State of Colorado Deferred Compensation Plan

Accountants' Report and Financial Statements

June 30, 2009 and 2008

LEGISLATIVE AUDIT COMMITTEE

2009 MEMBERS

Representative Dianne Primavera
Chair

Senator David Schultheis
Vice-Chair

Senator Morgan Carroll
Representative James Kerr
Representative Frank McNulty
Representative Joe Miklosi
Senator Shawn Mitchell
Senator Lois Tochtrop

Office of the State Auditor Staff

Sally Symanski
State Auditor

Dianne Ray
Deputy State Auditor

Pooja Tulsian
Legislative Auditor

BKD, LLP
Contract Auditor

State of Colorado Deferred Compensation Plan

June 30, 2009 and 2008

Contents

State of Colorado
Deferred Compensation Plan
Report Summary
June 30, 2009 and 2008

Purposes and Scope of Audit

The purposes and scope of this audit:

- 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 Deferred Compensation 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 December 10, 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.

- Historically, plan assets have improperly included annuities purchased by former participants in lieu of other allowed forms of benefit distributions. The external auditors proposed, and the Department recorded, a journal entry to remove purchased annuities from plan assets. Accordingly, all periods prior to Fiscal Year 2009 that are presented in this report have been restated to reflect the removal of purchased annuities from plan assets.

State of Colorado
Deferred Compensation Plan
Report Summary (continued)
June 30, 2009 and 2008

Summary of Progress in Implementing Prior Audit Recommendations

The report for the year ended June 30, 2008, which is dated December 18, 2008, included two recommendations. These two recommendations were not implemented.

The report for the year ended June 30, 2008, also noted three recommendations from the audit for the year ended June 30, 2007, that were partially implemented during Fiscal Year 2008. These three recommendations are partially implemented as of Fiscal Year 2009.

The report for the year ended June 30, 2008, also noted four recommendations from the audit for the year ended June 30, 2006, that were partially implemented during Fiscal Year 2008. These four recommendations are partially implemented as of Fiscal Year 2009, of which three of these recommendations are included in the three partially implemented recommendations noted in the preceding paragraph.

Audit Opinions and Reports

The independent accountants' reports included herein, which contained explanatory paragraphs regarding required supplementary information and restatement of prior years' financial statements, 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 Findings and Recommendations section of this report. We did identify deficiencies in internal control over financial reporting that we consider to be significant deficiencies as defined below. We also consider the identified significant deficiencies to be 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 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 and accounts receivable held within the Plan's Deferred Compensation Plan Pension Trust Fund and related activity (e.g., contributions, participant withdrawals, interest and dividend income, net investment loss and administrative fees) were not properly reconciled to the Plan's investment statements as of and for the year ended June 30, 2009. Additionally, transfers from the Plan's Deferred Compensation Plan Pension Trust Fund were not properly recorded as of and for the year ended June 30, 2009. As a result, the following aggregated variances were identified by the external auditors and adjustments were made to correct these identified variances:
    - Plan assets were understated by $50,961
    - Accounts receivable were overstated by $43,153
    - Participant contributions were understated by $836,726
    - Participant withdrawals were understated by $834,216
    - Interest and dividend income was understated by $5,298
    - Net investment loss was overstated by $591,717
    - Administrative fees were overstated by $432,526
    - Transfers from the Deferred Compensation Plan Pension Trust Fund was understated by $1,024,243
- The plan assets held within the Plan's Deferred Compensation Plan Pension Trust Fund improperly included annuities purchased by former participants in lieu of other forms of benefit distributions totaling $4,020,034 at June 30, 2009, and participant withdrawals for Fiscal Year 2009 improperly included $873,118 of benefits paid from these purchased annuities. This was adjusted to correct the plan assets and participant withdrawals.

The effect of the corrected misstatements was to decrease plan assets by $3,969,073, decrease accounts receivable by $43,153, increase participant contributions by $836,726, decrease participant withdrawals by $38,902, increase interest and dividend income by $5,298, decrease net investment loss by $591,717, decrease administrative fees by $432,526, and increase transfers from the Deferred Compensation Plan Pension Trust Fund by $1,024,243.

Areas in which corrected misstatements were aggregated during the current engagement and pertaining to the earliest 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 Deferred Compensation Plan Pension Trust Fund improperly included annuities purchased by former participants in lieu of other forms of benefit distributions totaling $4,893,152 and $5,354,951 at June 30, 2008, and July 1, 2007, respectively, and participant withdrawals for Fiscal Year 2008 improperly included $461,799 of benefits paid from these purchased annuities. This was adjusted to correct the plan assets as of the beginning and end of Fiscal Year 2008 and participant withdrawals for Fiscal Year 2008.

The effect of the corrected misstatements was to decrease plan assets at June 30, 2008, by $4,893,152, decrease participant withdrawals for Fiscal Year 2008 by $461,799, and decrease fiduciary net assets at July 1, 2007, by $5,354,951.

State of Colorado
Deferred Compensation Plan
Recommendation Locator
Year Ended June 30, 2009

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
1	10	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	11	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.
3	12	The Department should implement processes by which it ensures that annuities purchased by former participants in lieu of other forms of benefit distributions are recorded as distributions and excluded from plan assets.	Agree	Effective July 1, 2009, the Plan's administrative functions were transferred to PERA.

State of Colorado
Deferred Compensation Plan
Description of the Plan
June 30, 2009 and 2008

Description and Background

The State of Colorado Deferred Compensation Plan (the Plan) was established in 1981 to provide state employees and officials with a means of investing a portion of their state compensation on a tax-deferred basis. The Plan is governed by a nine-member Deferred Compensation Committee. 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 Public Officials' and Employees' Defined Contribution 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). Statutory authority for the Plan and Deferred Compensation Committee is referenced in Sections 24-52-101 to 24-52-105, C.R.S. The record keeper for the Plan for Fiscal Year 2009 is Great-West Retirement Services (Great-West).

The Plan added a 401(a) defined contribution match plan in January 2001 to accept the employer match, made possible by the Public Employees Retirement Association (PERA). The employer match was suspended, effective with May 2004 payroll, under Senate Bill 04-132. In January 2004, the Plan implemented a loan program. Participants may request one loan each from the Plan and the 401(a) match plan. The loans are limited to the lesser of 50 percent of the participant's vested account balance or $50,000.

