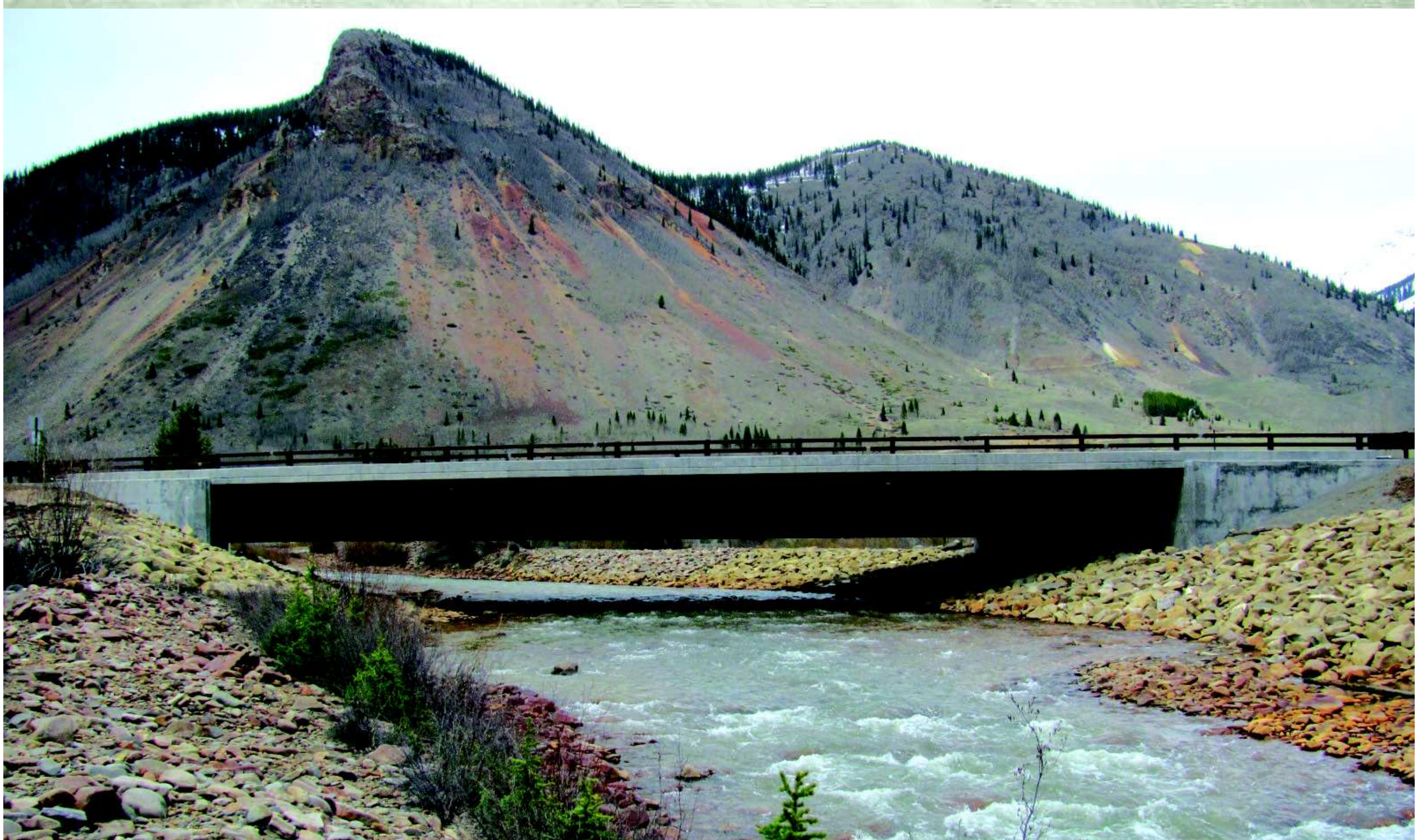
# Colorado Bridge Enterprise



COLORADO AT WORK

PROJECT FUNDED BY YOUR FASTER VEHICLE REGISTRATION FEES

**Annual Financial Statements**

**June 30, 2011**

DOT DEPARTMENT OF TRANSPORTATION

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***Jonathan Caldwell***
**Legislative Auditor**

***Clifton Gunderson LLP***
**Contract Auditors**

Clifton Gunderson LLP
Certified Public Accountants & Consultants

**Members of the Legislative Audit Committee:**

We have completed the financial statement audit of the Colorado Department of Transportation's Bridge Enterprise as of and for the year ended June 30, 2011. Our audit was 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 audit pursuant to Section 2-3-103 C.R.S., which authorizes the State Auditor to audit the Bridge Enterprise. The reports we have issued as a result of this engagement are set forth in the table of contents which follows.

Clifton Gunderson LLP

Greenwood Village, Colorado
November 29, 2011

Member of HLB International

# Colorado Bridge Enterprise
# Financial Statements
# For the Fiscal Year Ended June 30, 2011

## <u>Table of Contents</u>

**COLORADO BRIDGE ENTERPRISE**
**REPORT SUMMARY**
**Year Ended June 30, 2011**

## Purposes and Scope of Audit

### *Authority, Purpose and Scope*

The Office of the State Auditor, State of Colorado, engaged Clifton Gunderson LLP to conduct the financial audit of the Colorado Bridge Enterprise for the FY ended June 30, 2011. The audit of the Colorado Bridge Enterprise (the Enterprise) was performed under authority of Section 2-3-103 C.R.S., which requires the State Auditor to conduct an annual audit of the Enterprise Fund. The purpose of the audit was to express an opinion on the financial statements of the Enterprise for the year ended June 30, 2011.

Clifton Gunderson LLP conducted the audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States of America.

The purposes and scope of this audit were:

- To express an opinion on the financial statements of the Enterprise as of and for the year ended June 30, 2011, including a review of the related systems of internal controls as required by auditing standards generally accepted in the United States of America.

- To review the Enterprise's compliance with rules and regulations governing the expenditure of State funds for the year ended June 30, 2011.

