STATE OF COLORADO
DEFERRED COMPENSATION PLAN

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2003 & 2002

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Members of the Legislative Audit Committee:

This report contains the results of a financial and compliance audit of the Deferred Compensation Plan of the State of Colorado for the Fiscal Years ended June 30, 2003 & 2002. The audit was conducted pursuant to Section 24-52-102(6), C.R.S., which authorizes the State Auditor to conduct audits of the Deferred Compensation Plan. The report presents our findings, conclusions, and recommendations and the responses of the Department of Personnel & Administration.

Jerry & Stephenson, P.C.

Denver, Colorado
August 22, 2003

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STATE OF COLORADO
DEFERRED COMPENSATION PLAN
FINANCIAL AUDIT REPORT SUMMARY
YEAR ENDED JUNE 30, 2003

Authority, Purpose, and Scope

This audit was conducted under Sections 24-52-102(6), C.R.S., which authorizes the State Auditor to audit the Deferred Compensation Plan. Terry & Stephenson, P.C. conducted this audit under contract with the State Auditor. The audit was performed in accordance with auditing standards generally accepted in the United States of America. The purpose of this report is to present the results of the financial audit of the Deferred Compensation Plan for the Fiscal Year ended June 30, 2003, and to report on current year findings and on the implementation status of the prior year recommendations.

Financial Audit Opinion

We found the State of Colorado Deferred Compensation Plan (the "Plan") financial statements to be fairly presented in all material respects for the Fiscal Year ended June 30, 2003. Our opinion letter, dated August 22, 2003, is presented in the financial statement section of the report.

Deferred Compensation Plan Purpose and Summary Activity

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.

Colorado statutes specify in which instruments a participant may invest, which includes "any legitimate investment, including but not limited to investment programs of any bank, or saving and loan association, life insurance contracts, deferred annuities, equity products, governmental bonds, real estate investment trusts, or other investment products."

The Governmental Accounting Standards Board (GASB) Statement No. 32, *Accounting and Financial Reporting for IRC Section 457 Deferred Compensation Plans,* establishes accounting and financial reporting standards for the Plan. Deferred Compensation Plans are also governed by the requirements of Internal Revenue Code Section 457. The Code was amended during 2001. The new law allowed substantial changes to the Plan effective January 1, 2002:

- Increased contribution limits.
- Additional opportunity for "catch-up" contributions for participants who are age 50 and above.
- The ability to consolidate retirement accounts.
- More flexibility for withdrawals upon retiring or changing employers.

Deferred Compensation Plan Purpose and Summary Activity (Continued)

The assets and related income of the Plan are not assets of the State and must be held in trust for the exclusive benefit of the participants and their beneficiaries.

The Plan utilizes a third party for administrative services that include recordkeeping, participant education and marketing. The administrative services are required to be re-bid every five years. Great-West/Benefit Corp. was selected as the Plan's third-party administrator beginning June 1, 2000 through June 30, 2001, with up to four additional one-year renewal terms.

Additional Required Disclosures

Management Judgments and Accounting Estimates

There were no significant accounting estimates of financial data which would be particularly sensitive and require substantial judgment by management.

Audit Adjustment

Three audit adjustments totaling $99,703 were recorded to the Plan's financial statements. The adjustments were necessary to record an unrealized gain of $25,473 from the Plan's investments in the State Treasury Pool, to record a $51,381 reduction in revenues that were recognized in the prior year, and to record $22,849 in asset fees due from the Plan's third-party administrator.

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.

Summary of Findings and Recommendations

There are two current year findings and recommendations related to the recording of the asset fee on the accrual basis for all funds and obtaining the required IRS determination letter.

