State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Accountants' Report and Financial Statements

June 30, 2008 and 2007

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State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

June 30, 2008 and 2007

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State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Report Summary

June 30, 2008 and 2007

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, 2008, 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, 2008.

- 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 year audit recommendations.

Summary of Major Audit Comments

Audit Findings and Financial Statement Audit Report Section

The Description of Audit Finding and Recommendation 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 until November 21, 2008, which was subsequent to the October 31, 2008, deadline for the external auditors to issue their financial and compliance audit report.

Summary of Progress in Implementing Prior Audit Recommendations

The report for the year ended June 30, 2007, included one recommendation. This recommendation has been partially implemented.

The report for the year ended June 30, 2007, 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 expressed unqualified opinions on the Plan's statements of fiduciary net assets as of June 30, 2008 and 2007, 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.

No instances of noncompliance considered material to the financial statements were 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 not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses 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 uncorrected misstatements were aggregated during the current engagement and pertaining to the latest and earliest periods 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 Department's costs to administer the Plan are reimbursed entirely from the Bundled Providers. This reimbursement has historically been recorded as an addition to fiduciary net assets in the year prior to the year it pertains to (e.g., the reimbursement for fiscal year 2008 costs was recorded as a fiscal year 2007 addition).

The effect of the uncorrected misstatements, had they been recorded, would have been to increase administrative fee additions by $242,541 for the year ended June 30, 2008, and to decrease the Plan's fiduciary net assets by $242,541 at June 30, 2007.

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Recommendation Locator

Year Ended June 30, 2008

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
1	6	The Department should provide draft financial statements to the external auditors in a timely manner.	Agree	September 2009

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Description of the Plan

June 30, 2008 and 2007

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 SB 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 2008 and 2007, 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.

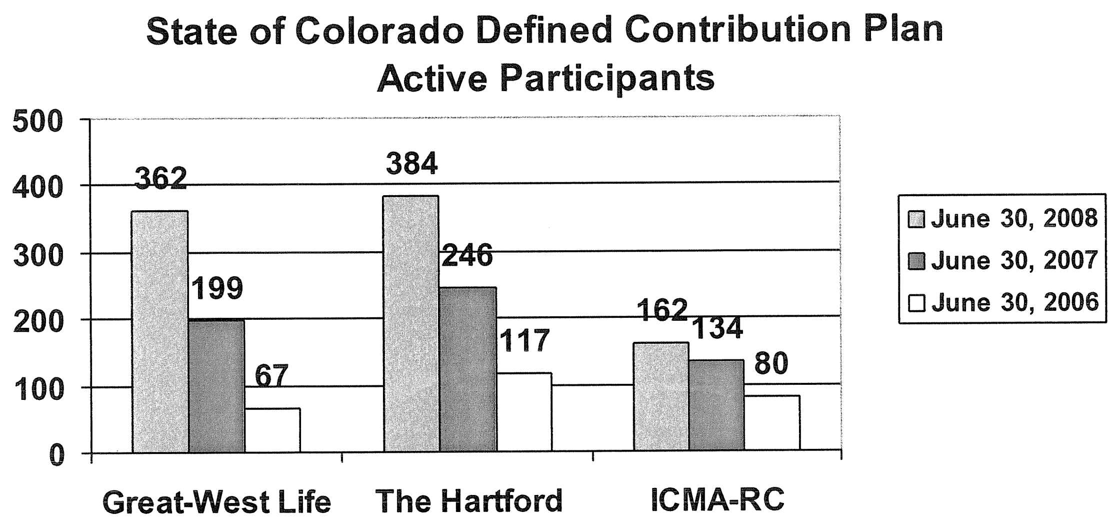
The Committee is staffed by the Employee Benefits Unit within the Department of Personnel and Administration (the Department).

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 bill number SB06-235 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, SB06-235 repealed the decision to exclude Higher Education Institutions, therefore including the Plan in these employees' retirement choices effective January 1, 2008. Subsequently, HB07-1377 removed employees of the community colleges from the Plan.