## Summary of Major Audit Comments

### *Audit Findings and Financial Statement Audit Report Section*

The audit resulted in no auditors' findings and recommendations.

**COLORADO BRIDGE ENTERPRISE**
**REPORT SUMMARY**
**Year Ended June 30, 2011**

## Audit Opinions and Reports

The independent auditor's reports, included herein, state that the financial statements of the Enterprise are fairly stated, in all material respects, in accordance with accounting principles generally accepted in the United States of America, and that no material weaknesses in internal controls were discovered during the course of the audit.

## 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 33.

## Summary of Progress in Implementing Prior Year Audit Recommendations

There were no prior year audit recommendations.

# COLORADO BRIDGE ENTERPRISE
## BACKGROUND
### Year Ended June 30, 2011

On March 2, 2009, 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 (CBE) and also authorized a new bridge safety surcharge fee. This surcharge is dedicated for Colorado's most deficient bridges based on Federal bridge standards. Revenues from the newly established bridge safety surcharge are phased in over three years, 50% of the total surcharge in FY 2009-10, 75% in FY 2010-11 and 100% in FY 2011-12. The business purpose of the Enterprise is to finance, repair, reconstruct, 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, per resolution, 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 ten percent of its total revenues in grants from the State and local governments. Management has not identified any violations of this enterprise status.

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.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

**Independent Auditor's Report**

Members of the Legislative Audit Committee

We have audited the basic financial statements of the Colorado Bridge Enterprise, an enterprise fund of the State of Colorado, Department of Transportation, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Colorado Bridge Enterprise's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the basic financial statements of the Colorado Bridge Enterprise are intended to present the financial position, results of operations and cash flows for only that portion of the financial reporting entity, the State of Colorado, Department of Transportation, that is attributable to the transactions of the Colorado Bridge 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, 2011, and the changes in its financial position and its cash flows, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Colorado Bridge Enterprise as of June 30, 2011, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2011 on our consideration of the Colorado Bridge 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 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* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 6 through 13 is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Greenwood Village, Colorado
November 29, 2011

# Colorado Bridge Enterprise
# Management's Discussion and Analysis
# For the Fiscal Year Ended June 30, 2011

Management's Discussion and Analysis (MD&A) was prepared by the Colorado Bridge Enterprise (CBE) and is designed to provide an analysis of the CBE's financial condition and operating results for the fiscal year ended June 30, 2011. The MD&A also informs the reader of the financial issues and activities related to CBE. It should be read in conjunction with CBE's financial statements.

## Program Overview

On March 2, 2009, 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 CBE and also authorized a new bridge safety surcharge fee. This surcharge is dedicated for Colorado's most deficient bridges based on Federal bridge standards and is paid by individuals as part of the annual vehicle registration fee. Revenues from the newly established bridge safety surcharge are phased in over three years, 50% of the total surcharge in FY 2009-10, 75% in FY 2010-11 and 100% in FY 2011-12. The business purpose of the Enterprise is to finance, repair, reconstruct, 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, per resolution, 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 ten percent of its total revenues in grants from the State and local governments. Management has not identified any violations of this enterprise status.

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.

## Financing Bridge Projects

The CBE board initially identified 128 bridges across the State highway system that qualified as "Designated Bridges" within the eligibility criteria established under FASTER. Bridge projects under the Enterprise may include the repair, replacement, or ongoing operation or maintenance, or any combination thereof, of these designated bridges. Some of these bridges were transferred to the CBE from CDOT. The CBE reimburses CDOT quarterly for expenses related to the operations and maintenance of the transferred bridges.

Certain of such bridges were then chosen for inclusion in the CBE budget for construction and/or design in FY 2009-10 and 2010-11. The list of designated bridges is expected to be supplemented and amended over time as bridges are repaired, replaced or otherwise removed from the list and as additional bridges qualifying under the eligibility criteria established under FASTER are identified. The Colorado Bridge Enterprise expects to complete the design and reconstruction of the initially designated bridges by the end of calendar year 2017 except for the I-70 viaduct.

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

- **Working Capital Loan**

  In May of 2010, the Board via resolution authorized the CBE to secure a short-term loan for purposes of advancing the design, repair, reconstruction and replacement of designated bridges. The CBE executed a $40 million short-term low interest loan agreement with Bank of America on June 25, 2010. The CBE subsequently retired the debt associated with the $40 million loan on November 30, 2010 with FASTER revenues collected to date.

- **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 CBE currently anticipates that most of the construction and/or design costs related to the bridge projects in the current construction plan will be paid out of the proceeds of the Series 2010A Bonds.

  The proceeds of this issuance are recorded as long term debt in the financial statements with interest payable as of June 30, 2011 recorded as current. Principal payments on the bonds begin in 2025 with final maturity in 2040. Interest payments, as well as principal when due, are payable on June 1 and December 1 of each year. The first interest payment in the amount of $8,407,900 was paid on June 1, 2011. The debt proceeds are held by the Trustee, Wells Fargo Bank, and invested by the State Treasury per written agreements. The CBE has agreed to place with the Trustee, on December 1st of each year, an amount equal to the following year's entire debt service costs.

  The Series 2010A Bonds were issued as taxable, Build America Bonds as authorized by the federal American Recovery and Reinvestment Act. Pursuant to the Recovery Act, the Colorado Bridge Enterprise expects to receive federal direct payments from the United States Treasury equal to 35% of the interest payable on the Series 2010A Bonds. 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 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.

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

- **Federal Funds**

On November 18, 2010, the Transportation Commission adopted a resolution expressing its intent to annually consider allocating to the Colorado Bridge Enterprise $15 million of eligible federal funds. If so allocated, such federal funds will be deposited with the CBE and will be available to pay the principal of and interest on the Series 2010A Bonds. The resolution directs the CDOT Executive Director to include the allocation to the CBE 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.

During the 2009-10 Fiscal Year, federal funds in the amount of $1.3 million were earned by the CBE. In FY 2010-11 federal funds earned totaled $14.4 million.

## Using This Annual Report

This annual report consists of a series of financial statements.