STATE OF COLORADO
DEFERRED COMPENSATION PLAN
RECOMMENATION LOCATOR
YEAR ENDED JUNE 30, 2003

Rec. No.	Page No.	Recommendation Summary	Plan's Response	Implementation Date
1	8	Obtain the appropriate Determination Letter from the IRS.	Agree	December 2003
2	8	Record the asset fee revenue on the accrual basis in both Funds.	Agree	September 2003

STATE OF COLORADO
DEFERRED COMPENSATION PLAN
DESCRIPTION OF THE PLAN
YEAR ENDED JUNE 30, 2003

Description and Background

The State of Colorado 457 Deferred Compensation 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, elected by participants.
- One participant in the Public Officials' and Employees' Defined Contribution Plan, appointed by the Governor (SB02-231).
- 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.

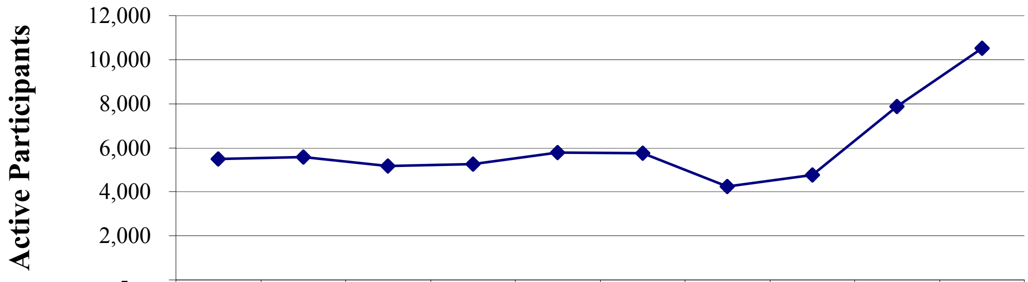
The Committee is staffed by the Employee Benefits Unit within the Department of Personnel and Administration. Statutory authority for the Deferred Compensation Plan and State Deferred Compensation Committee is referenced in Sections 24-52-101 to 24-52-105, C.R.S. The plan added a 401(a) Defined Contribution Match Plan in January 2001 to accept the employer match made possible by the Public Employees' Retirement Association (PERA). The Deferred Compensation Committee assumed the fiduciary responsibility of the Public Officials' and Employees' Defined Contribution Plan effective July 1, 2002 (SB02-231).

Growth of the Plan

The number of active state employees and officials contributing to the Deferred Compensation Plan has increased over the last 10 years by over 5,000 participants. The following graph shows active participants for calendar years 1993 through 2002. Participation has steadily increased over the last two calendar years (2001-2002) as 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 457 Plans. Additionally, the marketing efforts of Great-West regarding the employer match and the advantage to the Plan since the passage of the Economic Growth Tax Relief & Reconciliation Act of 2001 (EGTRRA), which provided increased portability among 457, 401(k), and 403(b) plans, has increased participation in the Plan. The decrease in participation in 1999 was a result of legislation that reduced the normal retirement age to 50 with 30 years of service. Hence, many participants took advantage of this change and retired in plan year 1999.

Growth of the Plan (Continued)

PLAN PARTICIPANTS

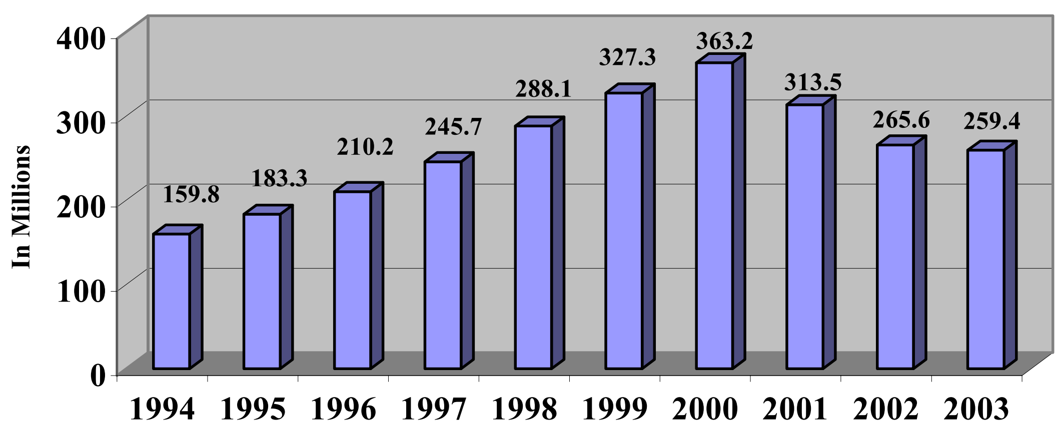


	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Participants	5,485	5,580	5,183	5,245	5,792	5,760	4,240	4,770	7,885	10,521