The table below shows the number of active participants for each of the Bundled Providers for Fiscal Years ending June 30, 2006, 2007, and 2008. New hires since January 1, 2006, who did not choose the Plan have 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.



In total, the Plan had 908 active participants at June 30, 2008.

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, under Section 24-52-203(9)(c), C.R.S.

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 are categorized as aggressive, moderate or conservative, and the holdings of the funds are based upon the growth and security requirements of the participant. The aggressive portfolios have increased inherent risk and may provide higher growth rates. The conservative funds focus on more stable investments with less growth potential.

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Description of Audit Finding and Recommendation

June 30, 2008

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 2008 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 21, 2008. 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: September 2009

The Department was in a staffing transition during this audit, which included a new staff accountant assigned to the DC plan and a new Department Controller. The Department would like to note delays in receiving audit comments from the auditors.

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Disposition of Prior Audit Recommendations

June 30, 2008 and 2007

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2007, included one recommendation. The disposition of this audit recommendation as of December 18, 2008, was as follows:

Recommendation Number	Recommendation	Disposition
1	a) Establish adequate training for benefits administrators	a) Implemented.
	b) Establish procedures to timely identify and monitor the transfer of assets from PERA	b) Partially implemented. The Department has requested a monthly report from PERA to provide information on employees whose contributions first go to PERA. The Department is working with all parties to develop a process to monitor the elections of new employees. Implementation Date: July 1, 2009

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.	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 upon the expiration of the current contracts that extend through June 2010. Implementation Date: June 2010

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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, 2008 and 2007, 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, 2008 and 2007, 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 18, 2008, 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.

BKD, LLP

December 18, 2008

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Management's Discussion and Analysis

June 30, 2008, 2007 and 2006

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 Retirement Plan (the Plan). This discussion and analysis should be read in conjunction with the Description of the Plan on pages 4–5 and the financial statements, including notes, which begin on page 13.

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.

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 give 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 Years' 2006, 2007 and 2008 financial activity for the Plan. Specific notable items are as follows:

Financial Highlights

The ending balance in Cash in Bank and with State Treasurer increased from about ($6,200) in Fiscal Year 2006 to about $66,200 in Fiscal Year 2007, and to about $120,000 in Fiscal Year 2008 due to the Department more actively following up with the bundled service providers to help ensure fees were received by June 30, 2007 and 2008.

Plan assets increased from about $8.3 million in Fiscal Year 2006 to about $11.5 million in Fiscal Year 2007 (38 percent increase from 2006 to 2007), and to about $14.7 million in Fiscal Year 2008 (27 percent increase from 2007 to 2008). In addition, employer and participant contributions increased about 137 percent and 139 percent, respectively, from Fiscal Year 2006 to Fiscal Year 2007, and 76 percent and 78 percent, respectively, from Fiscal Year 2007 to Fiscal Year 2008, as a result of increased participation in the Plan. Active participant accounts increased from 264 in Fiscal Year 2006 to 579 in Fiscal Year 2007 (119 percent increase from 2006 to 2007), and to 908 in Fiscal Year 2008 (57 percent increase from 2007 to 2008).

Operating expenses for the Plan increased from $101,299 in Fiscal Year 2006 to $133,316 in Fiscal Year 2007 (32 percent increase from 2006 to 2007), and to $180,994 in Fiscal Year 2008 (36 percent increase from 2007 to 2008). The increase from 2006 to 2007 was mainly due to an increase in the Plan's personal services expenses related to staff salary increases, a payment for accrued annual and sick leave for a retiring employee, and annual audit fees. The increase from 2007 to 2008 was mainly due to fees incurred for a performance audit of the Plan requested by the Deferred Compensation Committee.

