

**COLORADO PUBLIC EMPLOYEES'  
RETIREMENT ASSOCIATION**

**LEGISLATIVE AUDIT COMMITTEE REPORT  
Year Ended December 31, 2008**

**With Reports of Independent Auditors**

**LEGISLATIVE AUDIT COMMITTEE**  
**2009 MEMBERS**

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*Representative Dianne Primavera*  
Chair

*Senator David Schultheis*  
Vice-Chair

*Senator Jim Isgar*  
*Representative Jim 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

*Clifton Gunderson LLP*  
Contract Auditors

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Comprehensive Annual Report for the Year Ended December 31, 2008	Under Separate Cover



To the Board of Trustees of  
Colorado Public Employees' Retirement Association

We have completed our audit of the financial statements of the Colorado Public Employees' Retirement Association ("PERA") for the year ended December 31, 2008, and have issued an unqualified opinion thereon dated June 18, 2009. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We were engaged to conduct our audit pursuant to Section 24-51-204(6) of the Colorado Revised Statutes, which authorizes the State Auditor to conduct or cause to be conducted audits of PERA. Sections 2 and 3 of this report set forth the recommendations we have issued as part of our audit. Our audit opinion is located in the Comprehensive Annual Financial Report available from PERA.

*Clifton Gunderson LLP*

Denver, Colorado  
June 18, 2009

**SECTION 1**  
**AUDIT REPORT SUMMARY**

**COLORADO PUBLIC EMPLOYEES'  
RETIREMENT ASSOCIATION  
AUDIT REPORT SUMMARY  
December 31, 2008**

**Audit of PERA Benefit Plans for the Year Ended December 31, 2008**

Our audit of the December 31, 2008 financial statements of PERA is complete and we issued our unqualified report thereon dated June 18, 2009. There are no matters which we believe require the Audit Committee's specific attention.

- The financial statements of PERA have been prepared in conformity with accounting principles generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.
- The scope of our audit was reported to the PERA Audit Committee. There were no significant variations from the planned scope.

As part of our audit of the financial statements of PERA, we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Based on the results of our work, our review of PERA's internal control has not disclosed any weaknesses which we believe to be material weaknesses under standards established by the American Institute of Certified Public Accountants. Refer to the Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* on page 5-3. In addition, we examined PERA's compliance over financial reporting with certain provisions as included in Colorado Revised Statutes and PERA Rules. Based on the results of our work, our review of PERA's compliance with certain provisions of laws, regulations, and contracts has disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, for the year ended December 31, 2008.

**Cooperation with Management**

We are pleased to inform you that we received full cooperation of the officers and employees of PERA, and we were furnished with all of the information and explanations required to perform our audit.

**Communications with Audit Committee**

Our responsibility for assuring that the Audit Committee is made aware of significant matters, as required by our professional standards, is outlined in Exhibit I.

**Independence**

We reiterate our firm's policy on independence, which stipulates that neither Clifton Gunderson LLP partners nor staff assigned to the audit of PERA are permitted to have any direct or material indirect interest in PERA. Adherence to the policy of independence is reaffirmed annually in writing by each member of our professional staff.

To the best of our knowledge, there are no circumstances or relationships between PERA and Clifton Gunderson LLP that would impair our independence in reporting on the PERA's financial statements. We hereby confirm that as of June 18, 2009, we are independent accountants with respect to PERA.

*Clifton Gunderson LLP*

Denver, Colorado  
June 18, 2009

**SECTION 2**  
**RECOMMENDATION SUMMARY**



**RECOMMENDATION SUMMARY**

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<b>Rec. No.</b>	<b>Page No.</b>	<b>Recommendation</b>	<b>PERA Response</b>	<b>Implementation Date</b>
1	3-2	Amortization of Unfunded Actuarial Accrued Liability	Agree	Ongoing

**SECTION 3**  
**CURRENT YEAR FINDING AND RECOMMENDATION**

## **CURRENT YEAR FINDING AND RECOMMENDATION**

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We have audited the financial statements of Colorado Public Employees' Retirement Association ("PERA") for the year ended December 31, 2008 and have issued our report thereon dated June 18, 2009. In planning and performing our audit of the financial statements, we considered PERA's internal control solely to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. We have not considered internal control or compliance over financial reporting since June 18, 2009.