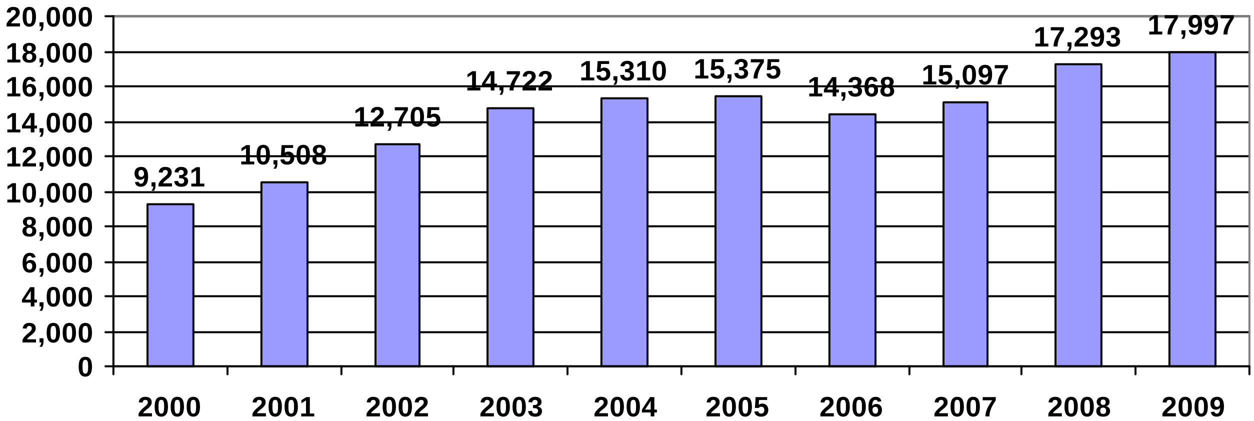
Pursuant to Senate Bill 09-066 and effective July 1, 2009, the Plan's administrative duties were transferred from the Department to PERA. The transfer of administrative duties should provide for greater efficiencies via use of the existing administration infrastructure at PERA.

Growth of the Plan

The following graph shows a steady increase in total participants for fiscal years 2000 through 2005, Fiscal Year 2006 shows a decline in participation caused by the enacted forced distributions described below, and then total participation increased through Fiscal Year 2009. The increase in participation for Fiscal Years 2001 through 2005 was a result of legislation that allowed the State to offer an employer match to those employees contributing to a supplemental retirement plan, such as the Plan. Additionally, the employer match and the advantages offered under the Economic

Growth Tax Relief & Reconciliation Act of 2001 (EGTRRA), which provided purchase of service credit, increased portability and contribution limits among 457, 401(k), and 403(b) plans, has increased participation in the Plan. In Fiscal Year 2006, the number of total participant accounts dropped due to a forced distribution directed by the Committee and authorized in the Plan Document. The forced distributions consisted of terminated employees with account balances less than $1,000. The increase in participation for Fiscal Years 2007 through 2009 is due to school districts being allowed to participate in the Plan effective January 1, 2006, including Jefferson County School District. The Plan continues to grow in participation from Fiscal Year 2008 to 2009 due, in part, to the increase in education and communication efforts by the record keeper throughout Fiscal Year 2009.

457 PLAN PARTICIPANTS

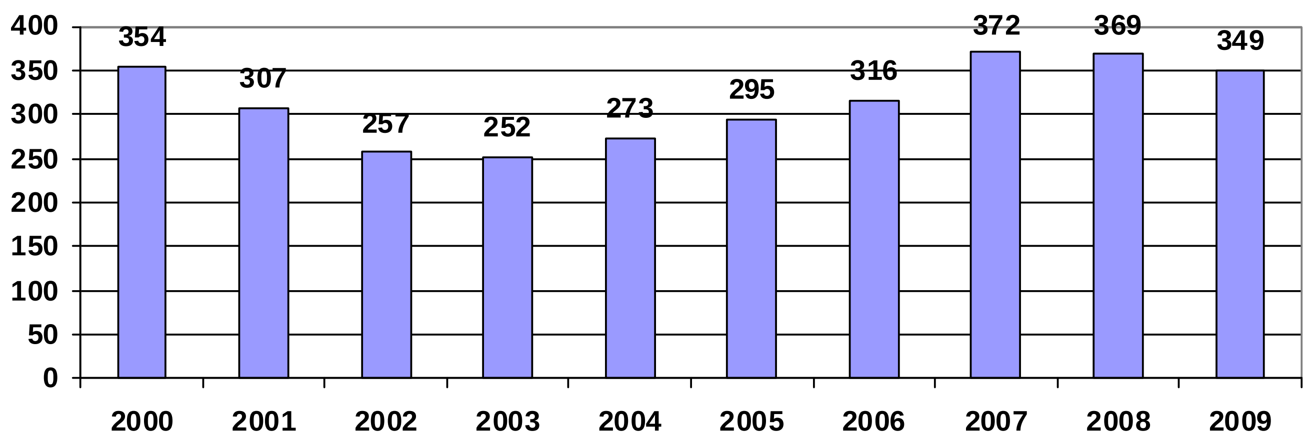


Source: 2000-2009 Great-West Retirement Services

As shown in the chart below, the plan assets have increased from a low of $244 million as of June 30, 2003, to $349 million as of June 30, 2009. The increase in plan assets is attributable to the participation by school districts beginning January 1, 2006, as well as the offering of the employer match (offered from January 2001 through May 2004), which attracted more participants to the Plan and additional monthly contributions. The increase in plan assets for 2004 through 2007 is attributable to increased participation and net gains earned on invested assets. The decrease in plan assets for 2008 and 2009 is attributable to net losses incurred on invested assets as a result of deteriorating economic and market conditions that began in 2008. The graph shows the change in the value of total assets, in millions, from June 30, 2000, through June 30, 2009.

457 PLAN ASSETS

(In millions)



