTF’s fiduciary net position is available in PERA’s comprehensive annual financial report which can be obtained at www.copera.org/investment/pera-financial-reports.

NOTE 11 – OTHER RETIREMENT PLANS

Voluntary Investment Program

A. Plan Description

Employees of the CBE that are also members of the SDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14, of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial report, which includes additional information on the Voluntary Investment Program. That report can be obtained at www.copera.org/investments/pera-financial-reports.

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B. Funding Policy

The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. Employees are immediately vested in their own contributions and investment earnings.

Defined Contribution Retirement Plan (DC Plan)

A. Plan Description

Employees of CBE that were hired on or after January 1, 2006 which were eligible to participate in the SDTF, a cost-sharing multiple-employer defined benefit pension plan, have the option to participate in the SDTF or the Defined Contribution Retirement Plan (PERA DC Plan). SB 18-200 expands eligibility to participate in the PERA DC Plan to certain new employees hired on or after January 1, 2019, who are State College and University employee The PERA DC Plan is an Internal Revenue Code Section 401(a) governmental profit-sharing defined contribution plan. Title 24, Article 51, Part 15 of the C.R.S., as amended, assigns the authority to establish Plan provisions to the PERA Board of Trustees. The DC plan is also included in PERA’s comprehensive annual financial report as referred to above.

B. Funding Policy

All participating employees in the PERA DC Plan and the CBE are required to contribute a percentage of the participating employee’s PERA-includable salary to the PERA DC Plan. The employee contributions rates for the period July 2018 through June 2019 are summarized in the tables below:

	01-01-18 to 12-31-18	1-1-19 to 6- 30-2019	07-01-19 to 06-30-2020
Employee Contribution Rates:			
Employee contribution (All employees except State Troopers)	8.00%	8.00%	8.75%
State Troopers Only	10.00%	10.00%	10.75%
Employer Contributions Rates:			
On behalf of all employees except State Troopers	10.15%	10.15%	10.40%
State Troopers Only	12.85%	12.85%	13.10%

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Additionally the employers are required to contribute to AED and SAED to the SDTF as follows:

	As of June 30, 2019
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411 ¹	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411 ¹	5.00%
Total Employer Contribution Rate to the SDTF ¹	10.00%

¹ Rates are expressed as a percentage of salary as defined in C.R.S. §24-51-101(42).

Contribution requirements are established under Title 24, Article 51, Section 1505 of the C.R.S., as amended. Participating employees of the PERA DC Plan are immediately vested in their own contributions and investment earnings and are immediately 50 percent vested in the amount of employer contributions made on their behalf. For each full year of participation, vesting of employer contributions increases by 10 percent. Forfeitures are used to pay expenses of the PERA DC Plan in accordance with PERA Rule 16.08 as adopted by the PERA Board of Trustees in accordance with Title 24, Article 51, Section 204 of the C.R.S. As a result, forfeitures do not reduce pension expense. Participating employees in the PERA DC Plan contributed \$10,573,000 and the CBE did not recognize any pension contributions for the PERA DC plan for the years ended June 30, 2019 and 2018.

NOTE 12 – DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN

A. OPEB

The CBE participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB plan administered by the Public Employee’s Retirement Association of Colorado (PERA). The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the HCTF, using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefits paid on behalf of health care participants are recognized when due and/or payable in accordance with the benefit terms. Investment are reported at fair value.

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B. Plan Description

Eligible employees of the CBE are provided with OPEB through the HCTF – a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. Title 24, Article 51, Part 12 of the C.R.S., as amended, sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of the premium subsidies. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

C. Benefits Provided

The HCTF provides a health care premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA health care plans, however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The health care premium subsidy is based upon the benefit structure under which the member retires and the member's years of service credit. For members who retire having service credit with employers in the Denver Public Schools (DPS) Division and one or more of the other four Divisions (State, School, Local Government and Judicial), the premium subsidy is allocated between the HCTF and the Denver Public Schools Health Care Trust Fund (DPS HCTF). The basis for the amount of the premium subsidy funded by each trust fund is the percentage of the member contribution account balance from each division as it relates to the total member contribution account balance from which the retirement benefit is paid.

C.R.S. § 24-51-1202 et seq. specifies the eligibility for enrollment in the health care plans offered by PERA and the amount of the premium subsidy. The law governing a benefit recipient's eligibility for the subsidy and the amount of the subsidy differs slightly depending under which benefit structure the benefits are calculated. All benefit recipients under the PERA benefit structure and all retirees under the DPS benefit structure are eligible for a premium subsidy, if enrolled in a health care plan under PERACare. Upon the death of a DPS benefit structure retiree, no further subsidy is paid.