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Management's Discussion and Analysis (continued)

June 30, 2008, 2007 and 2006

Defined Contribution Retirement Plan Condensed Statement of Fiduciary Net Assets

	June 30, 2008	June 30, 2007	June 30, 2006	Percentage Change from 2007–2008	Percentage Change from 2006–2007
Assets					
Cash in bank with state treasurer	$ 119,969	$ 66,235	$ -	81%	0%
Accounts receivable	-	161,697	129,999	0%	24%
Prepaid expenses	-	12	-	0%	0%
Plan assets	14,659,352	11,527,247	8,344,827	27%	38%
Total assets	14,779,321	11,755,191	8,474,826	26%	39%
Liabilities					
Cash due to State Treasurer	-	-	6,185	0%	0%
Vouchers payable and accrued liabilities	20,256	14,933	26,385	36%	-43%
Compensated absences - annual and sick leave	1,135	925	480	23%	93%
Deferred revenue	54,194	-	-	0%	0%
Total liabilities	75,585	15,858	33,050	377%	-52%
Net Assets					
Held in trust for pension benefits and other purposes	14,703,736	11,739,333	8,441,776	25%	39%
Total fiduciary net assets	$ 14,703,736	$ 11,739,333	$ 8,441,776	25%	39%

State of Colorado Public Officials and Employees
Defined Contribution Retirement Plan
Management's Discussion and Analysis (continued)
June 30, 2008, 2007 and 2006

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

	June 30, 2008	June 30, 2007	June 30, 2006	Percentage Change from 2007–2008	Percentage Change from 2006–2007
Additions					
Administrative fees	$ -	$ 243,041	$ 129,999	100%	87%
Interest and dividend income	195,597	94,999	48,351	106%	96%
Contributions					
Employers	3,312,053	1,887,141	797,098	76%	137%
Participants	2,649,880	1,488,022	623,447	78%	139%
Net investment gain (loss)	(1,177,565)	1,435,222	578,252	-182%	148%
Total additions	4,979,965	5,148,425	2,177,147	-3%	136%
Deductions					
Operations	180,994	133,316	101,299	36%	32%
Participant withdrawals	1,834,568	1,717,552	814,783	7%	111%
Total deductions	2,015,562	1,850,868	916,082	9%	102%
Change in Fiduciary Net Assets	$ 2,964,403	$ 3,297,557	$ 1,261,065	-10%	161%

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Statements of Fiduciary Net Assets

June 30, 2008 and 2007

	2008 Pension Trust Fund	2007 Pension Trust Fund
Assets		
Cash in bank and with State Treasurer	$ 119,969	$ 66,235
Accounts receivable	-	161,697
Prepaid expenses	-	12
Plan assets	14,659,352	11,527,247
Total assets	14,779,321	11,755,191
Liabilities		
Vouchers payable and accrued liabilities	20,256	14,933
Compensated absences - annual leave and sick leave	1,135	925
Deferred revenue	54,194	-
Total liabilities	75,585	15,858
Net Assets		
Held in Trust for pension benefits and other purposes	14,703,736	11,739,333
Total fiduciary net assets	$ 14,703,736	$ 11,739,333

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Statements of Changes in Fiduciary Net Assets

June 30, 2008 and 2007

	2008 Pension Trust Fund	2007 Pension Trust Fund
Additions		
Administrative fees	$ -	$ 243,041
Interest and dividend income	195,597	94,999
Contribution		
Employer	3,312,053	1,887,141
Participant	2,649,880	1,488,022
Net investment gain (loss)	(1,177,565)	1,435,222
Total additions	4,979,965	5,148,425
Deductions		
Personal services	83,762	94,324
Workers' compensation and risk management	1,830	2,494
Operating expenses	3,491	10,712
Indirect cost assessment	5,223	2,340
Administration	10,625	11,209
Legal services	3,919	6,292
Leased space	82	2,398
Audit fees	65,968	-
Fees	6,094	3,547
Participant withdrawals	1,834,568	1,717,552
Total deductions	2,015,562	1,850,868
Change in Fiduciary Net Assets	2,964,403	3,297,557
Fiduciary Net Assets, Beginning of Year	11,739,333	8,441,776
Fiduciary Net Assets, End of Year	$ 14,703,736	$ 11,739,333

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Notes to Financial Statements
June 30, 2008 and 2007

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 state is the sole contributing employer of the Plan.