Source: 2000-2009 Great-West Retirement Services

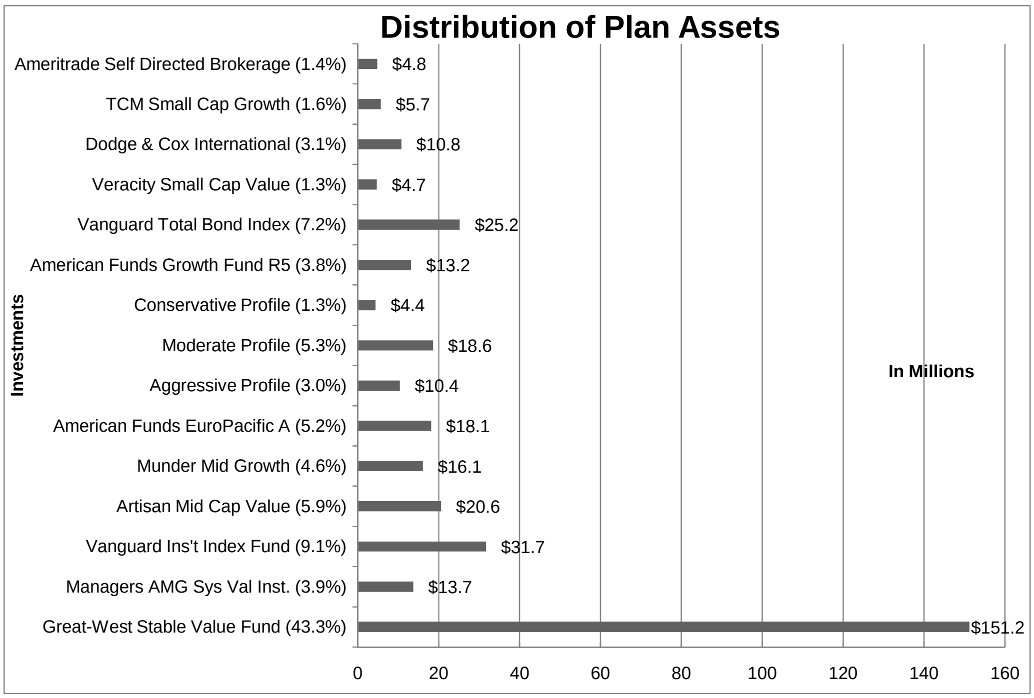
Administrative Fee

The Plan's Committee continues to review the administrative fee on an annual basis in conjunction with the Department's financial services staff, who annually prepares a cost analysis based on current costs of the Plan and makes projections for future years. Recommendations are made to the Committee, which then reviews and discusses them at a monthly Committee meeting. The Committee then votes whether to adopt a new administrative fee based on the analysis.

After the first year of this contract with Great-West, which began July 1, 2005, the fee schedule was reviewed. Due to the excess of fund balance, as a result of the previous five-year contract with Great-West, the Committee reduced the administrative fee from $20 to $0 for Fiscal Year 2007. Since the excess fund balance resulted from participants' investments and fees associated with those investments, the Plan's Committee determined that the excess fund balance could be used to cover operation costs and that it was unnecessary to charge participants an administrative fee. Since the fund balance was not reduced sufficiently in Fiscal Year 2007, the decision for Fiscal Years 2008 and 2009 was to continue not charging participants an administrative fee in an effort to reduce the fund balance to the agreed-upon amount.

Plan Investment Options

The Plan offers participants the opportunity to invest in 15 different investment options from ten companies. The Plan added a self-directed brokerage option in 2001. The Plan began offering portfolio funds (Conservative, Moderate and Aggressive) as of January 2003. These funds are a mix of the core funds in the Plan as recommended by the investment consultant. The following table shows the distribution of invested Plan assets (as a percentage of total invested Plan assets) by investment options as of June 30, 2009. The table below excludes cash held in the Plan Asset Fund for payouts to participants in the subsequent month and cash with the State Treasurer in the Administrative Fund for Plan expenses.



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 December 10, 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 to 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

Section 24-30-204(2), C.R.S. 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.

During the Fiscal Year 2009 audit, we tested the Department's controls over quarterly financial reporting as required by Section 24-30-204(2), C.R.S. We found that the Department was not in compliance with the quarterly reporting provisions of Section 24-30-204(2), C.R.S. 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, 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, 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, increased plan assets by $50,961, decreased accounts receivable by $43,153, increased participant contributions by $836,726, increased participant withdrawals by $834,216, increased interest and dividend income by $5,298, decreased the net investment loss by $591,717, decreased administrative fees by $432,526, and increased transfers from the Deferred Compensation Plan Pension Trust Fund by $1,024,243.

Recommendation No. 2

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

Annuity Contracts

Article 6 "Form of Participant's Benefit Distribution," Section 6.2 "Limits on Settlement Options" (Section 6.2) of the Plan Document states that distributions may be made in the following forms: (i) a lump sum cash payment, (ii) substantially equal periodic installment payments, or (iii) through the purchase of an annuity. Section 6.2 also states that the purchase of an annuity shall be a complete discharge of the Plan's obligation to the participant and no further benefits shall be payable by the Plan.

Historically, Department personnel considered annuities purchased by participants to be an allowable investment option under the Plan and, therefore, purchased annuities were included in plan assets. As of June 30, 2009, purchased annuities included in plan assets totaled $4,020,034, or approximately 1.1% of total plan assets. Effective July 1, 2009, pursuant to Senate Bill 09-066, the Plan's administrative functions were transitioned to PERA. In connection with the transition of the Plan's administrative functions, both Department and PERA personnel revisited the treatment of the purchased annuities. Upon further investigation, and based upon information received from Great-West, the Department determined that these purchased annuities were owned by the respective participants and not by the Plan. As these purchased annuities are not owned by the Plan, the purchased annuities should not be included in plan assets. This resulted in an overstatement of plan assets by $4,020,034 at June 30, 2009.

The Department recorded general ledger trial balance adjustments to properly remove the purchased annuities from plan assets. The effect of these adjustments was to reduce plan assets by $4,020,034 at June 30, 2009, reduce participant withdrawals by $873,118 for Fiscal Year 2009, and reduce net assets held in trust for pension benefits and other purposes by $4,893,152 at July 1, 2008.

Recommendation No. 3

We recommend the Department of Personnel and Administration to implement processes by which it ensures that annuities purchased by former participants in lieu of other forms of benefit distributions be recorded as distributions and excluded from plan assets.

Department's Response

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

State of Colorado
Deferred Compensation 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 two recommendations. The disposition of these audit recommendations as of December 16, 2009, was as follows:

Recommendation Number	Recommendation	Disposition
1	Expedite the closing and financial reporting processes.	Not implemented. The Department did not provide the external auditors with an initial draft of the Fiscal Year 2009 financial statements until December 10, 2009. See Fiscal Year 2009 Recommendation No. 1. Implementation Date: Effective July 1, 2009, the Plan's administrative functions were transferred to PERA.
2	The Department should thoroughly review the Plan's investment statements prepared by Great-West to ensure the Plan's assets, and changes therein, are properly recorded within the Plan's general ledger. Additionally, the Department should establish accounting procedures to ensure that transfers between the Plan's administration fund and benefit trust are properly recorded within the Plan's general ledger.	Not implemented. The Department did not properly record plan assets, and changes therein. See Fiscal Year 2009 Recommendation No. 2. Implementation Date: Effective July 1, 2009, the Plan's administrative functions were transferred to PERA.