Enrollment in the PERACare is voluntary and is available to benefit recipients and their eligible dependents, certain surviving spouses, and divorced spouses and guardians, among others. Eligible benefit recipients may enroll in the program upon retirement, upon the occurrence of certain life events, or on an annual basis during an open enrollment period.

D. PERA Benefit Structure

The maximum service-based premium subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The basis for the maximum service-based subsidy, in each case, is for benefit recipients with

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retirement benefits based on 20 or more years of service credit. There is a 5 percent reduction in the subsidy for each year less than 20. The benefit recipient pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

For benefit recipients who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, C.R.S. § 24-51-1206(4) provides an additional subsidy. According to the statute, PERA cannot charge premiums to benefit recipients without Medicare Part A that are greater than premiums charged to benefit recipients with Part A for the same plan option, coverage level, and service credit. Currently, for each individual PERACare enrollee, the total premium for Medicare coverage is determined assuming plan participants have both Medicare Part A and Part B and the difference in premium cost is paid by the HCTF or the DPS HCTF on behalf of benefit recipients not covered by Medicare Part A.

E. Contributions

Pursuant to Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the State, School, Local Government and Judicial Divisions are required to contribute at a rate of 1.02 percent of PERA-includable salary into the HCTF.

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the CBE is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the CBE were \$15,841 for the year ended June 30, 2019 and \$13,437 for the year ended June 30, 2018.

F. OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019 and 2018, the CBE reported a liability of \$250,452 and for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2018 and 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017 and 2016, respectively. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2018. The CBE's proportion of the net OPEB liability was based on CBE's contributions to the HCTF for the calendar year 2018 to the total contributions of participating employers to the HCTF.

At December 31, 2018, the CBE's proportion was .018 percent, which was a decrease of .003 percent from its proportion measured as of December 31, 2017.

At December 31, 2017, the CBE's proportion was .015 percent, which was a decrease of .023 percent from its proportion measured as of December 31, 2016.

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For the years ended June 30, 2019 and 2018, the CBE recognized a reduction of OPEB expense of \$36,834 and \$34, 194, respectively. At June 30, 2019 the CBE reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>2019</u>		<u>2018</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 909	\$ 381	\$ 913	\$ -
Changes of assumptions	1,757	-	-	-
Net difference between projected and actual earnings on OPEB plan investments	1,440	-	-	3,232
Changes in proportion and differences between CBE contributions and proportionate share of contributions	39,394	201,942	226	251,316
CBE contributions subsequent to the measurement date	<u>6,756</u>	<u>-</u>	<u>7,218</u>	<u>-</u>
Total	<u>\$ 50,256</u>	<u>\$ 202,323</u>	<u>\$ 8,357</u>	<u>\$ 254,548</u>

\$6,756 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30	
2020	\$ (40,945)
2021	(40,945)
2022	(40,944)
2023	(39,944)
2024	3,633
Thereafter	<u>322</u>
	<u>\$ (158,823)</u>

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G. Actuarial Assumptions

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial cost method and actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 percent in aggregate
Long-term investment Rate of Return, net of OPEB plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent
Health care cost trend rates	
PERA Benefit Structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	5.00 percent
Medicare Part A premiums	3.25 percent for 2018, gradually rising to 5.00 percent in 2025
DPS Benefit Structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	N/A
Medicare Part A premiums	N/A

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each actuarial valuation and on the pattern of sharing of costs between employers of each fund to that point.

The actuarial assumptions used in the December 31, 2017 valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012 through December 31, 2015, as well as the October 28, 2016 actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016 Board meeting. In addition, certain actuarial assumptions pertaining to per capital health care costs and their related trends are analyzed and reviewed by PERA's actuary, as discussed below.

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In determining the additional liability for PERACare enrollees who are 65 or older and who are not eligible for premium-free Medicare Part A, the following monthly costs/premiums are assumed for 2018 for the PERA benefit structure:

Medicare Plan	Cost for Members Without Medicare Part A	Premiums for Members Without Medicare Part A
Self-Funded Medicare Supplement Plans	\$736	\$367
Kaiser Permanente Medicare Advantage HMO	602	236
Rocky Mountain Health Plans Medicare HMO	611	251
United Healthcare Medicare HMO	686	213

The 2018 Medicare Part A premium is \$422 per month.

