

**State of Colorado Public Officials and Employees Defined
Contribution Retirement Plan**

Accountants' Report and Financial Statements

June 30, 2009 and 2008

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State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

June 30, 2009 and 2008

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State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Report Summary
June 30, 2009 and 2008

Purposes and Scope of Audit

The purposes and scope of this audit were the following:

- Express an opinion on the statement of fiduciary net assets and the related statement of changes in fiduciary net assets of the State of Colorado Public Officials and Employees Defined Contribution Retirement Plan (the Plan) as of and for the year ended June 30, 2009, 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*.
- Evaluate compliance with certain provisions of laws, regulations, and contracts for the year ended June 30, 2009.
- Issue a report on the Plan's compliance with certain provisions of laws, regulations, and contracts and on internal control over financial reporting based on our audit of the financial statements performed in accordance with *Government Auditing Standards*.
- Evaluate progress in implementing prior audit recommendations.

Summary of Major Audit Comments

Audit Findings and Financial Statement Audit Report Section

The Description of Audit Findings and Recommendations section contains the following:

- The external auditor did not receive the initial draft of the Plan's financial statements from the Department of Personnel & Administration (the Department) until November 11, 2009, which was subsequent to the October 31, 2009, deadline for the external auditors to issue their financial and compliance audit report.
- The Department did not comply with Colorado Revised Statutes (C.R.S.) 24-30-204(2), which provides for quarterly reporting of financial information to the Office of the State Controller and the Plan's financial activity was not timely and accurately recorded or reviewed, which resulted in adjustments to the trial balance amounts being identified by the external auditors. The external auditors proposed, and the Department recorded, journal entries considered necessary to materially present the Plan's financial statements in accordance with accounting principles generally accepted in the United States of America.

Summary of Progress in Implementing Prior Audit Recommendations

The report for the year ended June 30, 2008, included one recommendation. This recommendation was not implemented.

The report for the year ended June 30, 2008, also noted one recommendation from the audit for the year ended June 30, 2007. This recommendation was implemented.

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Report Summary (continued)

June 30, 2009 and 2008

The report for the year ended June 30, 2008, also noted one recommendation from the audit for the year ended June 30, 2006, that was deferred until the Plan changes bundled service providers in June 2010.

Audit Opinions and Reports

The independent accountants' reports included herein, which contained an explanatory paragraph regarding required supplementary information, expressed unqualified opinions on the Plan's statements of fiduciary net assets as of June 30, 2009 and 2008, and the related statements of changes in fiduciary net assets for the years then ended and the accompanying supplemental schedules. These financial statements and schedules are the responsibility of the Plan's management.

An instance of noncompliance considered material to the financial statements was disclosed by the audit.

We noted certain areas in which the Plan could improve its internal controls and other procedures. These areas are discussed in the Description of Audit Finding and Recommendation section of this report. We did identify a deficiency in internal control over financial reporting that we consider to be a significant deficiency as defined below. We also consider the identified significant deficiency to be a material weakness as defined below.

A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Plan's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Plan's financial statements that is more than inconsequential will not be prevented or detected by the Plan's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Plan's internal control.

Significant Audit Adjustments

Areas in which corrected misstatements were aggregated during the current engagement and pertaining to the latest period presented were determined by management to be material, both individually and in the aggregate, to the financial statements as a whole. These areas included the following:

- The plan assets held within the Plan's Defined Contribution Plan Pension Trust Fund and related activity (e.g., contributions, participant withdrawals, interest and dividend income, and net investment loss) were not properly reconciled to the Plan's investment statements as of and for the year ended June 30, 2009. The following aggregated variances were identified by the external auditors and adjustments were made to correct these identified variances:
 - Plan assets were overstated by \$35,182

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Report Summary (continued)

June 30, 2009 and 2008

- Employer contributions were overstated by \$508,156
- Participant contributions were overstated by \$209,449
- Participant withdrawals were overstated by \$90,333
- Interest and dividend income was understated by \$211
- Net investment loss was overstated by \$591,879

The effect of the corrected misstatements was to decrease plan assets by \$35,182, decrease employer contributions by \$508,156, decrease participant contributions by \$209,449, decrease participant withdrawals by \$90,333, increase interest and dividend income by \$211, and decrease net investment loss by \$591,879.

Areas in which uncorrected misstatements were aggregated during the current engagement and pertaining to the latest period presented were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole. These areas included the following:

- The Plan's contributions and participant withdrawals were overstated by \$6,048.

The effect of the uncorrected misstatements, had they been recorded, would have been to decrease employer and participant contributions by \$3,732 and \$2,316, respectively, and to decrease participant withdrawals by \$6,048.

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Recommendation Locator
Year Ended June 30, 2009

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
1	8	The Department should provide draft financial statements to the external auditors in a timely manner.	Agree	Effective July 1, 2009, the Plan's administrative functions were transferred to the Public Employees Retirement Association (PERA).
2	9	The Department should implement processes by which it ensures that all financial activity is timely and accurately recorded, and reviewed by the appropriate personnel.	Agree	Effective July 1, 2009, the Plan's administrative functions were transferred to PERA.

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Description of the Plan June 30, 2009 and 2008

Description and Background

The Deferred Compensation Committee (the Committee) assumed the fiduciary responsibility of the State of Colorado Public Officials and Employees Defined Contribution Retirement Plan (the Plan) effective July 1, 2002, under Senate Bill 02-231. Statutory authority for the Plan is referenced in Sections 24-52-201 to 24-52-208, C.R.S. The three Bundled Providers (retirement service providers handling participant investments and contributions) for the Plan for 2009 and 2008 (effective July 1, 2005) are Great-West Life Annuity and Insurance Company, The Hartford, and ICMA-RC.