Source: 1993-1999 Security First Group, 2000-2002 Great-West Benefit Corporation

The Plan's assets have decreased from a high of $363.2 million as of June 30, 2000, to about $259.4 million as of June 30, 2003. The following graph shows the growth in the value of total assets, in millions, from June 30, 1993 through June 30, 2003.

PLAN ASSETS



Source: 1993-1999 Security First Group, 2000-2002 Great-West Benefit Corporation

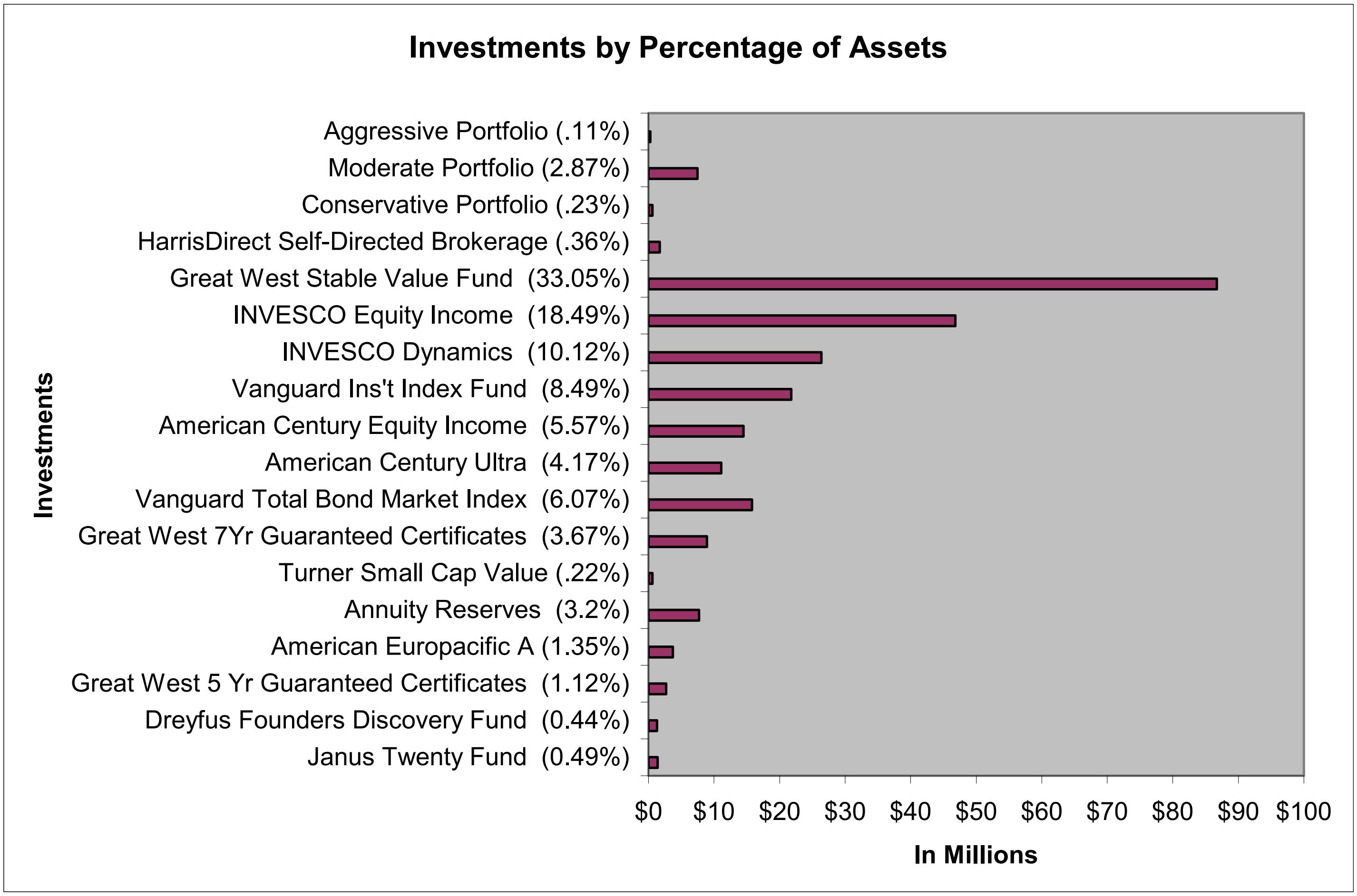
Asset Fee

In July 2002 the plan changed the asset fee to $9 per participant per year, in order to compete with PERA's 401(k) Plan. For those participants new to the Plan, effective July 2002, no fee was charged for the first year or until their balance reached $900, to comply with the 1% limitation as defined by 24-52-102(5)(a) C.R.S

The Plan's administrative income for the year ending June 30, 2003 was $457,898. The Plan's Committee continues to review the asset fee on an annual basis. Beginning in 2002 the investment consultant for the Plan, in conjunction with the staff accountant, 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 asset fee based on the analysis.

Plan Investment Options

The Plan offers participants the opportunity to invest in fifteen different investment options from eight companies. Three additional options that are closed to new investments include: Great West 7-year Guaranteed Certificates, Annuity Reserves, and Great West 5-year Guaranteed Certificates. The Plan began offering portfolio funds (Conservative, Moderate and Aggressive) as of January 2003. These funds are designed to meet different investment objectives and each is 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 of $259,424,929) by investment options as of June 30, 2003. 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.