In determining the additional liability for PERACare enrollees in the PERA Benefit Structure who are age 65 or older and who are not eligible for premium-free Medicare Part A, the following chart details the initial expected value of Medicare Part A benefits, age adjusted to 65 for the year following the valuation date:

Medicare Plan	Cost for Members Without Medicare Part A
Self-Funded Medicare Supplement Plans	\$289
Kaiser Permanente Medicare Advantage HMO	300
Rocky Mountain Health Plans Medicare HMO	270
United Healthcare Medicare HMO	400

All costs are subject to the health care cost trend rates, as discussed below.

Health care cost trend rates reflect the change in per capita health costs over time due to factors such as medical inflation, utilization, plan design, and technology improvements. For the PERA benefit structure, health care cost trend rates are needed to project the future costs associated with providing benefits to those PERACare enrollees not eligible for premium-free Medicare Part A.

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare &

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Medicaid Services. Effective December 31, 2017, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

The PERA benefit structure health care cost trend rates that were used to measure the total OPEB liability are summarized in the table below:

Year	PERACare Medicare Plan	Medicare Part A Premiums
2018	5.00%	3.25%
2019	5.00%	3.50%
2020	5.00%	3.75%
2021	5.00%	4.00%
2022	5.00%	4.25%
2023	5.00%	4.50%
2024	5.00%	4.75%
2025+	5.00%	5.00%

Mortality assumptions for the determination of the total pension liability for each of the Division Trust Funds as shown below are applied, as applicable, in the determination of the total OPEB liability for the HCTF. Affiliated employers of the State, School, Local Government and Judicial Divisions participate in the HCTF.

Healthy mortality assumptions for active members were based on the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Healthy, post-retirement mortality assumptions for the State and Local Government Divisions were based on the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

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The following economic and demographic assumptions were updated and used in the measurement of the obligations for the HCTF:

- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2018 plan year.
- The health care cost trend rates for Medicare Part A premiums were revised to reflect then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA’s Board on October 28, 2016.

Several factors were considered in evaluating the long-term rate of return assumption for the HCTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent adoption of the long-term expected rate of return by the PERA Board, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income-Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	100.00%	

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In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25 percent.

H. Sensitivity of the CBE Proportionate Share of the Net OPEB Liability to Changes in Health Care Cost Trend Rates

The following presents the net OPEB liability using the current health care cost trend rates applicable to the PERA benefit structure, as well as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates:

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
PERACare Medicare Trend Rate	4.00%	5.00%	6.00%
Initial Medicare Part A Trend Rate	2.25%	3.25%	4.25%
Ultimate Medicare Part A Trend Rate	4.00%	5.00%	6.00%
Net OPEB Liability	\$243,536	\$250,452	\$258,406

I. Discount Rate

The discount rate used to measure the total OPEB liability was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2018 measurement date.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50 percent.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date. For future plan members, employer contributions were reduced by the estimated amount of total service costs for future plan members.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.

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- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the projection test indicates the HCTF’s fiduciary net position was projected to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent.

J. Sensitivity of the CBE proportionate share of the net OPEB liability to changes in the discount rate

The following presents the proportionate share of the net OPEB liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	\$280,234	\$250,452	\$224,991

K. OPEB plan fiduciary net position

Detailed information about the HCTF’s fiduciary net position is available in PERA’s comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

NOTE 13 – RISK MANAGEMENT

The State of Colorado currently self-insures its agencies, officials, and employees for the risks of losses to which they are exposed. That includes general liability, motor vehicle liability, worker’s compensation, and medical claims. Property claims are not self-insured; rather the State has purchased insurance. CBE participates in the Risk Management Fund of the State of Colorado through the Department of Transportation. Agency premiums are based on an assessment of risk exposure and historical experience. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount of claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. There were no significant reductions or

Colorado Bridge Enterprise

Notes to Financial Statements

June 30, 2019 and 2018

changes in insurance coverage from the prior year in any of the above mentioned risk management arrangements and had no settlements that exceeded insurance coverage for the past three years.

NOTE 14 – TAX, SPENDING AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of State and local governments. The amendment excludes from its provision Enterprise operations. Enterprises are defined as government-owned businesses authorized to issue revenue bonds, which receive less than 10 percent of their annual revenue in grants from all State and local governments combined. The CBE qualifies as an Enterprise pursuant to C.R.S. Section 43-4-805 (2)(c).