Our procedures were designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist.

A recommendation noted in connection with the December 31, 2008 audit is detailed in the following pages.

**RECOMMENDATION**  
**AMORTIZATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY**

The following matter, which was identified and reported on in prior periods, was still in existence during the course of our current audit.

**Issue:**

As part of the preparation of its annual financial statements, PERA is required to estimate the unfunded liability for each of the four divisions that participate in the defined benefit plan and the Health Care Trust Fund offered to state employees. The total estimated unfunded liability as of December 31 is as follows:

	(In thousands)	
	<u>2008</u>	<u>2007</u>
State Division	\$ 6,584,297	\$ 5,169,615
School Division	9,266,873	7,170,659
Local Government Division	904,787	670,352
Judicial Division	<u>57,091</u>	<u>32,982</u>
Combined Defined Benefit Unfunded Liability	16,813,048	13,043,608
Health Care Trust Fund	<u>1,112,657</u>	<u>1,044,819</u>
 Total Unfunded Liability	 <u>\$ 17,925,705</u>	 <u>\$ 14,088,427</u>

Section 24-51-211, C.R.S., “Amortization of liabilities,” states:

An amortization period for each of the state divisions, school division, local government division, and judicial division trust funds shall be calculated separately. A maximum amortization period of thirty years shall be deemed actuarially sound. Upon recommendation of the Board, and with the advice of the actuary, the employer or member contributions rates for the Plan may be adjusted by the general assembly when indicated by actuarial experience.

Through review of the 2008 Actuarial Valuation completed by Cavanaugh Macdonald Consulting, LLC, dated May 2009, it was noted that the remaining amortization period with current funding is infinite for three of the four divisions (State, School and Judicial), as of December 31, 2008, 29 years for the Local Government Division and 39 years for the Health Care Trust Fund excluding future expected Medicare Part D Drug Subsidy payments. In other words, the results of the valuation study indicated that PERA’s current contribution rates are not sufficient to support the current benefit structures of the State, School, and Judicial Division Trust Funds. The funding ratios as of December 31 are as follows:

	<u>2008</u>	<u>2007</u>
State Division	67.9%	73.3%
School Division	70.1%	75.5%
Local Government Division	76.4%	81.2%
Judicial Division	80.2%	87.5%
Health Care Trust Fund	18.7%	19.9%

In addition, because the amortization period exceeds 30 years for four divisions, with the exception of the Local Government Division (not including the effects of Amortization Equalization Disbursement (AED) or Supplemental Amortization Equalization Disbursement (SAED), the divisions are not considered actuarially sound under Section 24-51-211, C.R.S.

During the 2006 Session, PERA worked with the Governor and the General Assembly on the passage of Senate Bill 06-235. The major provisions of this bill include:

Senate Bill 06-235. Concerning PERA Benefit Plans (passed by the Legislature in May 2006, and signed by the Governor on May 25, 2006):

- Addition of a Supplemental Amortization Equalization Disbursement (SAED) beginning in January 2008 at 0.5% per year up to 3%. The shut-off mechanism for the AED and SAED will be changed to 100% funding status on a division by division basis.
- New provisions for new hires after January 1, 2007. Maintain current 2.5% of Highest Average Salary (HAS) as the multiplier factor with a 3 year HAS and an 8% per year cap on salary escalation during HAS years. Change rule of 80 to rule of 85 with a minimum retirement age of 55. Implement a new Cost-of-Living Allowance (COLA) fund dedicated to new hire retirement COLAs at the lower of 3% or the actual Consumer Price Index if retired 1 year and have reached age 60 or if age plus years of service equal 85, limited to available funds.
- The statutorily prescribed amortization period would be reduced from 40 to 30 years.
- A new statutory provision would be enacted that requires the General Assembly to contract for an independent actuarial study before future benefit increases could occur.
- A new requirement to purchase service at full actuarial cost would be enacted.
- Changes to the composition of the Board.
- The expansion of Defined Contribution Choice to institutions of higher education effective January 1, 2008. New employees in higher education would be eligible to select the PERA DB Plan, the PERA DC Plan, or the State DC Plan, in addition to existing Optional Retirement Plans (ORPs) at institutions that have ORPs. This includes faculty and administrators who have not previously had access to the PERA DB, PERA DC, or the State DC Plan. It also includes classified staff that have not been eligible for DC Choice. Current members of ORPs could not elect to participate in PERA DB, PERA DC, or the State DC Plan. (This provision was repealed as provided in HB 07-1377.)