State of Colorado
Deferred Compensation Plan
Disposition of Prior Audit Recommendations (continued)
June 30, 2009 and 2008

Comments from the June 30, 2007, audit that were not fully implemented during Fiscal Year 2008 and the disposition of these audit recommendations as of December 16, 2009, were as follows:

Recommendation Number	Recommendation	Disposition
2	The Department should implement the necessary controls to ensure that all Plan assets are properly recorded in the Plan's financial statements, including developing a process for statewide reconciliations of Plan contributions and reviewing Great-West's processes for recording the Plan assets of other participating employers.	Partially Implemented. A process has been developed to receive employee contribution information from all participating employers on a monthly basis. In addition, it is now required, as part of an employer's participation in the Plan, to utilize the "Plan Service Center" maintained by Great-West in order to accurately reflect all Plan assets. Implementation Date: Effective July 1, 2009, the Plan's administrative functions were transferred to PERA.
4	The Department should ensure adequate documentation is maintained to support participant contribution elections by performing the following: b) Conducting periodic audits to determine if amounts contributed are supported by documentation at Great-West and, in instances where discrepancies are identified, performing follow-up as appropriate.	 b) Partially Implemented. In conjunction with 2007 Recommendation #2, contributions are reviewed on a quarterly basis effective with 4th quarter 2008 data. Implementation Date: Effective July 1, 2009, the Plan's administrative functions were transferred to PERA.

State of Colorado
Deferred Compensation Plan
Disposition of Prior Audit Recommendations (continued)
June 30, 2009 and 2008

Recommendation Number	Recommendation	Disposition
5	The Department should adjust distributions from the Plan for defaulted loans when the loan default occurs and work with Great-West to develop a reconciliation process for defaulted loans.	Partially Implemented. The Department utilizes the quarterly default loan report to provide an additional communication to the participant whose loan may end-up in default. The Department researches the reason for missed loan payments and works with the agency payroll or personnel office to inform the employee of the options to repay the loan timely. Implementation Date: Effective July 1, 2009, the Plan's administrative functions were transferred to PERA.

Comment from the June 30, 2006, 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	Distribute excess participant contributions within prescribed time constraints.	Partially Implemented. The Department still relies on a system edit in central payroll to prevent any excess contributions for those employees paid through central payroll. For those employees paid through the payroll system at other participating employers, the Department reviews the excess contributions report from Great-West annually and follows up with appropriate staff at the other payroll locations to ensure excess contributions to the Plan are disbursed timely. Implementation Date: Effective July 1, 2009, the Plan's administrative functions were transferred to PERA.

BKD LLP
CPAs & Advisors

Wells Fargo Center
1700 Lincoln Street, Suite 1400
Denver, CO 80203-4514
303.861.4545 Fax 303.832.5705 www.bkd.com

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 Deferred Compensation 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 the 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 State of Colorado Deferred Compensation 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 State of Colorado Deferred Compensation Plan.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Colorado Deferred Compensation 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.

As discussed in Note 10, the previously issued 2008 basic financial statements have been restated. Our previously issued report on those financial statements dated December 18, 2008, is no longer to be relied upon because the previously issued 2008 financial statements were materially misstated and that report is replaced by this report on the restated 2008 financial statements.

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 Government 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 Plan's basic financial statements taken as a whole. The accompanying supplemental 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, are 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
Deferred Compensation 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 Deferred Compensation Plan (the Plan). This discussion and analysis should be read in conjunction with the Description of the Plan on pages 6–9 and the financial statements, including notes, which begin on page 22.

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's administrative functions were transitioned to the Public Employees Retirement Association (PERA).

There are two financial statements presented for fiduciary funds. The Statements of Fiduciary Net Assets indicate the net assets available to pay future payments and give a snapshot at a particular point in time. The Statements of Changes in Fiduciary Net Assets provide a view of the additions and deductions to the Plan.

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

Financial Highlights

The ending balance in the assets line item "Cash in bank and with State Treasurer" decreased from $107,841 in Fiscal Year 2008 to $0 in Fiscal Year 2009, and the ending balance in liabilities line item "Cash due to State Treasurer" increased from $0 in Fiscal Year 2008 to $147,697 in Fiscal Year 2009. This decrease in the asset and increase in the liability is due to the Plan's Administration fund not receiving a transfer of funds from the Plan's Deferred Compensation Plan fund prior to year end. The ending balance in "Cash in bank and with State Treasurer" decreased from $827,836 in Fiscal Year 2007 to $107,841 in Fiscal Year 2008 due to administrative and investment fees being held within the Plan's Deferred Compensation Plan fund versus being remitted to the Plan's Administration fund.

Plan assets decreased by $19.9 million or 5 percent from 2008 to 2009 due to the investment losses suffered by the Plan, which were partially offset with increased participation in the Plan and a decrease in participant withdrawals. The Plan experienced a $15.0 million or 36 percent increase in the net investment loss, excluding interest and dividend income, from 2008 to 2009 due to continued deteriorating economic conditions. Plan assets decreased by $2.9 million or 1 percent from 2007 to 2008 due to deteriorating economic conditions, which was partially offset with increased participation in the Plan and a decrease in participant withdrawals. The Plan experienced a $75.2 million or 223 percent decrease in net investment gain, excluding interest and dividend income, from 2007 to 2008 due to deteriorating economic conditions.

Interest and dividend income decreased by $8.5 million or 44 percent from 2008 to 2009 due to deteriorating economic conditions and changes in the composition of plan assets. Interest and dividend income increased by $5.9 million or 43 percent from 2007 to 2008 due to continued growth in the number of Plan participants and, as a result of deteriorating economic conditions, changes in the composition of plan assets.

Participant contributions increased by $0.4 million or 1% from 2008 to 2009 due to continued increased participation in the Plan. Participant contributions increased by $4.9 million or 12 percent from 2007 to 2008 due to increased participation in the Plan.

Participant withdrawals decreased by $6.7 million or 25 percent from 2008 to 2009 due to a decrease in the number of employee terminations. Participant withdrawals decreased by $5.0 million or 16 percent from 2007 to 2008 due to a decrease in the number of employee terminations.

Accounts receivable increased 12% from 2008 to 2009 and 12% from 2007 to 2008 due to a continued increase in the number of loans. At June 30, 2009, 2008, and 2007, the outstanding loans receivable totaled $3,933,263, $3,497,202, and $2,876,241, respectively. The number of loans increased from 1,112 in 2007 to 1,247 in 2008 and 1,461 in 2009. Additionally, the average outstanding loan amount in 2007 was $2,587 as compared with $2,804 in 2008 and $2,692 in 2009.