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 general assembly, 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 Public Employees Retirement Association (PERA) retiree, who is not an elected official, or
- Has been a member of PERA's defined benefit plan or defined contribution 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 Public Employees Retirement Association (PERA) Defined Benefit 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 defined benefit plan and defined contribution plans administered by PERA. Effective July 1, 2005, and through June 30, 2008, 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.

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.

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.

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, 2008 and 2007, the Plan's share of unrealized gains (losses) were $603 and ($411). All of the Treasurer's investments are reported at fair value, which is determined 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 total $14,659,352 and $11,527,247 for June 30, 2008 and 2007, respectively, are recorded within the Pension Trust Fund at fair value. As of June 30, 2008, the Plan had $4 million of the $14.7 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 quality rating for many investments. The Plan's $4 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, 2008, the Plan's investments in debt instruments, $4 million, had an average duration of 4.4 years. The Deferred Compensation Committee does not actively manage interest rate 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 provider a fee for the actual and reasonable costs of administering the Plan. For Fiscal Years 2008 and 2007, this fee was $80,847 and $43,333, respectively, per each 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 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 a defined benefit pension plan (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 the Public Employees' Retirement Association (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 P.O. 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 a defined contribution retirement plan administered by the state's Deferred Compensation Committee 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 a defined contribution plan administered by PERA rather than the 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, 2008, are required to become members of PERA and must elect either PERA's defined benefit or defined contribution plan with 60 days, unless they had been a PERA member within the prior 12 months. In that case they are required to remain in the PERA plan in which they participated previously.

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 both defined contribution plans are the same as the contributions to the PERA defined benefit plan. The PERA plans each have a graduated scale where vesting is 100 percent after five years. Vesting means the amount the employee owns or is eligible for at termination of employment or retirement.

Defined benefit 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 five 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 five 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 five 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 five 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 five 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 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 percent of salaries contributed by employers for employees hired on or after January 1, 2007.)

Disabled members 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 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. From July 1, 2007, to December 31, 2007, the State contributed 11.15 percent (13.85 percent for state troopers and 14.66 percent for the Judicial Branch) of the employee's salary. From January 1, 2008, through June 30, 2008, the state contributed 12.05 percent (14.75 percent for state troopers and 15.56 percent for the Judicial Branch). During all of Fiscal Year 2007–08, 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, 2007, the division of PERA in which the state participates was under-funded 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 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, 2008 and 2007, and were $5,121 and $5,462, 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 defined benefit pension plan. The state offers a 457 deferred compensation plan and certain agencies and institutions of higher education of the state offer 403(b) or 401(a) plans.

Note 8: Other Postemployment Benefits and Life Insurance

Health Care Plan

The PERA Health Care Program (the 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 that 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 of service less than 20 years.

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employers' contributions. Beginning July 1, 2004, state agencies and 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, 2007, there were 44,214 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2007, the Health Care Trust Fund had an unfunded actuarial accrued liability of $1.045 billion, a funded ratio of 19.9 percent, and a 38-year amortization period.

Life Insurance Program

During Fiscal Year 2007, PERA provided its members' access to a group decreasing term life insurance plan offered by UnumProvident in which 41,101 members participated. Active members may join the UnumProvident Plan and continue coverage into retirement. Premiums are collected by monthly payroll deductions or other means. In addition, PERA maintained coverage for 12,790 members under closed group plans underwritten by Anthem Life, Prudential, and New York Life.

Other Programs

Separate post-retirement health care and life insurance benefit plans exist in some state colleges and universities but are small in comparison to the PERA plan for state employees. The state has no liability for any of these post-retirement health care and life insurance plans.