In the opinion of PERA's actuary, "The employer contribution rate, together with the Medicare Part D Retiree Drug Subsidy, is sufficient to finance the Health Care Trust Fund benefits in accordance with GASB 43 and 45" and "the Local Government Division employer contribution rates are sufficient to finance the promised benefit under GASB 25 and 27. With the addition of the Amortization Equalization Disbursement (AED) and Supplemental Amortization Equalization Disbursement (SAED) contributions, the Judicial Division employer contribution rates are currently sufficient to finance the promised benefits and eventually meet the required contribution levels under GASB 25 and 27. The AED and SAED contributions, combined with projected reductions in liability due to benefit structure changes for future hires, are expected to improve the funded status of the State and School Divisions. However, if additional gains do not materialize in the future, increases in contributions and/or reductions in benefits may be

necessary to fund the State and School Divisions.” The table below represents the current employer contribution rate, and the employer contribution rate that would be needed at the present time to amortize the unfunded actuarial accrued liability within a 30-year period, as reported by PERA.

Employer Contribution Rates Available for Funding (including AED and SAED) as of December 31, 2008:

State Division	11.03%
State Troopers	13.73%
School Division	11.03%
Local Government Division	10.88%
Judicial Division	14.54%
Health Care Trust Fund	1.02%

Employer Contribution Rates Needed for 30-Year Amortization as of December 31, 2008:

State Division	17.91%
School Division	16.56%
Local Government Division	11.14%
Judicial Division	17.08%
Health Care Trust Fund	1.12%

In addition, with the legislation passed in 2006 and under Governmental Accounting Standard No. 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, effective for the year ended December 31, 2006, the maximum acceptable amortization period is 30 years.

Based on the current December 31, 2008 valuation, the actuary has calculated the following amortization periods for each fund including all future AED, SAED, and future expected Medicare Part D Subsidy payments on the current population:

State Division	Infinite
School Division	75 years
Local Government Division	19 years
Judicial Division	48 years
Health Care Trust Fund	24 years

The effect of the legislation and future drug subsidy payments as projected by the independent actuary on the current population shows the Local Government Division’s and the Health Care Trust Fund’s amortization periods falling within 30 years, and the above calculation of amortization periods only includes the effects of contribution changes from the 2006 legislation on the current populations at December 31, 2008.

Based on projections prepared by PERA's actuary at an expected return rate of 8.5% over the next 30 years, both the State and School Divisions will become insolvent and the Local Government and Judicial Divisions will drop below 60% funded.

As stated in the 2008 CAFR, "At the end of 2008, the Board requested an actuarial analysis of the impact of different possible benefit and contribution changes, which will be considered during the 2010 legislative session so as to achieve long-term sustainability for the trust funds. During 2009, the Board has initiated an actuarial experience study, an actuarial audit, and an asset-liability study to assist in determining the best course of action for the various funds. Colorado PERA believes it is in the best interest of both its members and the State's taxpayers to work toward proposing legislation in the 2010 legislative session to address the dramatic decline in the financial markets and economy and the resulting decline in the Colorado PERA investment portfolio. In the long run, since contributions and investment income must equal benefits and expenses, changes in all four of these categories will be carefully considered. The comprehensive proposal for legislative action in 2010 will be based on thorough calculations and a complete picture of how the various possible changes will impact Colorado PERA's funded status and its members."