The composition of the Committee is specified under Section 24-52-102(1)(a)(I)(B), C.R.S., as:

- The State Treasurer or designee.
- The State Controller or designee.
- Four employees who are participants in the Plan, one of whom may be a retiree who is a participant in the plan, elected by participants.
- One Governor's appointee who is a participant in the Plan.
- One Senator or former Senator, who is a participant in the Plan, appointed by the President of the Senate.
- One Representative or former Representative, who is a participant in the Plan, appointed by the speaker of the House of Representatives.

The Committee is staffed by the Employee Benefits Unit within the Department of Personnel and Administration (the Department).

Growth of the Plan

The Plan became effective January 1, 1999, as a result of House Bill 98-1191. At that time there were approximately 500 eligible employees as referenced in the definition of eligibility in Section 24-52-202(3), C.R.S. From its inception until January 1, 2006, the eligibility for the Plan was primarily elected and appointed state officials. Effective January 1, 2006, the Plan was expanded under Senate Bill 06-235 to include newly hired state employees and is now one of three retirement choices for new employees. New employees, except for those at Higher Education Institutions (four-year colleges and community colleges) and Judges, have retirement choices among the Plan, the Public Employees Retirement Association Defined Benefit Plan (PERA DB Plan) or the Public Employees Retirement Association Defined Contribution Plan (PERA DC Plan).

In 2006, Senate Bill 06-235 repealed the decision to exclude Higher Education Institutions, therefore including them in retirement choice effective January 1, 2008. Subsequently, House Bill 07-1377 removed employees of the community colleges from the Plan.

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

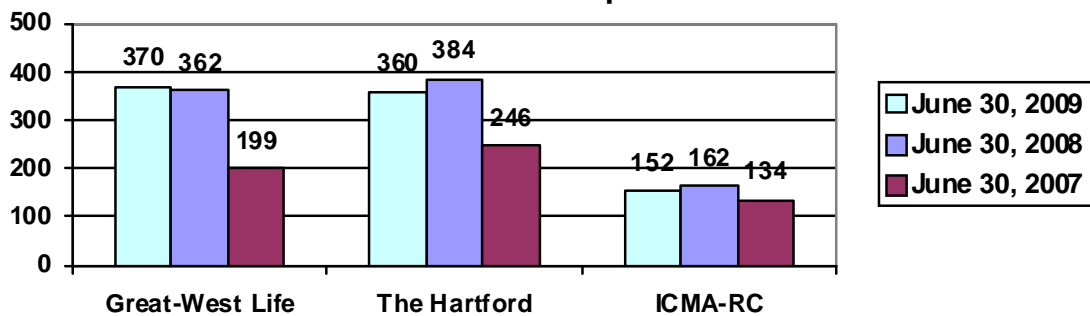
Description of the Plan (continued)

June 30, 2009 and 2008

The redundancy of two defined contribution options plus a defined benefit option were confusing to new hires; therefore, pursuant to Senate Bill 09-066 and effective July 1, 2009, the Plan was merged with the PERA DC Plan, and administrative duties were transferred from the Department to the Public Employees Retirement Association (PERA). The merger and transfer of administrative duties should provide for greater efficiencies via use of the existing administration infrastructure at PERA, as well as narrowing the choices for new hires to a single defined contribution plan and a defined benefit plan.

The table below shows the number of active participants for each of the Bundled Providers under the Plan for Fiscal Years ending June 30, 2007, 2008 and 2009. New hires since January 1, 2006, who did not choose the Plan, have either chosen the PERA DB or DC Plan, defaulted to the PERA DB Plan due to the 12-month look back for eligibility, or were placed in the PERA DB Plan because they did not make a timely decision within 60 calendar days of hire date.

**State of Colorado Defined Contribution Plan
Active Participants**



In total, the Plan had 882 active participants as of June 30, 2009. This was a slight decrease from 908 active participants as of June 30, 2008, due in part to the State of Colorado's mandatory hiring freeze as well as the pending transition of the Plan, which led to fewer new employees choosing the Plan. The number of actively participating employees varies greatly each year because many of the participants work in the legislature and the session ends in May.

Administrative Fee

The Department's costs to administer the Plan are reimbursed entirely from the Bundled Providers based on investment management fees assessed quarterly on participant accounts per Section 24-52-203(9)(a), C.R.S. Therefore no explicit administrative fees are charged by the State to participants for administration of the Plan per Section 24-52-203(9)(c), C.R.S. The Bundled Providers may seek reimbursement of administrative fees from Plan participants in Section 24-52-203(9)(c), C.R.S.

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Description of the Plan (continued)

June 30, 2009 and 2008

Plan Investment Options

Each bundled service provider allows participants a wide selection of investment options consisting of mutual funds with varying risk levels. The investments provided are categorized as aggressive, moderate or conservative, based on the holdings of the funds upon the growth and security requirements of the participant. The aggressive portfolios have increased inherent risk and are expected to provide higher growth rates over the long term. The conservative funds focus on more stable investments with less growth potential over the long term.

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Description of Audit Findings and Recommendations

June 30, 2009

Financial Reporting

The external auditors, in accordance with the contract with the Office of the State Auditor, are required to issue a financial and compliance audit report by October 31, which includes an opinion on the basic financial statements, as well as any findings and recommendations resulting from the audit. Delays in completing the audit impact the State's ability to complete its financial reporting process in a timely manner.

The external auditors discussed the proposed timeline for the Fiscal Year 2009 audit with the Department staff at the entrance conference. Specifically, the financial statements would be provided by the Department by mid-September; however, the Department did not provide the initial draft of the financial statements until November 11, 2009. This caused a delay in the external auditors' ability to meet their contractual obligations with the Office of the State Auditor.