State of Colorado
Deferred Compensation Plan
Management's Discussion and Analysis (continued)
June 30, 2009, 2008, and 2007

Deferred Compensation Condensed Statement of Fiduciary Net Assets

	June 30, 2009	June 30, 2008 (Restated Note 10)	June 30, 2007 (Restated Note 10)	Percentage Change from 2008–2009	Percentage Change from 2007–2008
Assets					
Plan assets	$ 349,248,998	$ 369,189,699	$ 372,087,998	(5%)	(1%)
Accounts receivable	3,933,263	3,497,202	3,129,630	12%	12%
Cash in bank and with State Treasurer and other assets	-	107,841	827,859	(100%)	(87%)
Total assets	353,182,261	372,794,742	376,045,487	(5%)	(1%)
Liabilities					
Cash due to State Treasurer	147,697	-	-	100%	0%
Vouchers payable and accrued liabilities	189,363	200,646	209,317	(6%)	(4%)
Compensated absences – annual leave and sick leave	9,143	9,803	9,308	(7%)	5%
Total liabilities	346,203	210,449	218,625	65%	(4%)
Net Assets					
Held in trust for pension benefits and other purposes	352,836,058	372,584,293	375,826,862	(5%)	(1%)
Total fiduciary net assets	$ 352,836,058	$ 372,584,293	$ 375,826,862	(5%)	(1%)

State of Colorado
Deferred Compensation Plan
Management's Discussion and Analysis (continued)
June 30, 2009, 2008, and 2007

Deferred Compensation Plan Condensed Statement of Changes in Fiduciary Net Assets

	June 30, 2009	June 30, 2008 (Restated Note 10)	June 30, 2007 (Restated Note 10)	Percent Change from 2008–2009	Percent Change from 2007–2008
Additions					
Interest and dividend income	$ 11,006,792	$ 19,536,785	$ 13,654,093	(44%)	43%
Contributions					
Participant payroll deferrals	46,536,576	46,174,583	41,229,420	1%	12%
Net investment gain (loss)	(56,441,737)	(41,477,348)	33,726,496	36%	(223%)
Other revenue	654	2,000	500	(67%)	300%
Total additions	1,102,285	24,236,020	88,610,509	(95%)	(73%)
Deductions					
Operations	1,038,656	1,006,865	875,499	3%	15%
Administrative fees	101,403	106,690	54,953	(5%)	94%
Participant withdrawals	19,710,461	26,365,034	31,319,750	(25%)	(16%)
Total deductions	20,850,520	27,478,589	32,250,202	(24%)	(15%)
Change in Fiduciary Net Assets	$ (19,748,235)	$ (3,242,569)	$ 56,360,307	509%	(106%)

Below is a comparison of the Fiscal Year 2009 Budget to Actual Operation Deductions:

	Budget	Actual	Over/(Under)
Comparison of Fiscal Year 2009 Budget to Actual Deductions			
Personal Services	$ 175,541	$ 174,881	$ 660
Workers' Compensation & Risk Mgmt.	2,795	2,795	-
Operating Expenses	20,945	20,944	1
Indirect Cost Assessment	29,157	29,157	-
Administration and Communication	766,500	776,705	(10,205)
Leased Space	9,498	9,457	41
Legal Services	16,434	16,133	301
GGCC & Mgmt/Administration of OIT	8,584	8,584	-

State of Colorado
Deferred Compensation Plan
Statements of Fiduciary Net Assets
June 30, 2009 and 2008

	2009 Pension Trust Fund	2008 Pension Trust Fund (Restated Note 10)
Assets		
Cash in bank and with State Treasurer	$ -	$ 107,841
Accounts receivable	3,933,263	3,497,202
Plan assets	349,248,998	369,189,699
Total assets	353,182,261	372,794,742
Liabilities		
Cash due to State Treasurer	147,697	-
Vouchers payable and accrued liabilities	189,363	200,646
Compensated absences - annual leave and sick leave	9,143	9,803
Total liabilities	346,203	210,449
Net Assets		
Held in trust for pension benefits and other purposes	352,836,058	372,584,293
Total fiduciary net assets	$ 352,836,058	$ 372,584,293

State of Colorado
Deferred Compensation Plan
Statements of Changes in Fiduciary Net Assets
Years Ended June 30, 2009 and 2008

	2009 Pension Trust Fund	2008 Pension Trust Fund (Restated Note 10)
Additions		
Interest and dividend income	$ 11,006,792	$ 19,536,785
Contributions		
Participant payroll deferrals	46,536,576	46,174,583
Net investment loss	(56,441,737)	(41,477,348)
Other revenue	654	2,000
Total additions	1,102,285	24,236,020
Deductions		
Personal services	174,881	126,952
Workers' compensation and risk management	2,795	4,272
Operating expenses	20,944	17,087
Indirect cost assessment	29,157	13,611
Administration and communication	776,705	766,475
Leased space	9,457	9,552
Legal services	16,133	11,133
GGCC & Mgmt/Administration of OIT	8,584	-
Performance audit	-	57,783
Administrative fees	101,403	106,690
Participant withdrawals	19,710,461	26,365,034
Total deductions	20,850,520	27,478,589
Change in Fiduciary Net Assets	(19,748,235)	(3,242,569)
Fiduciary Net Assets, Beginning of Year, as Previously Reported	372,584,293	381,181,813
Adjustment applicable to prior years	-	(5,354,951)
Fiduciary Net Assets, Beginning of Year, as Restated	372,584,293	375,826,862
Fiduciary Net Assets, End of Year	$ 352,836,058	$ 372,584,293

State of Colorado
Deferred Compensation Plan
Notes to Financial Statements
June 30, 2009 and 2008

Note 1: Summary of Significant Accounting Policies

The accompanying financial statements reflect the financial activities of the State of Colorado Deferred Compensation Plan (the Plan) and are in conformance with generally accepted accounting principles applicable to governmental units. The Governmental Accounting Standards Board (GASB) Statement No. 32, *Accounting and Financial Reporting for IRC Section 457 Deferred Compensation Plans*, is the accounting guideline for the Plan.

Reporting Entity

The Plan is included within the State of Colorado's Comprehensive Annual Financial Report (CAFR) for reporting purposes and in conformance with the guidelines established by GASB concerning financial accountability. The Plan is available to eligible employees as a supplement to their basic retirement plan.

The Plan's financial activities are presented consistently with the presentation of statewide financial activities. These activities are reported according to generally accepted accounting principles for governmental organizations.

Enabling legislation, Section 24-52-102(1)(b) of the Colorado Revised Statutes (C.R.S.), created a Committee which "shall establish rules and regulations for the administration of this article and for the transaction of its business." Further, the Committee was given authority to "exercise its powers and to perform its duties and functions under a type 1 transfer as defined by the Administrative Organization Act of 1968, article 1 of this title" (Section 24-52-102(1)(c)(I) C.R.S.). In 1998, legislation was passed to create the trust in which the assets of the Plan reside, appoint the Committee as trustee to the Plan, and identify the assets for the exclusive use of the participants and their beneficiaries.