The statement of net assets includes the assets, liabilities, and net assets, provides information about the Enterprise's assets and liabilities and reflects the financial position of the Enterprise as of June 30, 2011. Over time, increases or decreases in the net assets continue to serve as a useful indicator of whether the financial position of the Enterprise is improving or deteriorating.

The statement of revenues, expenses, and changes in net assets presents the revenues earned and expenses incurred for the year ended June 30, 2011. 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 periods.

The statement of cash flows presents information of cash inflows and outflows related to the Enterprise's activities for the year ended June 30, 2011.

## Net Asset Analysis

**Condensed Statement of Net Assets**
**(In Thousands)**

| For Year Ended June 30 | 2011 | (Unaudited) 2010 | Change |
|---|---|---|---|
| **Assets** | | | |
| Current Assets | $ 47,060.4 | $ 85,230.4 | $ (38,170.0) |
| Non-Current Assets | 382,163.7 | 1,955.4 | 380,208.3 |
| **Total Assets** | **429,224.1** | **87,185.8** | **342,038.3** |
| **Liabilities** | | | |
| Current Liabilities | 7,126.3 | 40,228.7 | (33,102.4) |
| Long Term Liabilities | 300,000.0 | 0.0 | 300,000.0 |
| **Total Liabilities** | **307,126.3** | **40,228.7** | **266,897.6** |
| **Net Assets** | | | |
| Invested in Capital Assets, Net of related debt | 33,679.7 | 0.0 | 33,679.7 |
| Restricted for Debt Service | 12,138.5 | 0.0 | 12,138.5 |
| Unrestricted | 76,279.7 | 46,957.1 | 29,322.6 |
| **Total Net Assets** | **$ 122,097.9** | **$ 46,957.1** | **$ 75,140.8** |

**Assets**
Total assets increased in FY 2010-11 by $342.0 million.

- ***Current Assets***

Current assets decreased by $38.1 million in FY 2010-11. The decrease was primarily due to investing short-term loan proceeds with the Colorado State Treasury to participate in the State Investment Pool. These investments are predominately long-term in nature but immediate liquidity is ensured.

- ***Non-Current Assets***

Non-current assets increased by $380.2 million primarily due to invested bond and loan proceeds. The $340.0 million received was placed with Wells Fargo bank as trustee. The trustee entered into an investment agreement with the Colorado State Treasury to participate in the State Investment Pool. These investments are predominately long-term in nature but immediate liquidity is ensured.

Non-current assets also increased with construction in progress, net of bond proceeds used to date, of $33.1 million. The total 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. A portion of debt issuance costs in the amount of $1.8 million was also deferred and recorded as a non-current asset.

Transferred bridges, as well as one completed bridge, were capitalized in FY 2010-11. The amount recorded, net of depreciation, was $4.1 million. Also recorded was highway right of way land valued at $1 million.

## Liabilities

Total liabilities increased by $266.9 million.

- ***Current Liabilities***

Current liabilities decreased by $33.1 million primarily because of the repayment of the short term $40 million loan with FASTER revenues collected. This decrease was offset by accounts payable increase of $6.9 million. Of this amount $5.2 million was accrued for bridge project costs and retainage on project contracts. The remainder of the increase includes $1.5 million accrued for June debt interest and small amounts due for program management.

- ***Non-current Liabilities***

Non-current liabilities increased by $300 million which was the amount of debt issuance in FY 2010-11.

## Net Assets

Total net assets for the Colorado Bridge Enterprise are $122.1 million including the unrestricted fund balance from the previous year of $47.0 million.

Net assets increased by $75.1 million in FY 2010-11. Of this amount, the CBE has restricted $12.1 million for payment of debt service in the following year. Also restricted is $33.7 million representing the amount invested in capital assets, net of related debt. This amount includes capitalized assets and construction in progress. The remainder of the fund balance is unrestricted.

# Colorado Bridge Enterprise
# Management's Discussion and Analysis
# For the Fiscal Year Ended June 30, 2011

## Revenue and Expense Analysis

**Condensed Schedule of Revenues, Expenses and Changes in Net Assets**
**For the Fiscal Years Ended June 30, 2011 and 2010**
**(In Thousands)**

| For Year Ended June 30 | 2011 | (Unaudited) 2010 | Change |
|---|---|---|---|
| **Operating Revenues** | | | |
| **FASTER Revenues** | $ 66,964.8 | $ 43,755.1 | $ 23,209.7 |
| **Federal Revenues** | 11,447.2 | 1,325.4 | 10,121.8 |
| **Other Revenues** | 113.3 | 0.0 | 113.3 |
| **Total Operating Revenues** | **78,525.3** | **45,080.5** | **33,444.8** |
| **Operating Expenses** | | | |
| **Program Management** | 1,614.3 | 404.0 | 1,210.3 |
| **Depreciation Expense** | 48.5 | 0.0 | 48.5 |
| **Total Operating Expenses** | **1,662.8** | **404.0** | **1,258.8** |
| **Operating Income** | **76,862.5** | **44,676.5** | **32,186.0** |
| **Non-operating Revenues (Expenses)** | (1,721.8) | 375.6 | (2,097.4) |
| **Interfund Transfers** | 0.0 | 1,085.8 | (1,085.8) |
| **Change in Net Assets** | **$ 75,140.7** | **$ 46,137.9** | **$ 29,002.8** |

### Revenues

Total operating revenues increased by $33.4 million in FY2010-11.

The primary source of operating revenues for the Colorado Bridge Enterprise is from the bridge surcharge authorized in the FASTER legislation. FY 2010-11 represents the second full year of collection. As the program was established, the surcharge is phased in over three years. In FY 2010-11, 75% of the total fee is applied. Primarily because of this phase-in process, FASTER revenues increased by $23.2 million.

The CBE received Federal funds both from the Build America Bond (BAB) subsidy and from Federal Highway revenues directed to CBE. The increased amount was $10.1 million over the previous year. Other revenues come from local governments for individual bridge construction projects beginning in FY 2010-11.

### Expenses

Total operating expenses increased by $1.3 million.