Though substantially all of the audit test work was completed by October 31, the reporting process and issuance of the financial and compliance audit report extended well past the deadline.

Recommendation No. 1

We recommend the Department of Personnel and Administration expedite the closing and financial reporting processes, including coordination of deadlines with the external auditor and the Office of the State Auditor.

Department's Response

Agree. Implementation Date: Effective July 1, 2009, the Plan's administrative functions were transferred to the Public Employees Retirement Association (PERA).

Financial Reporting and General Ledger Trial Balance Adjustments

CRS 24-30-204(2) provides for all state departments, institutions and agencies to submit a quarterly report of financial information to the Office of the State Controller. Timely and accurate financial reporting is vital for the proper functioning of state government. The Colorado Financial and Reporting System (COFRS) is the system used for recording timely and accurate financial data and from which COFRS standard reports shall be prepared and forwarded to the State Controller in compliance with the reporting requirement of this law. Prior to July 1, 2009, the Department was charged with the financial oversight of the Plan and was responsible for the Plan's quarterly financial reporting.

The Department obtains investment statements from the Plan's bundled service providers. These investment statements provide detail of the plan assets held within the Plan's Defined Contribution Plan Pension Trust Fund and related activity (e.g., contributions, participant withdrawals, interest and dividend income, and net investment loss). The Department's accounting personnel prepare a reconciliation of the Plan's financial information based on these investment statements and record the reconciled financial information in the general ledger.

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Description of Audit Findings and Recommendations (continued)

June 30, 2009

During the Fiscal Year 2009 audit, we tested the Department's controls over quarterly financial reporting as required by CRS 24-30-204(2). We found that the Department was not in compliance with the quarterly reporting provisions of CRS 24-30-204(2) as the Department failed to record the Plan's financial activity, on a quarterly basis, in COFRS during Fiscal Year 2009. Annual financial information was reported in COFRS during the year-end close, which occurred in July 2009. According to the Department's accounting personnel, quarterly activity was not reflected in COFRS as the plan personnel did not timely record and review the Plan's financial information during the fiscal year. As a result of the Department's noncompliance, the required financial information for the Plan was not available on a quarterly basis to the Office of the State Controller throughout Fiscal Year 2009.

In connection with the Fiscal Year 2009 year-end close, the Department's accounting personnel recorded the Plan's financial information in the general ledger from the reconciliation prepared by the Department. This reconciliation was based on the investment statements obtained from the Plan's bundled service providers. According to the Department's accounting personnel, this reconciliation was not reviewed by the appropriate Department personnel prior to the recording of the Plan's financial information in the general ledger. As a result of this reconciliation not being reviewed by the appropriate Department personnel, we noted the reconciliation did not agree to the investment statements and proposed adjustments to the Plan's financial information recorded in the general ledger. To correct the reconciliation errors noted, the Department recorded general ledger trial balance adjustments that, in aggregate, decreased plan assets by \$35,182, decreased employer contributions by \$508,156, decreased participant contributions by \$209,449, decreased participant withdrawals by \$90,333, increased interest and dividend income by \$211, and decreased the net investment loss by \$591,879.

Recommendation No. 2

We recommend the Department of Personnel and Administration implement processes by which it ensures that all financial activity is timely and accurately recorded in COFRS and reviewed by the appropriate personnel.

Department's Response

Agree. The Department has taken steps to improve the review process over all accounting functions and to ensure that all reporting is completed timely, in accordance with the quarterly reporting requirements.

Implementation Date: Effective July 1, 2009, the Plan's administrative functions were transferred to PERA.

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Disposition of Prior Audit Recommendations

June 30, 2009 and 2008

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2008, included one recommendation. The disposition of this audit recommendation as of December 16, 2009, was as follows:

Recommendation Number	Recommendation	Disposition
1	Expedite the closing and financial reporting processes.	<p>Not implemented. The Department did not provide the external auditors with an initial draft of the Fiscal Year 2009 financial statements until November 11, 2009. See Fiscal Year 2009 Recommendation No. 1.</p> <p>Implementation Date: Effective July 1, 2009, the Plan's administrative functions were transferred to PERA.</p>

Comment from the June 30, 2007, audit that was not fully implemented during Fiscal Year 2008 and the disposition of this audit recommendation as of December 16, 2009, was as follows:

Recommendation Number	Recommendation	Disposition
1	<p>a) Establish adequate training for benefits administrators.</p> <p>b) Establish procedures to timely identify and monitor the transfer of assets from PERA.</p>	<p>a) Implemented.</p> <p>b) Implemented.</p>

Comment from the June 30, 2006, audit for which implementation was deferred until June 2010 is as follows:

Recommendation Number	Recommendation	Disposition
1	Perform asset transfer reconciliations in a timely manner.	<p>Deferred. The Department plans to document the processes and procedures performed to reconcile the transfer of Plan assets when the Plan changes bundled service providers in June 2010.</p> <p>Implementation Date: Effective July 1, 2009, the Plan's administrative functions were transferred to PERA.</p>

Independent Accountants' Report on Financial Statements and Supplementary Information

Members of the Legislative Audit Committee
Denver, Colorado

We have audited the accompanying statements of fiduciary net assets of the State of Colorado Public Officials and Employees Defined Contribution Retirement Plan (the Plan) as of June 30, 2009 and 2008, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the Plan's management. 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 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 audits provide a reasonable basis for our opinion.