Effective July 1, 2009, pursuant to Senate Bill 09-066, the Plan's administrative functions were transferred to the Public Employees Retirement Association (PERA). Prior to July 1, 2009, the Plan 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.

Under the Plan, State employees are eligible to voluntarily contribute a portion of their compensation to the Plan. By definition, an "Employee" means any person, including elected officials, employed by and receiving compensation from the State of Colorado or any city and county, county, city, town or political subdivision. Under the Plan, employees may elect to defer a portion of their salary and defer paying state and federal income taxes on the deferred portion until the distribution date. The deferred compensation amount is not available for distribution to employees until age seventy and one-half (70½), termination of employment, death, unforeseeable emergency or purchase of service in the PERA Defined Benefit Plan.

The State has no liability for losses under the Plan but the Committee has the duty of standard of care as referenced in Section 24-52-102(1)(d)(I), C.R.S.

The Internal Revenue Service (IRS) has determined that the provisions of the Plan are in compliance with IRC Section 457.

Fund Structure

All investment activity as well as the Plan's administrative operations are 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.

Basis of Accounting

The Pension Trust Fund activity is reported on the accrual basis of accounting.

Assets of the Plan, which include employee payroll deferral and the related earnings, are held by the investment companies in the State's name and are recorded at fair value in accordance with the provisions of IRC Section 457.

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 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.

Note 2: Investments – Trust Fund Assets and Property and Rights Held under Deferred Compensation Plan

Section 24-52-103(1), C.R.S. specifies which instruments participants may invest in, which includes "any legitimate investment, including, but not limited to, investment programs of any bank, or savings and loan association, life insurance contracts, deferred annuities, equity products, governmental bonds, real estate investment trusts, or other investment products."

All investments of $349,248,998 and $369,189,699 are recorded within the Deferred Compensation Plan Pension Trust Fund at fair value at June 30, 2009 and 2008, respectively.

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.

As of June 30, 2009, the Plan had the following investments in debt instruments:

Investment Type	Fair Value	Rating (Moody's)
Bond mutual funds	$ 187,785,957	Unrated

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. The Plan’s investment policy for $150.5 million of the $187.7 million in debt instruments limits its investment maturities to an average duration of between two and five years.

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 investment policy for $150.5 million of the $187.7 million in debt instruments limits investments to those with a credit quality rating of AAA, except for corporate bonds that have an average quality rating of A, commercial banks domiciled in the United States, or A1/P1 rated commercial paper.

The bond mutual funds listed as unrated invest in numerous corporate and governmental debt securities. The Committee regularly reviews the Plan’s investment products’ risk characteristics to ensure each is performing at an acceptable level.

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 investment in international bond mutual funds denominated in foreign currency. At June 30, 2009 and 2008, the Plan’s investment in international bond mutual funds had a fair value of $31,491,806 and $38,495,844, respectively.

Note 3: Administrative Component

Cash recorded in the Administration Pension Trust Fund at June 30, 2009 and 2008, is on deposit with the State Treasurer. Detailed information on the State Treasurer’s pooled cash and investments and the related risk categories are available from that office and in the State’s Comprehensive Annual Financial Report.

Accrued compensated absences are recognized and recorded as personal service expenses. The corresponding liability represents an unpaid obligation for vested annual and sick leave of the State’s employees who work for the Plan.

The Plan’s administrative operations are recorded in the Administration Pension Trust Fund. Revenues are collected from an assessment on each Plan participant’s investment balance as of the end of each calendar quarter, which is known as an administrative fee. This fee is set by the Plan’s Committee and may not exceed 1.0 percent of the participant’s assets in the Plan (Section 24-52-102(5), C.R.S.). The Committee has the option to deposit such revenue with the State Treasurer, who shall credit such revenue to the Plan’s Administration Pension Trust Fund along with any investment earnings, or with Great-West, who shall hold such revenue in a separate fund within the Plan’s Deferred Compensation Plan Pension Trust Fund along with any investment earnings. At

June 30, 2009 and 2008, this revenue was held by Great-West in a separate fund within the Plan's Deferred Compensation Plan Pension Trust Fund.

Per Section 24-52-102(5), C.R.S., any administrative fee collected in excess of expenditures shall be used to reduce participants' administrative fees in subsequent years. The Committee is also allowed to establish a reasonable level of reserves for the Plan based upon the prior year's revenue and expenses and the projections for the next year, and any revenue collected in excess of the reserves established by the Committee shall be used to reduce the participants' annual fees in subsequent years or, to the extent permitted by law, may be credited back to the participants. Accordingly, the Committee periodically reviews the fee to assess and adjust the rate to meet this statutory requirement. Effective July 1, 2006, the fee was reduced from $20 per participant per year (excluding those participants in payout) to $0. This fee holiday was put into effect due to an excess fund balance (i.e., revenue collected in excess of expenditures) in the Administration Pension Trust Fund. The $0 fee holiday has remained in effect for Fiscal Years 2008 and 2009.

According to the Great-West contract, which began July 1, 2005, the Plan also receives all of Great-West's fund operating expense fee (i.e., reallowance fee), and .20 percent of Plan assets invested in the Vanguard Total Bond, Vanguard Institutional Index, and Stable Value Funds (i.e., explicit fees).

The indirect cost assessment reflects the Plan's share of the Department's administrative and other overhead charges.

Administration and communication includes several components such as marketing costs to attract and enroll new participants, communication, and record keeping services. The Committee contracts with a third-party administrator for a five-year period to perform basic administration and record keeping services. The current contract with Great-West began on July 1, 2005 and expires June 30, 2010. The Plan pays Great-West an annual $39 fee per participant for these services. Employee contributions are remitted to a bank depository from which Great-West transmits the contributions to the various investment providers for investment in the specific funds as designated by participants. Great-West maintains all records detailing employee contributions, related earnings, account balances, and fees for individual participants.

Note 4: 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 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 (PERA DC Plan) administered by PERA rather than the DB Plan.

Beginning July 1, 2009, the administration of the state's defined contribution retirement plan transferred to PERA. New non-higher education employees will have the choice of participating in either the PERA DB Plan or the PERA DC Plan. Existing state defined contribution 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.

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 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, their eligible children under the age of 18 (23 if a full time student) or their spouse may be entitled to a single payment or monthly benefit payments. If there is no eligible child or spouse, then financially dependent parents, beneficiaries, or the member's estate may be entitled to a survivor's benefit.