Program management costs increased by $1.2 million as the expenses for bridge construction and design were allocated to projects and as the Colorado Bridge Enterprise consultant was hired. Depreciation expense for bridges added as capital assets occurred for the first time.

### Non-operating Revenues (Expenses)

The change in net non-operating revenues/expenses was negative by $2.1 million.

This change was due to debt service expense of $9.5 million offset by a Build America Bonds subsidy of $2.9 million. CBE also received increased interest income on debt proceeds of $3.1 million over the previous year. Finally, the depreciated value of bridges transferred to the program in the amount of $1.4 million was recorded.

### Interagency Transfers

An interfund transfer of $1.1 million from the Department of Transportation to the Colorado Bridge Enterprise occurred in 2010 to cover short term cash flow needs until sufficient surcharge revenues were received. No additional amount was needed in FY 2010-11.

### Change in Net Assets

The net outcome of these transactions was a change in net assets in the amount of $75.4 million.

### Capital Assets and Debt Administration

(In Thousands)

| For Year Ended June 30 | 2011 | (Unaudited) 2010 |
|---|---|---|
| Bridges | $ 4,113.3 | $ 0 |
| Assets under construction | 35,033.6 | 1,955.4 |
| **Capital assets, net of accumulated depreciation** | **$ 39,146.9** | **$ 1,955.4** |

In fiscal year 2010-11, assets under construction increased by $33 million due to the large number of construction projects initiated during the fiscal year. Two construction projects were completed and two bridges were transferred to CBE, which resulted in $4.1 million increase in bridges. Capital additions were offset by current year depreciation of $48.5 thousand.

## Debt Outstanding

Long-term portion of the debt increased by $300 million in FY 2010-11. The increase was due to the debt issuance in FY 2010-11.

## Financial Contact

If you have questions about this report please contact:
Colorado Bridge Enterprise
4201 E Arkansas Ave
Denver, CO 80222
Attn: Marina Krasny

# Colorado Bridge Enterprise
# Statement of Net Assets
# June 30, 2011

| | |
|---|---|
| ***ASSETS*** | |
| Current assets: | |
| Cash and cash equivalents | $ 38,366,482 |
| Receivables | 6,754,996 |
| Intergovernmental receivable | 1,938,958 |
| **Total current assets** | **47,060,436** |
| Noncurrent assets: | |
| Long-term investments | 341,196,523 |
| Deferred debt issuance costs, net | 1,820,306 |
| Assets under construction | 35,033,632 |
| Bridges, net of accumulated depreciation | 4,113,260 |
| **Total noncurrent assets** | **382,163,721** |
| **Total assets** | **429,224,157** |
| ***LIABILITIES*** | |
| Current liabilities: | |
| Accounts payable and accrued liabilities | 7,126,282 |
| **Total current liabilities** | **7,126,282** |
| Noncurrent liabilities: | |
| Long-term debt | 300,000,000 |
| **Total noncurrent liabilities** | **300,000,000** |
| **Total liabilities** | **307,126,282** |
| ***NET ASSETS*** | |
| Restricted for: | |
| Invested in capital assets, net of related debt | 33,679,647 |
| Debt service | 12,138,533 |
| Unrestricted | 76,279,695 |
| **Total net assets** | **$ 122,097,875** |

The accompanying notes are an integral part of the financial statements.

# Colorado Bridge Enterprise
# Statement of Revenues, Expenses, and Changes in Net Assets
# For the Fiscal Year Ended June 30, 2011

| | | |
|---|---|---|
| **OPERATING REVENUES** | | |
| FASTER revenues | $ | 66,964,791 |
| Federal revenues | | 11,447,180 |
| Other operating revenues | | 113,337 |
| **Total operating revenues** | | **78,525,308** |
| **OPERATING EXPENSES** | | |
| Program Management | | 1,614,307 |
| Depreciation Expense | | 48,484 |
| **Total operating expenses** | | **1,662,791** |
| **Operating Income** | | **76,862,517** |
| **NON-OPERATING REVENUES (EXPENSES)** | | |
| Build America Bonds Subsidy | | 2,942,765 |
| Other non-operating expenses | | (37,597) |
| Investment income, net | | 3,533,347 |
| Interest expense | | (9,527,846) |
| Capital contributions | | 1,367,571 |
| **Net nonoperating revenues (Expenses)** | | **(1,721,760)** |
| **CHANGE IN NET ASSETS** | | **75,140,757** |
| NET ASSETS, BEGINNING OF THE YEAR | | 46,957,118 |
| **NET ASSETS, END OF THE YEAR** | **$** | **122,097,875** |

The accompanying notes are an integral part of the financial statements.

# Colorado Bridge Enterprise
# Statement of Cash Flows
# For the Fiscal Year Ended June 30, 2011

| | | |
|---|---|---|
| ***CASH FLOWS FROM OPERATING ACTIVITIES*** | | |
| Cash received from users and grants | $ | 75,482,550 |
| Cash payments to contractors and suppliers for goods and services | | (1,706,378) |
| **Net cash provided by operating activities** | | **73,776,172** |
| ***CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES*** | | |
| Interest subsidy received | | 2,942,765 |
| Proceeds from capital debt | | 300,000,000 |
| Deferred debt issuance costs | | (1,856,403) |
| Acquisition and construction of capital assets | | (29,867,982) |
| Principal paid on capital debt | | (40,000,000) |
| Interest paid on capital debt | | (8,544,082) |
| **Net cash provided by financing activities** | | **222,674,298** |
| ***CASH FLOWS FROM INVESTING ACTIVITIES*** | | |
| Purchase of investments | | (354,439,882) |
| Proceeds from sales and maturities of investments | | 13,243,359 |
| Investment income | | 3,093,529 |
| **Net cash used by investing activities** | | **(338,102,994)** |
| Net decrease in cash and cash equivalents | | (41,652,524) |
| Cash and cash equivalents, beginning of year | | 80,019,006 |
| Cash and cash equivalents, end of year | | **38,366,482** |
| ***Reconciliation of operating income to net cash provided by operating activities:*** | | |
| Operating income | | 76,862,517 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation expense | | 48,484 |
| Changes in assets and liabilities: | | |
| Receivables, net | | (1,635,187) |
| Ingovernmental receivables | | (1,407,571) |
| Accounts payable and accrued liabilities | | (92,071) |
| **Net cash provided by operating activities** | **$** | **73,776,172** |
| **Noncash investing, capital and financing activities** | | |
| Decrease in fair value of investments | | 236,754 |
| Contributed Capital | | 1,367,571 |

The accompanying notes are an integral part of the financial statements.