As discussed in the Summary of Significant Accounting Policies, the financial statements of the Plan are intended to present the fiduciary net assets and the changes in fiduciary net assets for only that portion of the financial reporting entity of the State of Colorado that is attributable to the transactions of the Plan.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of June 30, 2009 and 2008, and the changes in its fiduciary net assets for the years 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 December 16, 2009, on our consideration of the Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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 accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the

Governmental Accounting Standards Board. 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ BKD, LLP

December 16, 2009

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Management's Discussion and Analysis

June 30, 2009, 2008 and 2007

The following discussion and analysis is supplementary information required by the Governmental Accounting Standards Board (GASB) and is intended to provide background and summary information for the State of Colorado Public Officials and Employees Defined Contribution Plan (the Plan). This discussion and analysis should be read in conjunction with the Description of the Plan on pages 5–7 and the financial statements, including notes, which begin on page 16.

The Plan is governed by a Deferred Compensation Committee and is staffed by the Employee Benefits Unit within the Department of Personnel and Administration, Division of Human Resources. Effective July 1, 2009, pursuant to Senate Bill 09-066, the Plan was merged with the Public Employees Retirement Association Defined Contribution Plan (PERA DC Plan) and the Plan's administrative functions were transitioned to the Public Employees Retirement Association (PERA).

There are two financial statements presented for fiduciary funds. The Statement of Fiduciary Net Assets indicates the net assets available to pay future payments and gives a snapshot at a particular point in time. The Statement of Changes in Fiduciary Net Assets provides a view of the additions and deductions to the Plan during the year.

Below is a comparison of Fiscal Year 2009, 2008, and 2007 financial activity for the Plan. Specific notable items are as follows:

Financial Highlights

The ending balance in Cash in Bank and with State Treasurer decreased from about \$120,000 in Fiscal Year 2008 to about \$54,000 in Fiscal Year 2009 due to the impending merger of the Plan with the PERA DC Plan and the impending transition of the Plan's administrative functions to PERA on July 1, 2009, and, consequently, no funds were requested or received from the bundled service providers for future administration of the Plan. The ending balance in Cash in Bank and with State Treasurer increased from about \$66,200 in Fiscal Year 2007 to about \$120,000 in Fiscal Year 2008 due to the Department's more actively following up with the bundled service providers to help ensure fees for the Plan's Fiscal Year 2009 administrative costs were received by June 30, 2008.

Plan assets increased 27 percent from about \$14.7 million in Fiscal Year 2008 to about \$18.7 million in Fiscal Year 2009, and Plan assets increased 27 percent from about \$11.5 million in Fiscal Year 2007 to about \$14.7 million in Fiscal Year 2008. The increase in Plan assets for both Fiscal Years 2009 and 2008 was due to increased contributions to the Plan, which were partially offset by net investment losses due to deteriorating economic and market conditions.

Employer and participant contributions increased 39 percent and 46 percent, respectively, from Fiscal Year 2008 to Fiscal Year 2009, and increased 76 percent and 78 percent, respectively, from Fiscal Year 2007 to Fiscal Year 2008, as a result of increased participation in the Plan during Fiscal Year 2008 combined with relatively consistent participation in the Plan during Fiscal Year 2009. Active participant accounts decreased from 908 participant accounts at June 30, 2008 to 882 participant accounts at June 30, 2009 (3 percent decrease from 2008 to 2009) due in part to the State of Colorado's mandatory hiring freeze implemented during Fiscal Year 2009, as well as the pending merger of the Plan with the PERA DC Plan, which led to fewer new employees choosing to participate in the Plan. Active participant

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Management's Discussion and Analysis (continued)
June 30, 2009, 2008 and 2007**

accounts increased from 579 participant accounts at June 30, 2007, to 908 participant accounts at June 30, 2008 (57 percent increase from 2007 to 2008).

Defined Contribution Retirement Plan Condensed Statement of Fiduciary Net Assets

	June 30, 2009	June 30, 2008	June 30, 2007	Percentage Change from 2008– 2009	Percentage Change from 2007– 2008
Assets					
Cash in bank and with State					
Treasurer	\$ 54,251	\$ 119,969	\$ 66,235	-55%	81%
Accounts receivable	0	0	161,697	0%	-100%
Prepaid expenses	0	0	12	0%	-100%
Plan assets	<u>18,649,365</u>	<u>14,659,352</u>	<u>11,527,247</u>	27%	27%
Total assets	<u>18,703,616</u>	<u>14,779,321</u>	<u>11,755,191</u>	27%	26%
Liabilities					
Vouchers payable and accrued liabilities	21,178	20,256	14,933	5%	36%
Compensated absences – annual and sick leave	703	1,135	925	-38%	23%
Deferred revenue	<u>0</u>	<u>54,194</u>	<u>0</u>	-100%	100%
Total liabilities	<u>21,881</u>	<u>75,585</u>	<u>15,858</u>	-71%	377%
Net Assets					
Held in Trust for pension benefits and other purposes	<u>18,681,735</u>	<u>14,703,736</u>	<u>11,739,333</u>	27%	25%
Total fiduciary net assets	<u>\$ 18,681,735</u>	<u>\$ 14,703,736</u>	<u>\$ 11,739,333</u>	<u>27%</u>	<u>25%</u>

**State of Colorado Public Officials and Employees
Defined Contribution Retirement Plan**

**Management's Discussion and Analysis (continued)
June 30, 2009, 2008 and 2007**

Defined Contribution Retirement Plan Condensed Statement of Changes in Fiduciary Net Assets