Investments by Percentage of Assets
Investments
Aggressive Portfolio (.11%)
Moderate Portfolio (2.87%)
Conservative Portfolio (.23%)
HarrisDirect Self-Directed Brokerage (.36%)
Great West Stable Value Fund (33.05%)
INVESCO Equity Income (18.49%)
INVESCO Dynamics (10.12%)
Vanguard Ins't Index Fund (8.49%)
American Century Equity Income (5.57%)
American Century Ultra (4.17%)
Vanguard Total Bond Market Index (6.07%)
Great West 7Yr Guaranteed Certificates (3.67%)
Turner Small Cap Value (.22%)
Annuity Reserves (3.2%)
American Europacific A (1.35%)
Great West 5 Yr Guaranteed Certificates (1.12%)
Dreyfus Founders Discovery Fund (0.44%)
Janus Twenty Fund (0.49%)
$0 $10 $20 $30 $40 $50 $60 $70 $80 $90 $100
In Millions

IRS Determination Letter

The 457 Deferred Compensation Committee filed for a Determination Letter from the Internal Revenue Service (IRS) for the 401(a) Defined Contribution Match Plan on August 30, 2002 after amending the current Plan document for changes due to the Economic Growth and Tax Reconciliation Relief Act of 2001 (EGTRRA) and providing proper notification to participants. The IRS received the Plan document on September 6, 2002, and the IRS's request for clarifications were responded to by Gorsuch Kirgis, outside tax attorneys, on November 5, 2002.

Recommendation 1:

The State Deferred Compensation Committee should obtain an approved Determination Letter for the Plan from the IRS.

Response 1:

Agree. Staff will continue to pursue the status of the Determination Letter.