# Colorado Bridge Enterprise
# Notes to Financial Statements
# For the Fiscal Year Ended June 30, 2011

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

### Nature of Operations

The Colorado Bridge Enterprise (CBE) 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 C.R.S 43-4-805 effective July 1, 2009. The statute authorized a new bridge safety surcharge fee dedicated specifically for Colorado's most deficient bridges that meet specific criteria as identified by the Department. The statute also created the Colorado Bridge Enterprise Board to provide oversight for the Enterprise. The CDOT Executive Director serves as the Colorado Bridge Enterprise Director.

The Colorado Bridge Enterprise 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 as prescribed by the Governmental Accounting Standards Board (GASB), Financial Accounting Standards Board (FASB) and other applicable guidelines or pronouncements. The CBE uses self-balancing accounting funds to record its financial accounting transactions.

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, 2011, or the results of operations, or cash flows where applicable, for the year 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 and liabilities 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.

## 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 cost. Contributed capital assets are valued at their estimated fair value on the date donated. 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 operating expenses.

## Other Long Term Assets

Deferred debt issuance costs are recorded as other long term assets and amortized over the life of the debt issuance using the straight line method.

## Liabilities

Amounts due within one year are reported as current liabilities. Amounts owed after one year are reported as noncurrent liabilities. Liabilities restricted in nature are distinguished as such in the financial statements. CBE liabilities are detailed in Note 5.

## Net Assets

The net assets of the CBE are classified as follows:

***Restricted net assets***

Restricted net assets represent resources in which the CBE is contractually obligated to spend or reserve in accordance with restrictions imposed by external parties. Also included are capital assets net of related debt.

***Unrestricted net assets***

Unrestricted net assets represent resources derived from services provided to borrowers, lenders, and collection activities. 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 non-operating. Operating revenues and expenses generally result from providing services or incurring expenses in connection with the CBE's principal activities. Non-operating 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 statutory limitations.

### Application of FASB Statements

As an enterprise fund, the CBE operates as a business-type activity. It follows all current GASB pronouncements as well as all Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 except those that conflict with a GASB pronouncement.

## NOTE 2 – CASH ON DEPOSIT WITH THE STATE TREASURER

The CBE deposits cash with the Colorado State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2011, the cash balance was as follows:

| | |
|---|---|
| Cash on deposit with State Treasurer | $37,783,743 |
| State Treasurer pooled cash investments – unrealized gain | 582,462 |
| **Total** | **$38,366,205** |

The combined total of $38.4 million is approximately .6% percent of the total $6.1 billion fair value of deposits in the State Treasurer's Pool (Pool).

The CBE reports its share of the Treasurer's unrealized gains/losses based on its participation in the Pool. All of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at June 30, 2011. The State Treasurer does not invest any of the Pool resources in any external investment pool, and there is no assignment of income related to participation in the Pool. The unrealized gain included in "Investment Income" reflects only the change in fair value during the current fiscal year. Additional information on the Treasurer's pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report.

## NOTE 3 – LONG TERM INVESTMENTS

CBE has also recorded long-term investments as of June 30, 2011 in the amount of $341,196,523. This amount represents debt proceeds held by CBE's trustee, Wells Fargo Bank. The 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. The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1.

Investments in the Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the state's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the state's name. As of June 30, 2011, none of the investments in the State Treasurer's Pool are subject to custodial credit risk.

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of June 30, 2011, approximately 86.7 percent of investments of the Treasurer's Pool are subject to credit quality risk reporting. Except for $18,384,300 of corporate bonds rated lower medium and $15,015,000 of corporate bonds rated as very speculative, these investments are rated from upper medium to the highest quality, which indicates that the issuer has strong capacity to pay principal and interest when due.

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on the types of investments, the State Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. As of June 30, 2011, the weighted average maturity of investments in the Treasurer's Pool is 0.015 years for Commercial Paper (1.3 percent of the Pool), 1.054 years for U.S. Government Securities (81.7 percent of the Pool), 1.06 years for Asset Backed Securities (6.9 percent of the Pool), and 3.133 years for Corporate Bonds (10.1 percent of the Pool).

The Treasurer's Pool was not subject to foreign currency risk or concentration of credit risk in Fiscal Year 2010-11.

## NOTE 4 – ACCOUNTS RECEIVABLE

The CBE records a receivable for FASTER revenues expected to be received in the following month. The amount is calculated by the State Department of Revenue based on historical collections.

The 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 Wells Fargo bank acting as trustee and invested for the trustee by the Colorado State Treasury per an Investment Agreement. Interest due on the balance at June 30, 2011 is recorded by CBE.

The amounts recorded as receivables are as follows:

| | |
|---|---|
| FASTER revenues receivable | $6,315,178 |
| Trustee interest receivable | 439,818 |
| Local government receivable | 112,907 |
| Federal government receivable | 1,826,051 |
| **Total accounts receivable** | **$8,693,954** |

## NOTE 5 – ACCRUED LIABILITIES

Liabilities due and payable on June 30, 2011 have been calculated and recorded as follows:

| | |
|---|---|
| Accrued interest expense on debt issuance | $1,519,500 |
| Retainage payable | 302,438 |
| Accrued compensation payable | 353,273 |
| Accrued project costs payable | 4,945,436 |
| Other payables | 5,635 |
| **Total accrued liabilities** | **$7,126,282** |

## NOTE 6 – CAPITAL ASSETS

At the inception of the Colorado Bridge Enterprise an analysis of bridges determined to be in poor condition was performed. Only two of these bridges were determined to have a value greater than $500,000 and were capitalized. At the end of FY 2011, another bridge has been capitalized. They are depreciated using straight line methodology over a useful life of 75 years. Costs capitalized include payroll and related expenses.