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 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 department/institution's contributions to PERA and/or the state defined contribution plan for the fiscal years ending June 30, 2009 and 2008, were $10,168 and $9,066, respectively. These contributions met the contribution requirement for each year.

Note 5: Voluntary Tax-Deferred Retirement Plans

PERA offers a voluntary 401(k) plan entirely separate from the DB Plan and certain agencies and institutions of the state also offer 403(b) or 401(a) plans.

Note 6: Other Postemployment Benefits

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 P.O. Box 5800, Denver, Colorado 80217, by calling PERA at 1.800.759.PERA (7372), or by visiting http://www.copera.org.

After the PERA subsidy, the benefit recipient pays the balance of the premium through an automatic deduction from the monthly retirement benefit. Monthly premium costs for participants depend on the health care plan selected, the PERA subsidy amount, Medicare eligibility, and the number of persons covered. Effective July 1, 2000, the maximum monthly subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare and $115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit and is subject to reduction by 5 percent for each year less than 20 years.

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions. 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 7: 457 Loan Program

On January 5, 2004, the State of Colorado Deferred Compensation Committee implemented a loan program for the 457/401(a) Match Plan participants. Participants are allowed a maximum of one loan per Plan at any given time. There are two types of loans available: General Purpose with a duration of one to five (1–5) years or Principal Residence with a duration of one to fifteen (1–15) years. Refinancing an existing loan is not permitted. A minimum account balance of $2,000 is required to apply for a loan. The minimum loan amount available to participants is $1,000. The maximum amount available in aggregate for all plans is $50,000 or 50 percent of the vested account balance, whichever is less. The vested account balance remaining after a loan disbursement may not be reduced below the amount of outstanding loan balance at any time by withdrawal or distribution, including hardship withdrawals.

A $50 origination fee shall be charged for each requested loan. An additional annual maintenance fee of $25 ($6.25 per quarter) will be deducted quarterly from the participant's account balance. The interest rate for loans is fixed at one percent (1%) over the Prime Rate published in *The Wall Street Journal*. The interest rate is subject to change by the 457 Committee, however; the rate may not exceed twelve percent (12%) at any given time. Loan payments shall be made through payroll deduction on a monthly basis.

As of June 30, 2009 and 2008, $3,933,263 and $3,497,202, respectively, in loans and corresponding interest receivable were outstanding, consisting of 1,461 and 1,247, respectively, participant loans.

As of June 30, 2009 and 2008, there were 8 and 18 loans, respectively, considered delinquent totaling $31,000 and $38,000, respectively. Additionally, at June 30, 2009 and 2008, there were 50 and 43 loans, respectively, in default totaling $134,000 and $114,000, respectively. Participants are notified of delinquency at the end of the calendar quarter in which a missed payment occurs. The participant must make missed payments by the end of the calendar quarter after the quarter of the missed payments. If payments are still not made, the loan will be in default and considered a "deemed distribution," at which time the outstanding balance and any missed payments are reported to the IRS as income. The participant will receive a 1099R for the year in which the loan default occurs.

Note 8: 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 9: Subsequent Event

Effective July 1, 2009, and pursuant to Senate Bill 09-066, the 401(a) Match portion of the Plan was merged with the PERA DC Plan, the 457 portion of the Plan was established as a separate fund within PERA and administration of the Plan transferred to PERA. Effective July 1, 2009, all assets of the 401(a) Match portion of the Plan were transferred at fair market value from Great-West. Plan assets in the 457 portion of the Plan remain with Great-West.

Note 10: Restatement of Prior Year Financial Statements

Fiscal Year 2008 has been restated to exclude annuity contracts, purchased by retired participants or beneficiaries as a form of retirement distribution, from plan assets and to exclude amounts disbursed under the contracts from participant withdrawals. These annuity contracts and related disbursements, were previously included in the Plan's financial statements. This restatement decreased previously reported June 30, 2008, fiduciary net assets by $4,893,152, decreased the previously reported Fiscal Year 2008 decrease in fiduciary net assets by $461,799, and decreased previously reported July 1, 2007, fiduciary net assets by $5,354,951.

Supplementary Information

State of Colorado
Deferred Compensation Plan
Combining Statement of Fiduciary Net Assets
June 30, 2009

	Fiduciary Fund Type		
	Pension Trust Funds		
	Administration (Appropriated)	Deferred Compensation Plan (Non-appropriated)	Total
Assets			
Cash in bank and with State Treasurer	$ -	$ -	$ -
Accounts receivable	-	3,933,263	3,933,263
Due from Deferred Compensation Plan fund	399,243	-	399,243
Plan assets	-	349,248,998	349,248,998
Total assets	399,243	353,182,261	353,581,504
Liabilities			
Cash due to State Treasurer	147,697	-	147,697
Vouchers payable and accrued liabilities	189,363	-	189,363
Due to Administration fund	-	399,243	399,243
Compensated absences - Annual leave and sick leave	9,143	-	9,143
Total liabilities	346,203	399,243	745,446
Net Assets			
Held in trust for pension benefits and other purposes	53,040	352,783,018	352,836,058
Total fiduciary net assets	$ 53,040	$ 352,783,018	$ 352,836,058

State of Colorado
Deferred Compensation Plan
Combining Statement of Fiduciary Net Assets
June 30, 2008

	Fiduciary Fund Type		
	Pension Trust Funds		
	Administration (Appropriated)	Deferred Compensation Plan (Non-appropriated) (Restated Note 10)	Total
Assets			
Cash in bank and with State Treasurer	$ 107,841	$ -	$ 107,841
Accounts receivable	-	3,497,202	3,497,202
Due from Deferred Compensation Plan fund	165,000	-	165,000
Plan assets	-	369,189,699	369,189,699
Total assets	272,841	372,686,901	372,959,742
Liabilities			
Vouchers payable and accrued liabilities	200,646	-	200,646
Due to Administration fund	-	165,000	165,000
Compensated absences - annual leave and sick leave	9,803	-	9,803
Total liabilities	210,449	165,000	375,449
Net Assets			
Held in trust for pension benefits and other purposes	62,392	372,521,901	372,584,293
Total fiduciary net assets	$ 62,392	$ 372,521,901	$ 372,584,293

State of Colorado
Deferred Compensation Plan
Combining Statement of Changes in Fiduciary Net Assets
Year Ended June 30, 2009