	June 30, 2009	June 30, 2008	June 30, 2007	Percentage Change from 2008-2009	Percentage Change from 2007-2008
Additions					
Administrative fees	\$ 81,291	\$ 0	\$ 243,041	100%	-100%
Interest and dividend income	151,860	195,597	94,999	-22%	106%
Contributions					
Employer	4,618,164	3,312,053	1,887,141	39%	76%
Participants	3,871,542	2,649,880	1,488,022	46%	78%
Net investment gain (loss)	<u>(2,727,963)</u>	<u>(1,177,565)</u>	<u>1,435,222</u>	132%	-182%
Total additions	<u>5,994,894</u>	<u>4,979,965</u>	<u>5,148,425</u>	20%	-3%
Deductions					
Operations	105,257	180,994	133,316	-42%	36%
Participant withdrawals	<u>1,911,638</u>	<u>1,834,568</u>	<u>1,717,552</u>	4%	7%
Total deductions	<u>2,016,895</u>	<u>2,015,562</u>	<u>1,850,868</u>	0%	9%
Change in Fiduciary Net Assets	<u>\$ 3,977,999</u>	<u>\$ 2,964,403</u>	<u>\$ 3,297,557</u>	<u>34%</u>	<u>-10%</u>

**State of Colorado Public Officials and Employees
Defined Contribution Retirement Plan**

**Statements of Fiduciary Net Assets
June 30, 2009 and 2008**

	2009 Pension Trust Fund	2008 Pension Trust Fund
	<hr/>	<hr/>
Assets		
Cash in bank and with State Treasurer	\$ 54,251	\$ 119,969
Plan assets	<u>18,649,365</u>	<u>14,659,352</u>
Total assets	<u>18,703,616</u>	<u>14,779,321</u>
Liabilities		
Vouchers payable and accrued liabilities	21,178	20,256
Compensated absences - annual leave and sick leave	703	1,135
Deferred revenue	<u>-</u>	<u>54,194</u>
Total liabilities	<u>21,881</u>	<u>75,585</u>
Net Assets		
Held in Trust for pension benefits and other purposes	<u>18,681,735</u>	<u>14,703,736</u>
Total fiduciary net assets	<u><u>\$ 18,681,735</u></u>	<u><u>\$ 14,703,736</u></u>

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Statements of Changes in Fiduciary Net Assets June 30, 2009 and 2008

	2009 Pension Trust Fund	2008 Pension Trust Fund
Additions		
Administrative fees	\$ 81,291	\$ -
Interest and dividend income	151,860	195,597
Contributions		
Employer	4,618,164	3,312,053
Participants	3,871,542	2,649,880
Net investment loss	<u>(2,727,963)</u>	<u>(1,177,565)</u>
 Total additions	 <u>5,994,894</u>	 <u>4,979,965</u>
Deductions		
Personal services	51,576	83,762
Workers' compensation and risk management	1,681	1,830
Operating expenses	3,284	3,491
Indirect cost assessment	11,189	5,223
Administration	2,250	10,625
Office of Information Technology services	3,710	-
Legal services	3,981	3,919
Leased space	75	82
Audit fees	17,850	65,968
Fees	9,661	6,094
Participant withdrawals	<u>1,911,638</u>	<u>1,834,568</u>
 Total deductions	 <u>2,016,895</u>	 <u>2,015,562</u>
 Change in Fiduciary Net Assets	 3,977,999	 2,964,403
 Fiduciary Net Assets, Beginning of Year	 <u>14,703,736</u>	 <u>11,739,333</u>
 Fiduciary Net Assets, End of Year	 <u><u>\$ 18,681,735</u></u>	 <u><u>\$ 14,703,736</u></u>

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Notes to Financial Statements

June 30, 2009 and 2008

Note 1: Plan Description

The State of Colorado Public Officials and Employees Defined Contribution Retirement Plan (the Plan) became effective January 1, 1999. The Plan is authorized by Sections 24-52-201 through 24-52-208, C.R.S. and is governed by the nine-member Deferred Compensation Committee (the Committee). The state is the sole contributing employer of the Plan.

Effective July 1, 2009, pursuant to Senate Bill 09-066, the Plan was merged with the Public Employees Retirement Association Defined Contribution Plan (PERA DC Plan) and the Plan's administrative functions were transferred to the Public Employees Retirement Association (PERA). Prior to July 1, 2009, the Committee was staffed by the Employee Benefits Unit within the Department of Personnel and Administration (the Department) and the Plan's administrative functions were performed by the Department.

Prior to January 1, 2006, the following state employees were eligible to participate in the Plan: a member of the General Assembly, the Governor, the Lieutenant Governor, the Attorney General, the Chief Deputy Attorney General, the Solicitor General, the Secretary of State, the Deputy Secretary of State, the State Treasurer, the Deputy State Treasurer, any district attorney, any assistant district attorney, any chief deputy district attorney, any deputy district attorney, or other employee of a district attorney, a member of the Public Utilities Commission, an executive director of any department of the State of Colorado appointed by the Governor, an employee of the Senate or the House of Representatives, and a nonclassified employee of the Governor's Office.

As of January 1, 2006, in addition to the individuals listed above, any new employee hired in the State of Colorado personnel system is eligible to participate in the defined contribution plan unless the employee is one of the following:

- An employee of a community college,
- A PERA retiree who is not an elected official, or
- Has been a member of PERA's Defined Benefit Plan (PERA DB Plan) or the PERA DC Plan within the prior 12 months.

Notwithstanding these limitations, an employee is eligible to participate in the Plan if he or she is a PERA retiree serving as a state elected official. Participation in the Plan by eligible employees is voluntary; however, if the election to participate is not made within 60 days the employee automatically becomes a member of the PERA DB Plan. Contributions to the Plan are set in statute as a percent of salary and are required to be the same as the contributions to the PERA DB and DC Plans. Effective July 1, 2005, and through June 30, 2009, the state contribution rate was 10.15 percent and employees are required to contribute 8 percent of gross covered wages.