A summary of changes in capital assets is as follows for the year ended June 30, 2011:

| | Balance July 1, 2010 | Additions | Disposals | Balance June 30, 2011 |
|---|---|---|---|---|
| Assets under construction | $ 1,955,381 | $ 33,078,251 | $ 0 | $ 35,033,632 |
| Bridges | 0 | 4,161,744 | 0 | 4,161,744 |
| Less accumulated depreciation | 0 | (48,484) | 0 | (48,484) |
| **Capital assets, net** | **$ 1,955,381** | **$ 37,191,511** | **$ 0** | **$ 39,146,892** |

## NOTE 7 – LONG TERM LIABILITIES

The CBE has incurred debt as follows:

| | Balance July 1, 2010 | Issuances | Retirements | Balance June 30, 2011 | Amount due within one year |
|---|---|---|---|---|---|
| Short-term loan | $40,000,000 | $ 0 | $40,000,000 | $ 0 | $ 0 |
| Bridge Enterprise Revenue Bonds | | 300,000,000 | 0 | 300,000,000 | 0 |
| **Total** | **$40,000,000** | **$300,000,000** | **$40,000,000** | **$300,000,000** | **$ 0** |

On June 25, 2010, Colorado Bridge Enterprise obtained a tax-exempt short-term loan in the amount of $40.0 million. The loan proceeds were to be used to design and/or repair deficient or functionally obsolete bridges throughout the State.

The loan had a variable tax exempt rate of 65 percent of British Bankers' Association London Interbank Offering Rate (BBA LIBOR) Daily Floating Rate plus 60 basis points (bps). The BBA LIBOR Daily Floating Rate was capped at 90 bps. The maximum rate as calculated by the Department of Transportation was 1.2 percent. The loan was due and payable on March 15, 2011 but the CBE subsequently retired the debt associated with the $40 million loan on November 30, 2010 with FASTER revenues collected to date. That change is represented in the financial statements as a decrease in current liabilities from FY 2009-10 to FY 2010-11. Total interest paid on the loan was $134,681.

On December 10, 2010, the Colorado Bridge Enterprise issued $300 million in Colorado Bridge Enterprise Revenue Bonds Series 2010A for the purpose of financing the project costs. The CBE currently anticipates that all or a portion of the construction and/or design costs related to the bridge projects will be financed or refinanced with a portion of the proceeds of the Series 2010A

Bonds. The Series 2010A Bonds were issued as taxable, Build America Bonds, 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.

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 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. The CBE currently anticipates that all or a portion of the construction and/or design costs related to the bridge projects will be financed or refinanced with a portion of the proceeds of the Series 2010A Bonds.

The proceeds of this issuance are recorded as long term debt in the financial statements with interest payable as of June 30, 2011 recorded as current. Interest payments are due on June 1 and December 1 of each year. The first interest payment in the amount of $8,407,900 was paid on June 1, 2011. A portion of the Bonds mature by 2027 with the balance due by 2040. The debt proceeds are held by the Trustee, Wells Fargo 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 Build America Bond 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 8.

This issuance is further detailed in a Memorandum of Agreement between the Federal Highway Administration and CDOT.

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

### Colorado Bridge Enterprise Series 2010A Bonds

| Fiscal Year | Interest Due | Principal Due | Less BAB Subsidy | Net Debt Service Payment |
|---|---|---|---|---|
| 2012 | $18,234,000 | $ 0 | $6,381,900 | $ 11,852,100 |
| 2013 | 18,234,000 | 0 | 6,381,900 | 11,852,100 |
| 2014 | 18,234,000 | 0 | 6,381,900 | 11,852,100 |
| 2015 | 18,234,000 | 0 | 6,381,900 | 11,852,100 |
| 2016 | 18,234,000 | 0 | 6,381,900 | 11,852,100 |
| 2017 to 2021 | 91,170,000 | 0 | 31,909,500 | 59,260,500 |
| 2022 to 2026 | 90,753,201 | 13,715,000 | 31,763,620 | 72,704,581 |
| 2027 to 2031 | 75,625,363 | 77,315,000 | 26,468,877 | 126,471,486 |
| 2032 to 2036 | 49,645,256 | 94,195,000 | 17,375,840 | 126,464,416 |
| 2037 to 2041 | 17,990,728 | 114,775,000 | 6,296,755 | 126,468,973 |
| **Total Payments** | **$416,354,548** | **$300,000,000** | **$145,724,092** | **$570,630,456** |

## NOTE 8 – AVAILABILITY OF FEDERAL FUNDS

Although the Transportation Commission has adopted resolution TC-1925 in November 2010 expressing its intent to annually consider allocating and transferring from CDOT to the Colorado Bridge Enterprise $15 million of eligible federal funds, the Transportation Commission is not obligated to make such transfers. For the year ended June 30, 2011, $11,447,180 was allocated to the Colorado Bridge Enterprise. The decision whether or not to allocate and transfer such federal funds will be made on an annual basis and will be in 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 many be adversely impacted by federal budgeting and appropriation constraints or changes in federal law. There is no assurance that such federal funds will be available in future years to pay costs associated with designated bridge projects or to pay debt service on the series 2010A bonds.

## NOTE 9 – PENSION PLANS

### A. PLAN DESCRIPTION

CDOT employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan administered by the Public Employees' Retirement

Association (PERA). PERA was established by State statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA.

Changes to the plan require an actuarial assessment and legislation by the General Assembly. The State plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting http://www.copera.org.

New employees, excluding four-year college and university employees, are allowed 60 days to elect to participate in PERA's defined contribution retirement plan. If that election is not made, the employee becomes a member of PERA's defined benefit plan. Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan, or the institution's optional retirement plan. Currently, higher education employees, except for community college employees, are required to participate in their institution's optional plan, if available, unless they are active or inactive members of PERA with at least one year of service credit. In that case they may elect either PERA or their institution's optional plan. Community college employees hired after January 1, 2010, are required to become members of PERA's defined benefit or defined contribution plan.