Supplementary Information

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	119,969	14,659,352	14,779,321
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	75,585	-	75,585
Net Assets			
Held in Trust for pension benefit and other purposes	44,384	14,659,352	14,703,736
Total fiduciary net assets	$ 44,384	$ 14,659,352	$ 14,703,736

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Combining Statement of Fiduciary Net Assets

June 30, 2007

	Fiduciary Fund Type		
	Pension Trust Funds		
	Administration (Appropriated)	Defined Contribution Plan (Non-appropriated)	Total
Assets			
Cash in bank and with State Treasurer	$ 66,235	$ -	$ 66,235
Accounts receivable	161,697	-	161,697
Prepaid expenses	12	-	12
Plan assets	-	11,527,247	11,527,247
Total assets	227,944	11,527,247	11,755,191
Liabilities			
Vouchers payable and accrued liabilities	14,933	-	14,933
Compensated absences - annual leave and sick leave	925	-	925
Total liabilities	15,858	-	15,858
Net Assets			
Held in Trust for pension benefit and other purposes	212,086	11,527,247	11,739,333
Total fiduciary net assets	$ 212,086	$ 11,527,247	$ 11,739,333

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Combining Statement of Changes in Fiduciary Net Assets

Year Ended June 30, 2008

	Pension Trust Funds		
	Administration (Appropriated)	Defined Contribution Plan (Non-appropriated)	Total
Additions			
Interest income	$ 6,595	$ 189,002	$ 195,597
Contribution			
Employer	-	3,312,053	3,312,053
Participant	-	2,649,880	2,649,880
Net investment gain	603	(1,178,168)	(1,177,565)
Total additions	7,198	4,972,767	4,979,965
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
Total deductions	174,900	1,840,662	2,015,562
Change in Fiduciary Net Assets	(167,702)	3,132,105	2,964,403
Fiduciary Net Assets, Beginning of Year	212,086	11,527,247	11,739,333
Fiduciary Net Assets, End of Year	$ 44,384	$ 14,659,352	$ 14,703,736

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Combining Statement of Changes in Fiduciary Net Assets

Year Ended June 30, 2007

	Pension Trust Funds		
	Administration (Appropriated)	Defined Contribution Plan (Non-appropriated)	Total
Additions			
Administrative fees	$ 243,041	$ -	$ 243,041
Interest income	1,865	93,134	94,999
Contribution			
Employer	-	1,887,141	1,887,141
Participant payroll deferral	-	1,488,022	1,488,022
Net investment gain	-	1,435,222	1,435,222
Total additions	244,906	4,903,519	5,148,425
Deductions			
Personal services	94,324	-	94,324
Workers' compensation and risk management	2,494	-	2,494
Operating expenses	10,712	-	10,712
Indirect cost assessment	2,340	-	2,340
Administration and communication	11,209	-	11,209
Legal services	6,292	-	6,292
Leased space	2,398	-	2,398
Asset fees	-	3,547	3,547
Participant withdrawals	-	1,717,552	1,717,552
Total deductions	129,769	1,721,099	1,850,868
Change in Fiduciary Net Assets	115,137	3,182,420	3,297,557
Fiduciary Net Assets, Beginning of Year	96,949	8,344,827	8,441,776
Fiduciary Net Assets, End of Year	$ 212,086	$ 11,527,247	$ 11,739,333

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, 2008, and have issued our report thereon dated December 18, 2008. 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.

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.

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 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 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain matter that we reported in the Description of Audit Finding and Recommendation section of this report.

The Department's response to the finding identified in our audit is described in the Description of Audit Finding and Recommendation 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.

BKD LLP

December 18, 2008

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, 2008, 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 (GAAS) is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing GAAS 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.

Significant Accounting Policies

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

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. 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 net assets and changes in net assets and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

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 Department's costs to administer the Plan are reimbursed entirely from the Bundled Providers. This reimbursement has historically been recorded as an addition to fiduciary net assets in the year prior to the year it pertains to (e.g., the reimbursement for Fiscal Year 2008 costs was recorded as a Fiscal Year 2007 addition). The effect of the uncorrected misstatements, had they been recorded, would have been to increase administrative fees additions by $242,541 for the year ended June 30, 2008, and to decrease the Plan's fiduciary net assets by $242,541 at June 30, 2007.

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.

BKD, LLP

December 18, 2008

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