**Recommendation:**

PERA should go forward with the course of action as outlined above to work with the Governor and the General Assembly to seek changes in the employer and/or member contributions and other plan provisions for the State, School and Judicial Divisions to achieve a 30-year amortization period which is the maximum period deemed actuarially sound under legislation and the maximum acceptable period under Governmental Accounting Standard No. 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

**PERA's Response:**

Agree. Colorado PERA agrees with this recommendation. Returning the PERA trust funds to a path of sustainability has been and continues to be PERA's highest priority. The impact of the downturn in the global economy during 2008 makes this issue even more important. At the end of 2007, the effects of legislation passed in 2004 and 2006 showed that the PERA trust funds were on the path to obtain a 30-year amortization period on unfunded liabilities within the actuarial projection period. This is no longer true. Therefore, in September, the Board of Trustees developed a comprehensive plan to determine the extent of the future funding issues and the choices available to maintain sustainability. PERA will comply with the provisions of Senate Bill 09-282 that require the PERA Board of Trustees to offer specific and comprehensive recommendations to the General Assembly by November 1, 2009, that decrease the amortization period on each of the trust funds with the goal of eventually obtaining full funding and ensuring sustainability.

**Implementation Date:**

Ongoing.

**SECTION 4**  
**DISPOSITION OF PRIOR YEAR RECOMMENDATIONS**



## DISPOSITION OF PRIOR YEAR RECOMMENDATIONS

The following are the audit recommendations included in the Colorado Public Employees' Retirement Association audit report for the year ending December 31, 2007, and their disposition as of December 31, 2008.

<b>2007</b>	<b>Recommendation</b>	<b>Disposition</b>
#1	<u>User Controls for 401(k) Plan</u> : PERA should review the controls at member employers to determine they cover the user controls as defined by ING (formerly CitiStreet) Independent Service Auditor's Report. The review should include verification of accurate and timely remittances of member deferrals.	Implemented 2008
#2	<u>Amortization of Liabilities</u> : PERA should continue to monitor the effects of the 2006 legislation to determine if the changes will bring the State and School Divisions into compliance with a 30-year amortization. If further analysis indicates that the changes will not bring PERA into compliance, PERA should continue to work with the Governor and the General Assembly to seek changes in the employer and/or member contributions and other Plan provisions for the State and School Divisions to achieve a 30-year amortization period which is the maximum period deemed actuarially sound under the new legislation and the maximum acceptable period under Governmental Accounting Standard No. 25 <i>Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans</i> .	See Recommendation. in current report
#3	<u>Missing Dates of Birth</u> : PERA should monitor the member records without complete data and strive to obtain accurate and complete information from both employers and member for the administration of member records..	Implemented 2008

**SECTION 5**  
**REPORTS OF INDEPENDENT AUDITORS**

## **Independent Auditor's Report**

Board of Trustees  
Colorado Public Employees' Retirement Association  
Denver, Colorado

We have audited the accompanying statements of fiduciary net assets and the related statement of changes in fiduciary net assets of the Colorado Public Employees' Retirement Association as of and for the year ended December 31, 2008 which collectively comprise Colorado Public Employees' Retirement Association's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Colorado Public Employees' Retirement Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Colorado Public Employees' Retirement Association's December 31, 2007 financial statements, and in our report dated June 19, 2008, we expressed an unqualified opinion on the respective 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. 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 of the financial statements.. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Colorado Public Employees' Retirement Association as of December 31, 2008, and related changes in fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 18, 2009, on our consideration of Colorado Public Employees' Retirement Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 18 through 37, and the schedule of funding progress and schedule of employer contributions on pages 63 through 68 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Colorado Public Employees' Retirement Association's basic financial statements. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

The introductory section, investment section, actuarial section and statistical section listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Clifton Gunderson LLP*

Denver, Colorado  
June 18, 2009

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

Board of Trustees  
Colorado Public Employees’ Retirement Association  
Denver, Colorado

We have audited the financial statements of the Colorado Public Employees’ Retirement Association (“Association” or “PERA”) as of and for the year ended December 31, 2008, and have issued our report thereon dated June 18, 2009. 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 Association’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 Association’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association’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 combination of control deficiencies, that adversely affects the Association’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 Association’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control.