PERA members electing the defined contribution plan are allowed an irrevocable election between the second and fifth year to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. However, making this election subjects the member to the rules in effect for those hired on or after January 1, 2007, as discussed below. Employer contributions to defined contribution plan is the same as the contributions to the PERA defined benefit plan.

Based on changes in the 2010 legislative session slightly different plan requirements were in effect until December 31, 2010. The following requirements were effective at June 30, 2011.

Plan members (except State troopers) are eligible to receive a monthly retirement benefit when they meet age and service requirements based on their original hire date as follows:

- Hired before July 1, 2005 – age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between January 1, 2007 and December 31, 2010 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service. For employees hired before January 1, 2007, age and service requirements increase to those required for members hired between January 1, 2007 and December 31, 2010 if the member has less than five years of service credit as of January 1, 2011.
- Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, or age 65 with 5 years of service.

- Hired on or after January 1, 2017 – any age with 35 years of service, age 60 with 30 years of service, or age 65 with 5 years of service.

Members with five years of service credit at January 1, 2011, are also eligible for retirement benefits without a reduction for early retirement based on the original hire date, as follows:

- Hired before January 1, 2007 – age 55 and age plus years of service equals 80 or more.
- Hired between January 1, 2007 and December 31, 2010 – age 55 and age plus years of service equals 85 or more. For members hired before January 1, 2007, age plus years of service increase to 85 for members with less than five years of service credit as of January 1, 2011.
- Hired between January 1, 2011 and December 31, 2016 – age 58 and age plus years of service equals 88 or more.
- Hired on or after January 1, 2017 – age 60 and age plus years of service equals 90.

State troopers and judges comprise a small percentage of plan members but have higher contribution rates, and State troopers are eligible for retirement benefits at different ages and years of service.

Most members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5 percent times the number of years of service times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit and limited to a 15 percent increase between periods if the salaries used were from the last three years of employment. For retirements after January 1, 2009, four periods are used and are ranked from lowest to highest with the maximum increase between years limited to 15 percent. For members hired on or after January 1, 2007, the maximum increase between ranked periods is 8 percent. Notwithstanding any other provisions, members first eligible for retirement after January 2, 2011 have a maximum increased between periods of 8 percent.

Retiree benefits are increased annually in July after one year of retirement based on the member's original hire date as follows:

- Hired before July 1, 2007 – the lesser of 2 percent or the average of the monthly Consumer Price Index increases.
- Hired on or after January 1, 2007 – the lesser of 2 percent or the actual increase in the national Consumer Price Index, limited to a 10 percent reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)

- The upper limits on benefits increase by one-quarter percentage point each year when the funded ratio of PERA equals or exceeds 103 percent and declines by one-quarter percentage point when the funded ratio drops below 90 percent after having exceeded 103 percent. The funded ratio increase does not apply for three years when a negative return on investment occurs.
- Members who are disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, their eligible children under the age of 18 (23 if a full time student) or their spouse may be entitled to a single payment or monthly benefit payments. If there is no eligible child or spouse then financially dependent parents, beneficiaries, or the member's estate, may be entitled to a survivor's benefit.

**B. FUNDING POLICY**

The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly. Salary subject to PERA contribution is gross earnings less any reduction in pay to offset employer contributions to the State sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code.

Most employees contribute 8.0 percent (10.0 percent for State troopers) of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. Effective July 1, 2010 Senate Bill 10-146 requires members in the State and Judicial Divisions to pay 2.5 percent additional member contributions through June 30, 2011. Employer contributions for members in these two divisions will be reduced by 2.5 percent. Senate Bill 11-076 continued these contribution rates through June 30, 2012.

From July 1, 2010, to December 31, 2010, the State contributed 11.35 percent (14.05 percent for State troopers and 14.86 percent for the Judicial Branch) of the employee's salary. From January 1, 2011, through June 30, 2011, the State contributed 12.25 percent (14.95 percent for State troopers and 14.86 percent for the Judicial Branch). During all of Fiscal Year 2010-11, 1.02 percent of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2010, the division of PERA in which the State participates has a funded ratio of 62.8 percent and a 47 year amortization period based on current contribution rates. The funded ratio on the market value of assets is lower at 61.3 percent.

In the 2004 legislative session, the general assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional .5 percent of salary beginning January 1, 2006, another .5 percent of salary in 2007, and subsequent year increases of .4 percent of salary until the additional payment reaches 3.0 percent in 2012.

In the 2006 legislative session, the general assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries paid beginning January 1, 2008. The SAED is scheduled to

Increase by one-half percentage point through 2013 resulting in a cumulative increase of three percentage points. For State employers, each year's one half percentage point increase in the SAED will be deducted from the amount of changes to State employees' salaries, and used by the employer to pay the SAED.

In the 2010 legislative session, the General Assembly extended both the AED and SAED. The AED will continue to increase at a rate of 0.4 percent of salary from calendar years 2013 through 2017. The SAED will continue to increase by one-half percentage point from calendar years 2014 through 2017. Both the AED and SAED will be reduced by one-half percent point when funding levels reach 103 percent, and both will be increased by one-half percent point when the funding level subsequently falls below 90 percent. Neither the AED nor the SAED may exceed 5 percent.

Historically members have been allowed to purchase service credit at reduced rates. However, legislation passed in the 2006 session required, that future agreements to purchase service credit be sufficient to fund the related actuarial liability.

CBE's contributions to the PERA defined benefit plan for the fiscal years ending June 30, 2011, and 2010 were $264,268 and $63,397 respectively. These contributions met the contribution requirement for each year.