NOTE 15 – CENTRAL 70 PROJECT

On August 24, 2017, Kiewit Meridiam Partners (KMP) was selected to be the Central 70 project developer to undertake the \$1.2 billion dollar project. On November 22, 2017, CBE and the High Performance Transportation Enterprise (HPT) Boards approved the Project Agreement and completed the commercial close of the Central 70 project. On December 21, 2017, KMP and CBE completed the financial close of the project that included CBE issuing \$120,765,426 of Private Activity Bonds (PABs) and closing on a TIFIA loan totaling \$416,000,000. Since CBE acted as a conduit issuer for the TIFIA loan and the PABs, CBE has no liabilities to record, and the debt will be repaid by KMP. Construction officially started in the summer of 2018 with completion estimated to be in 2022.

NOTE 16 – ADOPTION OF ACCOUNTING PRINCIPLE

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this statement is to improve the information that is disclosed in notes to governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. There was no impact to net position for CBE.

NOTE 17 – RESTATEMENT OF FISCAL YEAR 2017-18 FINANCIAL STATEMENTS

Fiscal Year 2017-18 financial statements have been restated for certain costs originally reported as program management expenses for Fiscal Year 2017-18 that should have been capitalized as an asset under construction totaling \$7,361,948. The effect of the restatement was to increase assets under construction in the statement of net position and decrease program management expenses in the statement of revenues, expenses, and changes in net position by \$7,361,948. The restatement also increased previously reported change in total net position and net investment in capital assets in the statement of net position by \$7,361,948. Additionally, in the statement of cash flows the restatement decreased cash payments to employees and suppliers of goods and services and increased cash payments for acquisition and construction of capital assets by \$7,361,948.

Colorado Bridge Enterprise
Notes to Financial Statements
June 30, 2019 and 2018

NOTE 18 – SUBSEQUENT EVENTS

A portion of the 2010A bonds were issued with an optional par-call redemption provision, enabling CBE to refinance \$42.8 million for the interest rate savings prior to its maturity; the optional redemption date is December 1, 2020. The remainder of the 2010A bonds were issued with a make-whole call provision, which allows CBE to refinance this portion of the bonds for structural considerations, but generally eliminates the ability to achieve debt service savings. The advanced refunding of the bonds will save CBE an estimated \$4.5 million through Fiscal Year 2027-28. The closing of the refunding of the 2010A bonds is expected to occur in December 2019.

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Required Supplementary Information

Colorado Bridge Enterprise
Required Supplementary Information
Schedule of CBE's Proportionate Share of the Net Pension Liability
June 30

	2019	2018	2017	2016 *	2015 *
CBE's proportion of the net pension liability	0.05%	0.04%	0.11%	0.12%	0.11%
CBE's proportionate share of the net pension liability	\$ 5,957,055	\$ 8,444,751	\$ 19,828,708	\$ 12,315,953	\$ 10,165,317
CBE's covered payroll	\$ 1,598,345	\$ 1,238,452	\$ 3,076,792	\$ 3,193,343	\$ 3,087,257
CBE's proportionate share of the net pension liability as a percentage of its covered payroll	372.70%	681.88%	644.46%	385.68%	329.27%
Plan fiduciary net position as a percentage of the total pension liability	55.11%	43.20%	42.60%	56.10%	59.80%

Note: Information is not available prior to 2015. In future reports, additional years will be added until 10 years of historical data are presented. Information presented in this schedule has been determined as of the measurement date (December 31) of the collective net pension liability in accordance with Governmental Accounting Standards Board Statement No. 68

* Amounts were not updated for the implementation of Governmental Accounting Standards Board Statement No. 82 as amounts were not readily available.

Colorado Bridge Enterprise
Required Supplementary Information
Schedule of CBE's Pension Contributions
June 30

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016 *</u>	<u>2015 *</u>
Statutorily required contribution	\$ 336,026	\$ 251,976	\$ 365,722	\$ 630,061	\$ 454,689
Contributions in relation to the statutorily required contribution	<u>336,026</u>	<u>251,976</u>	<u>365,722</u>	<u>630,061</u>	<u>454,689</u>
Contribution deficiency (excess)	<u><u> </u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
CBE's covered payroll	<u><u>\$ 1,553,032</u></u>	<u><u>\$ 1,317,384</u></u>	<u><u>\$ 1,957,828</u></u>	<u><u>\$ 3,544,901</u></u>	<u><u>\$ 2,853,298</u></u>
Contributions as a percentage of covered payroll	21.64%	19.13%	18.68%	17.77%	15.94%

Note: Information is not available prior to 2015. In future reports, additional years will be added until 10 years of historical data are presented. Information presented in this schedule has been determined as of CBE's fiscal year-end (June 30) in accordance with Governmental Accounting Standards Board Statement No. 68

* Amounts were not updated for the implementation of Governmental Accounting Standards Board Statement No. 82 as amounts were not readily available.