All investment activity, as well as the Plan's administrative operations, is recorded in a Pension Trust Fund. Expenditures are controlled according to Committee direction. Annually, the administrative budget is subject to legislative appropriation by the Colorado General Assembly.

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Notes to Financial Statements

June 30, 2009 and 2008

Note 2: Summary of Significant Accounting Policies

The accompanying financial statements reflect the financial activities of the Plan and are in conformance with generally accepted accounting principles applicable to governmental units.

Basis of Accounting

The Pension Trust Fund activity is reported on the accrual basis of accounting. Assets of the Plan, which include employer contributions, employee payroll deferrals and the related earnings, are held by the investment companies in the State's name and are recorded at fair value.

Use of Estimates

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 fiduciary net assets and changes in fiduciary net assets and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Note 3: Cash

The Plan deposits cash with the Colorado State Treasurer as required by Colorado Revised Statutes. The State Treasurer pools these deposits and invests them in securities in accordance with Section 24-75-601.1, C.R.S. The Plan reports its share of the Treasurer's unrealized gains/losses on the basis of its participation in the State Treasurer's pool. During the years ended June 30, 2009 and 2008, the Plan's share of unrealized gains (losses) was (\$199) and \$603, respectively. All of the Treasurer's investments are reported at fair value, which is based on quoted market prices at year end. The State Treasurer does not invest any of the pool in any external investment pool, and there is no assignment of income related to participation in the pool. Additional information on the Treasurer's pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report.

Note 4: Investments

The Plan holds investments for its participants. These investments, which totaled \$18,649,365 and \$14,659,352 for June 30, 2009 and 2008, respectively, are recorded within the Pension Trust Fund at fair value. As of June 30, 2009, the Plan had approximately \$5 million of the approximate \$18.7 million invested in debt instruments, specifically bond mutual funds.

In Fiscal Year 2005, the Plan implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. The standard primarily changes the required disclosures of investment credit quality and interest rate risk for debt instruments.

Credit Quality Risk

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations to the Plan. This risk is assessed by national rating agencies, which assign a credit

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

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quality rating for many investments. The Plan's approximately \$5 million invested in debt instruments are unrated. The Deferred Compensation Committee does not actively manage credit quality risk for the Plan except through its mutual fund selection process.

Interest Rate Risk

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. As of June 30, 2009, the Plan's investments in debt instruments, approximately \$5 million, had an average duration of 4.35 years. The Deferred Compensation Committee does not actively manage interest rate risk for the Plan except through its mutual fund selection process.

Foreign Currency Risk

Foreign currency risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The Plan's exposure to foreign currency risk derives from its investments in international bond mutual funds denominated in foreign currency. At June 30, 2009 and 2008, the Plan's investments in international bond mutual funds had a fair value of \$2,157,554 and \$1,834,233, respectively. The Deferred Compensation Committee does not actively manage foreign currency risk for the Plan except through its mutual fund selection process.

Note 5: Fees

In accordance with Section 24-52-203(9)(a), the Plan assesses each bundled service provider a fee for the actual and reasonable costs of administering the Plan. For Fiscal Years 2009 and 2008, this fee was \$27,097 and \$80,847, respectively, per each bundled service provider. Revenue for this fee is recorded in the Administration Pension Trust Fund and deposited with the State Treasurer.

Each participant is charged a quarterly investment management fee by the bundled service provider for the management of its investment funds. These fees range from 0.30 percent to 1.70 percent of the participant's account balance.

Note 6: Other Pension Plans

Plan Description

All of the Department's employees hired prior to January 1, 2006, participate in the PERA DB Plan. The DB Plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The DB Plan is a cost sharing multiple employer plan administered by PERA. PERA was established by state statute in 1931. Responsibility for the organization and administration of the DB Plan is placed with the Board of Trustees of PERA. Changes to the DB 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>.

Non-higher education employees hired by the state after January 1, 2006, are allowed 60 days to elect to participate in the Plan administered by the state's Deferred Compensation Committee

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Notes to Financial Statements

June 30, 2009 and 2008

rather than becoming a member of PERA. If that election is not made, the employee becomes a member of PERA, and the member is allowed 60 days from commencing employment to elect to participate in the PERA DC Plan rather than the DB Plan.

Beginning on July 1, 2009, the administration of the Plan transferred to PERA. New non-higher education employees will have the choice of participating in either the PERA DB or DC Plans. Existing Plan members will become participants in the PERA DC Plan and retain their current vesting schedule on employer contributions.

Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's DB 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. PERA members electing the DC 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 DB 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 both defined contribution plans are the same as the contributions to the PERA DB Plan.

PERA DB Plan members (except state troopers) vest after five years of service and are eligible for full retirement 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 on or after January 1, 2007 – 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.

Members are also eligible for retirement benefits without a reduction for early retirement based on their original hire date as follows:

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- Hired on or after January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more.

State troopers and judges compose 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.

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

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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. For retirements after January 1, 2009, or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

Retiree benefits are increased annually based on their original hire date as follows:

- Hired before July 1, 2005 – 3.5 percent, compounded annually.
- Hired between July 1, 2005 and December 31, 2006 – the lesser of 3 percent or the actual increase in the national Consumer Price Index.
- Hired on or after January 1, 2007 – the lesser of 3 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.)

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, his or her eligible children under the age of 18 (23 if a full-time student) or 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.