A material weakness is a significant deficiency, or 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 Association’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 Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, noncompliance with which could have been a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Colorado Public Employees' Retirement Association Board of Trustees, management of PERA, and the Legislative Audit Committee and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Clifton Gunderson LLP*

Denver, Colorado  
June 18, 2009

## Independent Auditor's Report

To the Board of Trustees of  
Colorado Public Employees' Retirement Association

We have examined Colorado Public Employees' Retirement Association's ("PERA") compliance with PERA Rules and the Colorado Revised Statutes related to financial reporting during the year ended December 31, 2008. The following sections were specific to our review:

- PERA Rules
  - 2.90 Actuarial Assumptions
  - 4.40 Refunds
  - 5.30 Payments for Purchase Service Credits
  - 5.40 Interest Rate
  - 10 Increase in Benefits
  - 10.30 Retroactive Effective Date of Retirement or Survivor Benefit
  
- Colorado Revised Statutes
  - 24-51-206 Investments
  - 24-51-208 Allocation of Moneys
  - 24-51-210 Allocation of Assets and Liabilities
  - 24-51-211 Amortization of Liabilities
  - 24-51-401 Employer and Member Contributions
  - 24-51-405 Refund of a Members Contribution Account
  - 24-51-406 Payments from the Judicial Division
  - 24-51-407 Interest (Member Contributions)
  - 24-51-503 Purchase of Service Credit Related to a Refunded Account
  - 24-51-603 Benefit Formula for Service Retirement
  - 24-51-1206 Health Care Premium Subsidiary
  - 24-51-1403 Expenses of Voluntary Investment Program (VIP)

Management is responsible for PERA's compliance with those requirements. Our responsibility is to express an opinion on PERA's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about PERA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on PERA's compliance with specified requirements.

In our opinion, PERA complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2008.

This report is intended solely for the information and use of management, the Board of Trustees and the Legislative Audit Committee, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record upon release by the Legislative Audit Committee.

*Clifton Gunderson LLP*

Denver, Colorado  
June 18, 2008



**EXHIBIT I**  
**CLIFTON GUNDERSON LLP RESPONSIBILITY**  
**FOR COMMUNICATIONS WITH AUDIT COMMITTEE**

June 18, 2009

Audit Committee  
Colorado Public Employees' Retirement Association

This letter is to provide you with information about significant matters related to our audit of the financial statements of Colorado Public Employees' Retirement Association (PERA) for the year ended December 31, 2008. It is intended solely for information and use of the Audit Committee and should not be used by anyone other than this specified party.

We have provided at page 5-3 of this report a letter, dated June 18, 2009, concerning the internal control conditions that we noted during our audit of PERA's financial statements for the year ended December 31, 2008.

***Auditor's Responsibility Under Generally Accepted Auditing Standards.*** Our audit of the financial statements of Colorado Public Employees' Retirement Association for the year ended December 31, 2008, was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit was performed for the purpose of forming and expressing an opinion about whether the financial statements, which have been prepared by management with your oversight, are presented fairly in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit does not relieve you or management of your responsibilities.

***Other Information in Documents Containing Audited Financial Statements.*** In connection with the Association's Comprehensive Annual Financial Report ("CAFR"), we did not perform any procedures or corroborate other information included in the CAFR. However, we read management's discussion and analysis of financial condition and changes in fiduciary net assets and considered whether the information or the manner in which it was presented was materially inconsistent with information or the manner of presentation of the financial statements. Based on our reading, we concluded that the information did not require revision.

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

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

***Qualitative Aspects of Accounting Practices.***

*Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by PERA are described in Note 2 to the financial statements. GASB Statement No. 50 “Pension Disclosures (an amendment of GASB Statements No. 26 and No. 27)” was adopted by PERA. Adoption of this Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits.

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

*Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The following is management’s description of the process utilized in forming estimates for the valuation of certain investments not traded on exchanges and certain real estate investments and alternative investments. These estimates are based on the periodic relevant financial information, the value of comparables, independent appraisals or other relevant data. Significant estimates also include an estimate of PERA’s actuarial liabilities based on the actuarial valuation.

Our consideration regarding the reasonableness of valuations for investments not traded on exchanges was based primarily on a review of selected investments’ year-end annual reports, or the most recent quarterly reports for the selected investments. Our consideration regarding the reasonableness of actuarial liabilities was based primarily on a review of the third party actuarial valuation report.