Colorado Bridge Enterprise
Required Supplementary Information
Schedule of CBE's Proportionate Share of the Net OPEB Liability
June 30

	2019	2018
CBE's proportion of the net OPEB liability	0.018%	0.015%
CBE's proportionate share of the net OPEB liability	\$ 250,452	\$ 193,163
CBE's covered payroll	\$ 1,598,345	\$ 1,238,452
CBE's proportionate share of the net OPEB liability as a percentage of its covered payroll	15.67%	15.60%
Plan fiduciary net position as a percentage of the total OPEB liability	17.03%	17.53%

Note: Information is not available prior to 2018. In future reports, additional years will be added until 10 years of historical data are presented. Information presented in this schedule has been determined as of the measurement date (December 31) of the collective net OPEB liability in accordance with Governmental Accounting Standards Board Statement No. 75.

Colorado Bridge Enterprise
Required Supplementary Information
Schedule of CBE's OPEB Contributions
June 30

	<u>2019</u>	<u>2018</u>
Statutorily required contribution	\$ 15,841	\$ 13,437
Contributions in relation to the statutorily required contribution	<u>15,841</u>	<u>13,437</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
CBE's covered payroll	<u>\$ 1,553,031</u>	<u>\$ 1,317,384</u>
Contributions as a percentage of covered payroll	1.02%	1.02%

Note: Information is not available prior to 2018. In future reports, additional years will be added until 10 years of historical data are presented. Information presented in this schedule has been determined as of CBE's fiscal year-end (June 30) in accordance with Governmental Accounting Standards Board Statement No. 75.

Colorado Bridge Enterprise
Notes to Required Supplementary Information
June 30, 2019 and 2018

NOTE 1 – 2017 CHANGES IN ASSUMPTIONS OR OTHER INPUTS SINCE 2016 – PENSIONS

- The single equivalent interest rate (SEIR) for the State Division was lowered from 5.26 percent to 4.72 percent to reflect the changes to the projections' valuation basis, a projected year of depletion of fiduciary net position (FNP), and the resulting application of the municipal bond index rate.
- The municipal bond index rate used in the determination of the SEIR for the State, School, and Judicial Divisions changed from 3.86 percent on prior measurement date to 3.43 percent on the measurement date.

Changes in assumptions or other inputs effective for the December 31, 2017 measurement period are as follow:

- The assumed investment rate of return of 7.25% was used as the discount rate, rather than using the blended rate of 4.72%
- The municipal bond index rate used in the determination of the SEIR for the State Division changed from 3.86% on the prior measurement date to 3.43% on the measurement date.

Changes in assumptions or other inputs effective for the December 31, 2016 measurement period are as follows:

- The investment return assumption was lowered from 7.50% to 7.25%.
- The price inflation assumption was lowered from 2.80% to 2.40%.
- The real rate of investment return assumption increased from 4.70% per year, net of investment expenses, to 4.85% per year, net of investment expenses.
- The wage inflation assumption was lowered from 3.90% to 3.50%.
- The mortality tables were changed from RP-2000 Combined Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on a projection scale of Scale AA to 2020 to RP-2014 White Collar Employee Mortality for active employees, RP-2014 Healthy Annuitant Mortality tables projected to 2020 using the MP-2015 projection scale for retirees, or RP-2014 Disabled Retiree Mortality Table for disabled retirees.
- The discount rate was lowered from 7.50% to 5.26%.

NOTE 2 – DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFITS

- There were no changes made the actuarial methods of assumptions.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards

Members of the Legislative Audit Committee:

We have audited, 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, the financial statements of the Colorado Bridge Enterprise (the Enterprise or CBE), an enterprise fund of the State of Colorado, Department of Transportation, which comprise the statement of financial position as of June 30, 2019 and the related statements of revenues, expenses, changes in net position and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated December 9, 2019, which contained emphasis of matter paragraphs regarding the organizational structure of the Enterprise and a correction of an error in prior year financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Enterprise'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 the Enterprise's internal control. Accordingly, we do not express an opinion on the effectiveness of the Enterprise'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Enterprise'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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2019-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Enterprise'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*.