## NOTE 10 – OTHER RETIREMENT PLANS

### Defined Contribution Plan

The PERA Defined Contribution Retirement Plan was established January 1, 2006, as an alternative to the defined benefit plan. All employees, with the exception of certain higher education employees, have the option of participating in the plan. New member contributions to the plan vest from 50 percent to 100 percent evenly over 5 years. Participants in the plan are required to contribute 8 percent (10 percent for state troopers) of their salary. For Fiscal Years 2009-10 and 2010-11 the legislature temporarily increased the required contribution rate to 10.5 percent (12.5 percent for State Troopers). At December 31, 2010, the plan had 3,479 participants.

### Deferred Compensation Plan

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2010, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution with a temporarily increase to 10.5 percent for Fiscal Years 2010-11 and 2011-12) to a maximum of $16,500. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional $5,500 contribution in 2010, for total contributions of $22,000. Contributions and earnings are tax deferred. At December 31, 2010, the plan had 18,215 participants.

PERA also offers a voluntary 401k plan entirely separate from the defined benefit pension plan, the deferred compensation plan, and the defined contribution plan. Certain agencies and institutions of the State offered 403(b) or 401(a) plans.

## NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS AND LIFE INSURANCE

### Health Care Plan

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the program was converted to a trust fund in 1999. The plan is a cost-sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for health care coverage. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its Comprehensive Annual Financial Report, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting http://www.copera.org.

After the PERA subsidy, the benefit recipient pays the balance of the premium through an automatic deduction from the monthly retirement benefit. Monthly premium costs for participants depend on the health care plan selected, the PERA subsidy amount, Medicare eligibility, and the number of persons covered. Effective July 1, 2000, the maximum monthly subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare and $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 maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5 percent for each year less than 20 years.

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed above in Note 9 B. Beginning July 1, 2004, State agencies/institutions are required to contribute 1.02 percent of gross covered wages to the Health Care Trust Fund. CBE contributed $24,587 and $6,321 as required by statute in Fiscal Years 2010-11 and 2009-10, respectively. In each year the amount contributed was 100 percent of the required contribution.

The Health Care Trust Fund offers two general types of plans: fully-insured plans offered through health care organizations and self-insured plans administered for PERA by third party vendors. As of December 31, 2010, there were 48,455 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2010, the Health Care Trust Fund had an unfunded actuarial accrued liability of $1.35 billion, a funded ratio of 17.5 percent, and a 42-year amortization period. The actuarial valuation was based on the entry age cost method, an 8 percent investment rate of return, a 4.5 percent projection of salary increases (assuming a .75 percent inflation rate), a 3.5 percent annual medical claims increase, no post-retirement benefit increases, and a level dollar amortization on an open basis over 30 years.

## NOTE 12 – 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 changes in insurance coverage from the prior year in any of the above mentioned risk management arrangements.

## NOTE 13 – 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% of their annual revenue in grants from all state and local governments combined. The Colorado Bridge Enterprise qualifies as an Enterprise pursuant to C.R.S. 43-4-805.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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

Members of the Legislative Audit Committee:

We have audited the basic financial statements of the Colorado Bridge Enterprise (the Enterprise), an enterprise fund of the State of Colorado, Department of Transportation as of and for the year ended June 30, 2011, and have issued our report thereon dated November 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

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

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 misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

**Compliance and Other Matters**

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

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

Clifton Gunderson LLP

Greenwood Village, Colorado
November 29, 2011

Clifton Gunderson LLP
Certified Public Accountants & Consultants

**Independent Auditor's**
**Required Communications to the Legislative Audit Committee**

November 29, 2011

Members of the Legislative Audit Committee:

This letter is to provide you with information about significant matters related to our audit of the financial statements of the Colorado Bridge Enterprise for the year ended June 30, 2011.

The following are our observations arising from the audit that are relevant to management's responsibilities in overseeing the financial reporting process.

**Auditor's Responsibilities under Generally Accepted Auditing Standards.** Our audit was performed for the purpose of forming and expressing opinions about whether the financial statements, that have been prepared by management, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit does not relieve management of its responsibilities.

**Other Information in Documents Containing Audited Financial Statements.** In connection with the Colorado Bridge Enterprise's financial statements, we did not perform any procedures or corroborate other information included in the report. However, we read management's discussion and analysis of financial conditions and results of operations and considered whether the information or the manner in which it was presented was materially inconsistent with information or the manner of presentation of the financial statements. Based on our reading, we concluded that the information did not require revision.

**Significant Issues Discussed with Management Prior to Retention.** We discuss various matters with management prior to retention as the Colorado Bridge Enterprise's auditors. These discussions occur in the normal course of our professional relationship. There were no significant issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors.

**Consultations with Other Accountants.** We were informed by management that they made no consultations with other accountants on the application of generally accepted accounting principles or generally accepted auditing standards.

**Qualitative Aspects of Accounting Practices.**

*Accounting Policies*
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Colorado Bridge Enterprise are described in Note 1 to

the financial statements. There were no significant accounting policies or their application which were either initially selected or changed during the year. We noted no transactions in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

There were no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

*Accounting Estimates*
Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The following is management's description of the process utilized in forming estimates for depreciation expense and capitalized interest:

- The Enterprise's capital assets are depreciated using the straight-line method over the useful life of the asset. All depreciable capital assets are bridges and are depreciated using an estimated useful live of 75 years.
- The Enterprise estimates capitalized interest based on the interest rate on its Build America Bond issuance and expenses incurred in constructing bridges.

*Financial Statement Disclosures*
Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

**Corrected Misstatements.** There were no misstatements detected as a result of audit procedures and correct by management that were material, either individually or in the aggregate, to the financial statements taken as a whole.

**Difficulties Encountered in Performing the Audit.** We encountered no significant difficulties in dealing with management related to the performance of our audit.

**Representations from Management.** We have requested and received representations from management.

**Disagreements with Management.** There were no disagreements with management on financial accounting and reporting matters, auditing procedures, or other matters which would be significant to the Colorado Bridge Enterprise's financial statements or our report on those financial statements.

Please contact Bill Petri if you have any questions regarding the matters included in this letter.

Clifton Gunderson LLP

**BRIDGE ENTERPRISE**
**DEPARTMENT OF TRANSPORTATION, STATE OF COLORADO**

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