Deferred Compensation Asset Fee

The asset fee revenue in the Administration Fund (Fund 720) is being recorded on a cash basis when the fee is deposited in Fund 720. However, the asset fee expense from the Plan Fund (Fund 912) is being recorded on the accrual basis when the fee is earned. As result, the asset fee revenue in the Administration Fund was understated by $22,849 at June 30, 2003 and was not consistent with asset fee expenses of $96,837 reported in the Plan Fund. Under State Fiscal Rules (SFR), revenues and expenses must be recorded in accordance with GAAP, which requires that both funds use the accrual method of accounting.

Recommendation 2:

The Department of Personal & Administration should record asset fees in the Plan's Administration Fund on the accrual basis of accounting.

Response 2:

Agree. Starting with Fiscal Year 2004, September 2003 the asset fee revenue will be recorded on an accrual basis. This is consistent with the reallowance revenues which are currently recorded on an accrual basis.

STATE OF COLORADO
DEFERRED COMPENSATION PLAN
DISPOSITION OF PRIOR YEAR AUDIT RECOMMENDATION
YEAR ENDED JUNE 30, 2003

The following recommendation is from the audit for Fiscal Year 2002.

Recommendation (1):

The State Deferred Compensation Committee should monitor the Plan's third-party administrator contract in order to ensure that revenues are recorded in the proper periods and received timely from the Contractor.

Fiscal Year 2003 Disposition (1):

Implemented.

TERRY & STEPHENSON, P.C.
Certified Public Accountants & Management Consultants

Global Representation:
INTEGRA INTERNATIONAL

Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the Pension Trust Fund statement of fiduciary net assets of the Colorado Deferred Compensation Plan as of June 30, 2003 and 2002, and the statements of changes in fiduciary net assets for the years ended June 30, 2003 and 2002. These financial statements are the responsibility of the Deferred Compensation Committee of the State of Colorado Deferred Compensation Plan. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available of the Pension Trust Fund as of June 30, 2003 and 2002, of the State of Colorado Deferred Compensation Plan and the changes in net assets available of the Pension Trust Fund of the State of Colorado Deferred Compensation Plan for the years ended June 30, 2003 and 2002, in conformity with accounting principles generally accepted in the United States of America.

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Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The combining financial statements on page 24 and 25 are presented for the purpose of additional analysis and are not a required part of the financial statements of the Deferred Compensation Plan. These combining financial statements are also the responsibility of the Deferred Compensation Committee of the State of Colorado Deferred Compensation Plan. Such additional information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

In accordance with *Governmental Auditing Standards,* we have also issued our report dated August 22, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 12-13 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We 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.

Jerry & Stephenson, P.C.

Denver, Colorado
August 22, 2003

STATE OF COLORADO
DEPARTMENT OF PERSONNEL & ADMINISTRATION
DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2003

This analysis of the Deferred Compensation Plan's financial performance is intended to provide an overview of the financial activities of the Plan for the fiscal year ended June 30, 2003. Please read it in conjunction with the Description of the Plan on pages 4-7 and the financial statements, which begin on page 14.

The Plan is governed by a nine-member Deferred Compensation Committee, and is administered by the Employee Benefits Unit within the Department of Personnel & Administration.

The Employee Benefits Unit administers two funds related to the Deferred Compensation Plan: the Deferred Compensation Plan Fund and the Deferred Compensation Administration Fund, which is appropriated annually.

Overview of the Financial Statements. The discussion and analysis is intended to serve as an introduction to the financial statements of the Deferred Compensation Plan. The financial section of this report is comprised of two components: (1) fund financial statements, and (2) notes to the financial statements.

Fund Financial Statements. There are two financial statements presented for fiduciary funds. The Statements of Fiduciary Net Assets as of June 30, 2003, indicates the net assets available to pay future payments and gives a snapshot at a particular point in time. The Statement of Changes in Fiduciary Net Assets for the year ended June 30, 2003, provides a view of the current year's additions and deductions to the Plan.

Notes to the financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 16-22 of this report.