*Financial Statement Disclosures*

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The funded status of the divisions within PERA is a sensitive disclosure due to the underfunded status of the divisions.

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

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

***Representations from Management.*** We have requested the representations from management that are shown in the attached Exhibit.

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

Please contact Bill Petri, Partner, at 303-466-8822 if you have any questions regarding the matters included in this letter.

*Clifton Gunderson LLP*



June 18, 2009

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We are providing this letter in connection with your audit of the financial statements of Colorado Public Employees' Retirement Association as of December 31, 2008 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly the financial position of the fiduciary net assets and the respective changes in financial position of Colorado Public Employees' Retirement Association in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the financial statements of net assets and changes in net assets in conformity with accounting principles generally accepted in the United States of America. Although Clifton Gunderson may have made suggestions as to the form and content of the financial statements, we acknowledge our responsibility for the review and approval of the financial statements amounts and disclosures, and understand the financial statement remains the representation of our management.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of June 18, 2009, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and the notes include all disclosures required by laws and regulations to which the Association is subject.
2. With respect to actuarial assumptions and valuations:
  - a. The Association accepts the actuarial methods and assumptions used by the actuary for funding purposes and for determining the Association's benefit obligations and has no knowledge or belief that would make such methods or assumptions inappropriate in the circumstances.
  - b. There were no omissions from the participant data provided to the Association's actuary for the purpose of determining actuarially determined amounts in the financial statements.
  - c. There have been no changes in the actuarial methods or assumptions used in calculating amounts recorded or disclosed in the financial statements.

- d. There have been no changes in PERA Law or PERA Rules between the actuarial valuation date and the date of this letter.
3. We have made available to you all:
  - a. Financial records and related data.
  - b. Minutes of the meetings of the governing board and committees of board members, or summaries of actions of recent meetings for which minutes have not yet been prepared.
  - c. Amendments to PERA Law or PERA Rules (including amendments made to comply with applicable laws), the trust agreement, or insurance contracts.
  - d. Actuarial reports prepared for the Association during the year under audit.
4. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
6. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
  - a. Management.
  - b. Employees who have significant roles in internal control.
  - c. Others where the fraud could have a material effect on the financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, participants, regulators, beneficiaries, service providers, third-party administrators, or others.
8. The values of nonreadily marketable investments represent good faith estimates of fair value determined by the Association.
9. The estimated liability for claims incurred but not reported was computed using methods consistent with the prior year and considered factors such as increasing claims costs and trends of recent experience. We are not aware of any significant potential claims which were not considered in computing the estimated liability.
10. We have no:
  - a. Plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
  - b. Present intentions to terminate the Association.

11. We believe the Plans and trusts established under the Plans are qualified under the appropriate section of the Colorado Revised Code, and we intend to continue them as qualified plans and trusts.
12. The following have been properly recorded or disclosed in the financial statements:
  - a. Related-party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements and guarantees.
  - b. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements.
  - c. Guarantees, whether written or oral, under which the Association is contingently liable.
  - d. Agreements to repurchase assets previously sold have been properly disclosed.
  - e. Estimates that might be subject to material change within one year from the date of the financial statements. We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
  - f. Concentrations existing at the date of the financial statements that make the Association vulnerable to the risk of severe impact within one year from the date of the financial statements. We understand that concentrations include the nature and type of investments held by the Association, or markets for which events could occur which would significantly disrupt normal finances within the next year.
  - g. Amendments to PERA Law or PERA Rules, if any.
13. There are no:
  - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.
  - c. Other matters (e.g., breach of fiduciary responsibilities, loans or loans in default, or events that may jeopardize the tax status) that legal counsel have advised us that must be disclosed.

14. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5.
15. There are no:
  - a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
  - b. Investments, loans, or leases in default or considered to be uncollectible that have not been disclosed in the supplemental schedules.
16. The Association has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged (except as has been made known to you and disclosed in the financial statements).
17. The Association has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
18. We have apprised you of all communications, whether written or oral, with regulatory agencies concerning the operation of the Association.
19. No events have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements, except as disclosed in the Comprehensive Annual Financial Report.



Meredith Williams, Executive Director



Karl Greve, Chief Financial Officer



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