	Fiduciary Fund Type		
	Pension Trust Funds		
	Administration (Appropriated)	Deferred Compensation Plan (Non-appropriated)	Total
Additions			
Interest and dividend income	$ 4,911	$ 11,001,881	$ 11,006,792
Contributions			
Participant payroll deferrals	-	46,536,576	46,536,576
Net investment loss	(504)	(56,441,233)	(56,441,737)
Other revenue	654	-	654
Total additions	5,061	1,097,224	1,102,285
Deductions			
Personal services	174,881	-	174,881
Workers' compensation and risk management	2,795	-	2,795
Operating expenses	20,944	-	20,944
Indirect cost assessment	29,157	-	29,157
Administration and communication	776,705	-	776,705
Leased space	9,457	-	9,457
Legal services	16,133	-	16,133
GGCC & Mgmt/Administration of OIT	8,584	-	8,584
Administrative fees	-	101,403	101,403
Participant withdrawals	-	19,710,461	19,710,461
Total deductions	1,038,656	19,811,864	20,850,520
Other Sources (Uses)			
Transfer from Deferred Compensation Plan fund	1,024,243	-	1,024,243
Transfer to Administration fund	-	(1,024,243)	(1,024,243)
Total other sources (uses)	1,024,243	(1,024,243)	-
Change in Fiduciary Net Assets	(9,352)	(19,738,883)	(19,748,235)
Fiduciary Net Assets, Beginning of Year, as Restated	62,392	372,521,901	372,584,293
Fiduciary Net Assets, End of Year	$ 53,040	$ 352,783,018	$ 352,836,058

State of Colorado
Deferred Compensation Plan
Combining Statement of Changes in Fiduciary Net Assets
Year Ended June 30, 2008

	Fiduciary Fund Type		
	Pension Trust Funds		
	Administration (Appropriated)	Deferred Compensation Plan (Non-appropriated) (Restated Note 10)	Total
Additions			
Interest and dividend income	$ 28,368	$ 19,508,417	$ 19,536,785
Contributions			
Participant payroll deferrals	-	46,174,583	46,174,583
Net investment gain (loss)	11,266	(41,488,614)	(41,477,348)
Other revenue	2,000	-	2,000
Total additions	41,634	24,194,386	24,236,020
Deductions			
Personal services	126,952	-	126,952
Workers compensation and risk management	4,272	-	4,272
Operating expenses	17,087	-	17,087
Indirect cost assessment	13,611	-	13,611
Administration and communication	766,475	-	766,475
Leased space	9,552	-	9,552
Legal services	11,133	-	11,133
Performance audit	57,783		57,783
Administrative fees	-	106,690	106,690
Participant withdrawals	-	26,365,034	26,365,034
Total deductions	1,006,865	26,471,724	27,478,589
Other Sources (Uses)			
Transfer from Deferred Compensation Plan fund	165,000	-	165,000
Transfer to Administration fund	-	(165,000)	(165,000)
Total other sources (uses)	165,000	(165,000)	-
Change in Fiduciary Net Assets	(800,231)	(2,442,338)	(3,242,569)
Fiduciary Net Assets, Beginning of Year, as Previously Reported	862,623	380,319,190	381,181,813
Adjustment applicable to prior years	-	(5,354,951)	(5,354,951)
Fiduciary Net Assets, Beginning of Year, as Restated	862,623	374,964,239	375,826,862
Fiduciary Net Assets, End of Year, as Restated	$ 62,392	$ 372,521,901	$ 372,584,293

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 Deferred Compensation 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 explanatory paragraphs regarding required supplementary information and restatement of prior years' financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the 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 deficiencies in internal control over financial reporting that we collectively consider to be significant deficiencies.

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. However, we consider the deficiencies in the Description of Audit Findings and Recommendations section of this report as Recommendations No. 2 and No. 3 to be significant deficiencies 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 or material weaknesses. We did not identify any 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 deficiencies described above to be material weaknesses.

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.

We also noted a certain additional matter that we reported in the Description of Audit Findings and Recommendations section of this report.

The Department's responses to the findings identified in our audit are described in the Description of Audit Findings and Recommendations section of this report. We did not audit the Department's responses and, accordingly, we express no opinion on them.

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 Deferred Compensation 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 1 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 which management recorded, include the following:

- The plan assets and accounts receivable held within the Plan's Deferred Compensation Plan Pension Trust Fund and related activity (e.g., contributions, participant withdrawals, interest and dividend income, net investment loss and administrative fees) were not properly reconciled to the Plan's investment statements and transfers from the Plan's Deferred Compensation Plan Pension Trust Fund were not properly recorded 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 understated by $50,961
    - Accounts receivable were overstated by $43,153
    - Participant contributions were understated by $836,726
    - Participant withdrawals were understated by $834,216
    - Interest and dividend income was understated by $5,298
    - Net investment loss was overstated by $591,717
    - Administrative fees were overstated by $432,526
    - Transfers from the Deferred Compensation Plan Pension Trust Fund were understated by $1,024,243
- The plan assets held within the Plan's Deferred Compensation Plan Pension Trust Fund improperly included annuities purchased by former participants in lieu of other forms of benefit distributions totaling $4,020,034 at June 30, 2009, and participant withdrawals for Fiscal Year 2009 improperly included $873,118 of benefits paid from these purchased annuities. This was adjusted to correct the plan assets and participant withdrawals.

The effect of the corrected misstatements was to decrease plan assets by $3,969,073, decrease accounts receivable by $43,153, increase participant contributions by $836,726, decrease participant withdrawals by $38,902, increase interest and dividend income by $5,298, decrease net investment loss by $591,717, decrease administrative fees by $432,526, and increase transfers from the Deferred Compensation Plan Pension Trust Fund by $1,024,243.

Areas in which corrected misstatements were aggregated during the current engagement and pertaining to the earliest 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 Deferred Compensation Plan Pension Trust Fund improperly included annuities purchased by former participants in lieu of other forms of benefit distributions totaling $4,893,152 and $5,354,951 at June 30, 2008 and July 1, 2007, respectively, and participant withdrawals for Fiscal Year 2008 improperly included $461,799 of benefits paid from these purchased annuities. This was adjusted to correct the plan assets as of the beginning and end of Fiscal Year 2008 and participant withdrawals for Fiscal Year 2008.

The effect of the corrected misstatements was to decrease plan assets at June 30, 2008, by $4,893,152, decrease participant withdrawals for Fiscal Year 2008 by $461,799, and decrease fiduciary net assets at July 1, 2007, by $5,354,951.

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
Deferred Compensation Plan
Audit Report Distribution Summary

The electronic version of this report is available on the Web site of the
Office of the State Auditor
www.state.co.us/auditor

A bound report may be obtained by calling the
Office of the State Auditor
303.869.2800

Please refer to the Report Control Number below when requesting this report.

Report Control No. 2036