Financial Highlights

As shown in the Comparative Financial Statements, during fiscal year 2003 plan assets for the Deferred Compensation Plan fell from $265,558,619 (June 30, 2002) to $259,424,928 (June 30, 2003). A decrease of $6.1 million or 2%. The Plan experienced a $4.1 million investment loss in fiscal year 2003. As the result of reduced assets in the Plan, interest income fell from $10,184,563 (June 30, 2002) to $7,242,714 (June 30, 2003). This represents a decline of $2.9 million or 29%.

Participant withdrawals increased by $6.1 million from $39,315,050 to $45,481,590 or 16% over the previous year, primarily due to passage of the Economic Growth Tax Relief & Reconciliation Act of 2001 (EGTRRA), which allows plan participants to use the amounts invested in the Plan to purchase PERA Service Credits. In addition, the cost to purchase PERA service credits will be increasing as of November 2003. This contributed to participant withdrawals as members rushed to purchase service credits prior to the cost increase.

STATE OF COLORADO
DEPARTMENT OF PERSONNEL & ADMINISTRATION
DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2003

Participant and employer contributions increased by $11.2 million during fiscal year 2003 or 45% due primarily to an aggressive marketing campaign directed at the higher education institutions. This marketing campaign as well as the increased federal contribution limits of $12,000 per plan participant were the primary influences on the increased contributions.

Comparative Financial Statements

Deferred Compensation Fund
Fiduciary Net Assets

	June 30, 2002	June 30, 2003	% Change
Assets			
Other Assets	$ 788,438	$ 875,283	11%
Plan Assets	265,558,619	259,424,928	(2%)
Total Assets	266,347,057	260,300,211	(2%)
Liabilities			
Vouchers Payable and Accrued Liabilities	88,422	46,339	(48%)
Compensated Absences	6,583	5,069	(23%)
Total Liabilities	95,005	51,408	(46%)
Net Assets			
Held in trust for pension benefits and other purposes	266,252,052	260,248,803	(2%)
Total Net Assets	$ 266,252,052	$ 260,248,803	(2%)

Deferred Compensation Fund
Changes in Fiduciary Net Assets

	June 30, 2002	June 30, 2003	% Change
Additions			
Interest Income	$ 10,216,673	$ 7,278,377	(29%)
Contribution:			
Employer	10,484,201	8,762,286	(16%)
Participant	14,610,869	27,575,359	89%
Investment Gain / (Loss)	(46,535,399)	(4,127,171)	(91%)
Other Additions	624,290	413,786	(34%)
Total Additions	(10,599,366)	39,902,637	476%
Deductions			
Operations	417,502	327,459	(22%)
Participant Withdrawals	39,315,050	45,481,590	16%
Total Deductions	39,854,849	45,905,886	(15%)
Changes In Fiduciary Net Assets	($ 50,454,215)	($ 6,003,249)	(88%)

STATE OF COLORADO
DEFERRED COMPENSATION PLAN
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2003 AND 2002

	2003 Pension Trust Fund	2002 Pension Trust Fund
ASSETS		
Cash in bank and with State Treasurer	$ 819,769	$ 736,562
Accounts receivable	55,160	51,381
Prepaid expenses	354	495
Plan assets	259,424,928	265,558,619
Total assets	260,300,211	266,347,057
Liabilities		
Vouchers Payable and accrued liabilities		
Compensated absences-	46,339	88,422
annual leave and sick leave	5,069	6,583
Total liabilities	51,408	95,005
Net Assets		
Held in trust for pension benefits and		
other purposes	260,248,803	266,252,052
Total net assets	$ 260,248,803	$ 266,252,052

The accompanying summary of significantaccounting policies
and notes are a part of the financial statements.