Management's Response to Finding

Management's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Enterprise's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Denver, Colorado
December 9, 2019

Independent Auditor's Communication to Legislative Audit Committee

Members of the Legislative Audit Committee:

As part of our audit of the financial statements and compliance of Colorado Bridge Enterprise (the Enterprise or CBE) as of and for the year ended June 30, 2019, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under 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 and U.S. Office of Management and Budget (OMB) Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)

An audit performed 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 and U.S. Office of Management and Budget (OMB), *Uniform Guidance* is designed to obtain reasonable, rather than absolute, assurance about the financial statements and about whether noncompliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on a major federal program occurred. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement and compliance audits that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

Audits of the financial statements and compliance do not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Enterprise's significant accounting policies are described in Note 1 of the audited financial statements.

Alternative Accounting Treatments

We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, as follows:

- No matters are reportable

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Depreciation and useful lives of capital assets
- Net pension liability and related items
- Net OPEB liability and related items

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Revenue recognition
- Defined benefit pension plan
- OPEB plan

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Proposed Audit Adjustments Recorded

- Prior period adjustment to properly state capital assets

Proposed Audit Adjustments Not Recorded

- Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole

Auditor's Judgments About the Quality of CBE's Accounting Principles

During the course of the audit, we made the following observations regarding CBE's application of accounting principles:

- No matters are reportable

Disagreements with Management

The following matters involved disagreements, which if not satisfactorily resolved would have caused a modified auditor's opinion on the financial statements:

- No matters are reportable

Consultation with Other Accountants

During our audit we became aware that management had consulted with other accountants about the following auditing or accounting matters:

- Matters related to Central 70

Significant Issues Discussed with Management

Prior to Retention

During our discussion with management prior to our engagement, the following issues regarding application of accounting principles or auditing standards were discussed:

- No matters are reportable

During the Audit Process

During the audit process, the following issues were discussed or were the subject of correspondence with management:

- No matters are reportable

Difficulties Encountered in Performing the Audit

Our audit requires cooperative effort between management and the audit team. During our audit, we found significant difficulties in working effectively on the following matters:

- No matters are reportable

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letter
- Management letter

* * * * *

This communication is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor, Board of Directors, and management of CBE and is not intended to be and should not be used by anyone other than these specified parties. However, upon release by the Legislative Audit Committee, this report is a public document.

BKD, LLP

December 9, 2019

Colorado Department of Transportation

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflect the effects on the financial statements if the uncorrected misstatements identified were corrected.

CBE - Fund 538

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	258,476,695		258,476,695	
Non-Current Assets & Deferred Outflows	1,062,624,599		1,062,624,599	
Current Liabilities	(9,242,022)	(744,086)	(9,986,108)	8.05%
Non-Current Liabilities & Deferred Inflows	(311,720,402)		(311,720,402)	
Current Ratio	27.968		25.884	-7.45%
Total Assets & Deferred Outflows	1,321,101,294		1,321,101,294	
Total Liabilities & Deferred Inflows	(320,962,424)	(744,086)	(321,706,510)	0.23%
Total Net Position	(1,000,138,870)	744,086	(999,394,784)	-0.07%
Operating Revenues	(115,822,784)		(115,822,784)	
Operating Expenses	8,781,846	744,086	9,525,932	8.47%
Nonoperating (Revenues) Exp	(11,357,564)		(11,357,564)	
Change in Net Position	(121,507,230)	744,086	(120,763,144)	-0.61%

Description	Financial Statement Line Item	Assets & Deferred Outflows				Liabilities & Deferred Inflows				Operating Revenues				Operating Expenses				Nonoperating (Revenues) Exp				Change in Net Position			
		Current		Noncurrent		Current		Noncurrent		DR		(CR)		DR		(CR)		DR		(CR)		DR		(CR)	
		DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)
Factual (F), Judgmental (J) or Projected (P)	Net Effect on Following Year																								
To record extrapolated error of understated expenses that were incurred in FY19 but was not accrued.		0		0		0		(744,086)		0		0		0		744,086		0		0		(744,086)		744,086	
								(90,000)								90,000								90,000	
								(654,086)								654,086								654,086	
Total passed adjustments		0		0		0		(744,086)		0		0		0		744,086		0		0				744,086	
		Impact on Change in Net Position																						744,086	
		Impact on Net Position																						744,086	