Funding Policy

The contribution requirements of DB 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 Section 24-51-101(42) C.R.S., to an individual account in the DB Plan. From July 1, 2008, to December 31, 2008, the state contributed 12.05 percent (14.75 percent for state troopers and 15.56 percent for the Judicial Branch) of the employee's salary. From January 1, 2009, through June 30, 2009, the state contributed 12.95 percent (15.65 percent for state troopers and 16.46 percent for the Judicial Branch). During all of Fiscal Year 2008-09, 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, 2008, the division of PERA in which the state participates was underfunded with an infinite amortization period, which means that the unfunded actuarially accrued liability would never be fully funded at the current contribution rate.

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

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Notes to Financial Statements

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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. Both the AED and SAED will terminate when funding levels reach 100 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.

The Plan's contributions to PERA for the Fiscal Years ending June 30, 2009 and 2008, were \$5,913 and \$5,121, respectively. These contributions met the contribution requirement for each year.

Note 7: Voluntary Tax-Deferred Retirement Plans

PERA offers a voluntary 401(k) plan entirely separate from the DB Plan. The state offered a 457 Deferred Compensation Plan; however, effective July 1, 2009, this plan was transferred to PERA. Beginning July 1, 2009, PERA will administer the 457 Deferred Compensation Plan that was previously administered by the state. Certain agencies and institutions of the state also offer 403(b) or 401(a) plans.

Note 8: 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

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

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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. Beginning July 1, 2004, state agencies/institutions are required to contribute 1.02 percent of gross covered wages to the Health Care Trust Fund. The Plan is not required to make contributions to the Health Care Trust Fund.

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, 2008, there were 45,888 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2008, the Health Care Trust Fund had an unfunded actuarial accrued liability of \$1.11 billion, a funded ratio of 18.7 percent, and a 39-year amortization period.

Note 9: Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the participants' account balances and the amounts reported in the statements of fiduciary net assets.

Note 10: Subsequent Event

Effective July 1, 2009, and pursuant to Senate Bill 09-066, the Plan was merged with the PERA DC Plan and administration of the Plan transferred to PERA. When the Plan transferred to PERA, current participants in the Plan retained their vesting schedule; however, new participants in the PERA DC Plan became subject to a new vesting schedule. Effective July 1, 2009, all Plan assets were transferred at fair market value from the three bundled service providers, Great West, ICMA and Hartford, to PERA.

Supplementary Information

**State of Colorado Public Officials and Employees
Defined Contribution Retirement Plan
Combining Statement of Fiduciary Net Assets
June 30, 2009**

	Fiduciary Fund Type		
	Pension Trust Funds		
	Administration (Appropriated)	Defined Contribution Plan (Non- appropriated)	Total
Assets			
Cash in bank and with State Treasurer	\$ 54,251	\$ -	\$ 54,251
Plan assets	-	18,649,365	18,649,365
Total assets	<u>54,251</u>	<u>18,649,365</u>	<u>18,703,616</u>
Liabilities			
Vouchers payable and accrued liabilities	21,178	-	21,178
Compensated absences - annual leave and sick leave	703	-	703
Total liabilities	<u>21,881</u>	<u>-</u>	<u>21,881</u>
Net Assets			
Held in Trust for pension benefits and other purposes	<u>32,370</u>	<u>18,649,365</u>	<u>18,681,735</u>
Total fiduciary net assets	<u><u>\$ 32,370</u></u>	<u><u>\$ 18,649,365</u></u>	<u><u>\$ 18,681,735</u></u>

**State of Colorado Public Officials and Employees
Defined Contribution Retirement Plan
Combining Statement of Fiduciary Net Assets
June 30, 2008**

	Fiduciary Fund Type		
	Pension Trust Funds		
	Administration (Appropriated)	Defined Contribution Plan (Non- appropriated)	Total
Assets			
Cash in bank and with State Treasurer	\$ 119,969	\$ -	\$ 119,969
Plan assets	-	14,659,352	14,659,352
Total assets	<u>119,969</u>	<u>14,659,352</u>	<u>14,779,321</u>
Liabilities			
Vouchers payable and accrued liabilities	20,256	-	20,256
Compensated absences - annual leave and sick leave	1,135	-	1,135
Deferred revenue	54,194	-	54,194
Total liabilities	<u>75,585</u>	<u>-</u>	<u>75,585</u>
Net Assets			
Held in Trust for pension benefits and other purposes	44,384	14,659,352	14,703,736
Total fiduciary net assets	<u>\$ 44,384</u>	<u>\$ 14,659,352</u>	<u>\$ 14,703,736</u>

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Combining Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2009

	Fiduciary Fund Type		
	Pension Trust Funds		
	Administration (Appropriated)	Defined Contribution Plan (Non- appropriated)	Total
Additions			
Administrative fees	\$ 81,291	\$ -	\$ 81,291
Interest and dividend income	2,490	149,370	151,860
Contributions			
Employer	-	4,618,164	4,618,164
Participants	-	3,871,542	3,871,542
Net investment loss	(199)	(2,727,764)	(2,727,963)
Total additions	<u>83,582</u>	<u>5,911,312</u>	<u>5,994,894</u>
Deductions			
Personal services	51,576	-	51,576
Workers' compensation and risk management	1,681	-	1,681
Operating expenses	3,284	-	3,284
Indirect cost assessment	11,189	-	11,189
Administration	2,250	-	2,250
Office of Information Technology services	3,710	-	3,710
Legal services	3,981	-	3,981
Leased space	75	-	75
Audit fees	17,850	-	17,850
Fees	-	9,661	9,661
Participant withdrawals	-	1,911,638	1,911,638
Total deductions	<u>95,596</u>	<u>1,921,299</u>	<u>2,016,895</u>
Change in Fiduciary Net Assets	(12,014)	3,990,013	3,977,999
Fiduciary Net Assets, Beginning of Year	<u>44,384</u>	<u>14,659,352</u>	<u>14,703,736</u>
Fiduciary Net Assets, End of Year	<u>\$ 32,370</u>	<u>\$ 18,649,365</u>	<u>\$ 18,681,735</u>

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Combining Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2008

	Fiduciary Fund Type		
	Pension Trust Funds		
	Administration (Appropriated)	Defined Contribution Plan (Non- appropriated)	Total
Additions			
Interest and dividend income	\$ 6,595	\$ 189,002	\$ 195,597
Contributions			
Employer	-	3,312,053	3,312,053
Participants	-	2,649,880	2,649,880
Net investment gain (loss)	603	(1,178,168)	(1,177,565)
	<u>7,198</u>	<u>4,972,767</u>	<u>4,979,965</u>
Deductions			
Personal services	83,762	-	83,762
Workers' compensation and risk management	1,830	-	1,830
Operating expenses	3,491	-	3,491
Indirect cost assessment	5,223	-	5,223
Administration	10,625	-	10,625
Legal services	3,919	-	3,919
Leased space	82	-	82
Audit fees	65,968	-	65,968
Fees	-	6,094	6,094
Participant withdrawals	-	1,834,568	1,834,568
	<u>174,900</u>	<u>1,840,662</u>	<u>2,015,562</u>
Change in Fiduciary Net Assets	(167,702)	3,132,105	2,964,403
Fiduciary Net Assets, Beginning of Year	<u>212,086</u>	<u>11,527,247</u>	<u>11,739,333</u>
Fiduciary Net Assets, End of Year	<u>\$ 44,384</u>	<u>\$ 14,659,352</u>	<u>\$ 14,703,736</u>

Independent Accountants' 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
Denver, Colorado

We have audited the financial statements of the State of Colorado Public Officials and Employees Defined Contribution Retirement Plan (the Plan) as of and for the year ended June 30, 2009, and have issued our report thereon dated December 16, 2009, which contained an explanatory paragraph regarding required supplementary information. 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 Controls over Financial Reporting

In planning and performing our audit, we considered the Plan'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 Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we collectively consider to be a significant deficiency.

A control deficiency 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 significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Plan's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Plan's financial statements that is more than inconsequential will not be prevented or detected by the Plan's internal control. We consider the deficiency described in the Description of Audit Findings and Recommendations section of this report as Recommendation No. 2 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Plan's internal control.

Our consideration of 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 that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the Description of Audit Findings and Recommendations section of this report as Recommendation No. 2.

The Department's response to the finding identified in our audit is described in the Description of Audit Findings and Recommendations section of this report. We did not audit the Department's response and, accordingly, we express no opinion on it.

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

/s/ BKD, LLP

December 16, 2009

Independent Accountants' Audit Committee Communication

Members of the Legislative Audit Committee
Denver, Colorado

As part of our audit of the financial statements of the State of Colorado Public Officials and Employees Defined Contribution Retirement Plan (the Plan) as of and for the year ended June 30, 2009, we wish to communicate the following to you.

Auditors' Responsibility under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the financial statements. 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 contract with the State Auditor more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit 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.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our contract with the State Auditor more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Plan's significant accounting policies are described in Note 2 of the audited financial statements.

Alternative Accounting Treatments

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:

- Fair value of investments

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:

- Determination of fair value of investments
- Subsequent events

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 that, 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.

Areas in which adjustments were proposed, including those that management recorded, include the following:

- The plan assets held within the Plan's Defined Contribution Plan Pension Trust Fund and related activity (e.g., contributions, participant withdrawals, interest and dividend income, and net investment loss) were not properly reconciled to the Plan's investment statements as of and for the year ended June 30, 2009, and the following aggregated variances were identified by the external auditors and adjustments were made to correct these identified variances:
 - Plan assets were overstated by \$35,182
 - Employer contributions were overstated by \$508,156
 - Participant contributions were overstated by \$209,449
 - Participant withdrawals were overstated by \$90,333
 - Interest and dividend income was understated by \$211
 - Net investment loss was overstated by \$591,879

The effect of the corrected misstatements was to decrease plan assets by \$35,182, decrease employer contributions by \$508,156, decrease participant contributions by \$209,449, decrease participant withdrawals by \$90,333, increase interest and dividend income by \$211, and decrease net investment loss by \$591,879.

Areas in which uncorrected misstatements were aggregated during the current engagement and pertaining to the latest period presented were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole. These areas included the following:

- The Plan's contributions and participant withdrawals were overstated by \$6,048.

The effect of the uncorrected misstatements, had they been recorded, would have been to decrease employer and participant contributions by \$3,732 and \$2,316, respectively, and to decrease participant withdrawals by \$6,048.

Auditor's Judgments about the Quality of the Entity's Accounting Principles

No matters are reportable.

Disagreements with Management

No matters are reportable.

Consultation with Other Accountants

No matters are reportable.

Significant Issues Discussed with Management

No matters are reportable.

Difficulties Encountered in Performing the Audit

As discussed in the Description of Audit Findings and Recommendations section of this report, the Department did not provide draft financial statements to the external auditors in a timely manner, and the Department did not timely or accurately record the Plan's financial activity in COFRS. This made it difficult for the external auditors to complete their audit within the time frame specified in the contract with the State Auditor.

Other Material Written Communications

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

- Management representation letter

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

/s/ BKD, LLP

December 16, 2009

**State of Colorado Public Officials and Employees
Defined Contribution Retirement Plan
Audit Report Distribution Summary**

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