STATE OF COLORADO
DEFERRED COMPENSATION PLAN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2003 AND 2002

	2003 Pension Trust Fund	2002 Pension Trust Fund
ADDITIONS		
Asset fees	$ 119,126	$ 122,297
Interest income	7,278,377	10,216,673
Administrative reimbursement fee	160,302	160,000
Contribution:		
Employer	8,762,286	10,484,201
Participant payroll deferral	27,575,359	14,610,869
Net investment gain/(loss)	(4,127,171)	(46,535,399)
Other revenue	134,358	341,993
Total additions	39,902,637	(10,599,366)
DEDUCTIONS		
Personal services	178,030	206,420
Workers compensation	3,273	2,874
Operating expenses	22,111	24,744
Indirect cost assessment	37,658	33,214
Administration and communication	76,341	84,841
Leases space	6,697	6,447
Legal services	3,349	3,272
Design and printing	-	55,690
Assets fees	96,837	122,297
Participant withdrawals	45,481,590	39,315,050
Total deductions	45,905,886	39,854,849
Change in net assets	(6,003,249)	(50,454,215)
Net assets, beginning of year	266,252,052	316,706,267
Net assets, end of year	$ 260,248,803	$ 266,252,052

The accompanying summary of significant accounting policies
and notes are a part of the financial statements

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.

Effective July 1, 2001, the Plan adopted GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments.* The effects of the adoption of the statement were to change the fund structure of the Plan from an expendable trust fund to a Pension Trust Fund; to change the basic financial statements from a balance sheet and statement of revenues, expenditures, and changes in fund balance to a statement of net assets and statement of changes in net assets; and to require management's discussion and analysis of the Plan's financial condition.

Internal Revenue Code (IRC) Section 457 was amended as of August 20, 1996. Existing plans were required to be in compliance with new requirements by January 1, 1999. The assets and related income of the Plan are no longer assets of the State and are to be held in trust for the exclusive benefit of the participants and their beneficiaries. In order to be in compliance with the revised provisions of the Code, the Deferred Compensation Committee (the "Committee") amended the Plan document effective July 1, 1998, to state that all assets are to be held in trust for the exclusive benefit of the participants and their beneficiaries.

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) provided for many changes in deferred compensation plans. The Plan document was amended effective January 1, 2002 to reflect these changes, including: higher contribution limits on regular and catch-up provisions, deferral limit aggregation with other Plans, Plan loans, increased withdrawal flexibility, and new rollover ability for Plan participants.

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.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 is 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." (Sec. 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.

Under the State of Colorado Deferred Compensation 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. 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, or unforeseeable emergency.

Effective January 1, 2001, the State of Colorado (employer) offered a match allowed by Public Employees Retirement Association (PERA) (House Bill 00-1225). The employer match is a monthly dollar-for dollar match on PERA includible salary to any employee contributing to a 457, 401(k) and/or 403(b) plan (State and School Divisions). The PERA Board of Trustees sets the employer match annually each September (Senate Bill 99-090). The match for calendar years 2002 and 2003 was 3% and 2%, respectively. The match is conditional on PERA's actuarially determined liability for benefits being fully funded. See Notes 4 and 5 for additional information on PERA and the Matchmaker Program.

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 total amount of the employer's contribution for the year ended June 30, 2003 was $8,762,286 under the match program.

The Plan applied to the IRS for a Private Ruling Letter concerning the qualification of its 457 Plan. The Internal Revenue Service (IRS) has

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

subsequently 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, employer contributions, 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.

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."

The investments include purchased annuity contracts from Great West Life Assurance Company which are recorded at their contract value of $7,769,449 as of June 30, 2003. The contract value represents the sum of periodic cash payments to be made to an annuitant over a contractual period of time. All other Deferred Compensation Plan Trust Fund assets of $251,655,479 are recorded within the Pension Trust Fund at fair value at June 30, 2003.

NOTE 3- ADMINISTRATIVE COMPONENT

Cash recorded in the Administration Pension Trust Fund at June 30, 2003 is on deposit with the State Treasurer. Detailed information on the State Treasurer's pooled cash and investments and the related risk categories is available from that office and in the State's Comprehensive Annual Financial Report.

NOTE 3- ADMINISTRATIVE COMPONENT (CONTINUED)

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.

Per Section 24-52-102(5), C.R.S., any asset fee collected in excess of expenditures shall be used to reduce participants' annual fees in the following year. Accordingly, the Committee periodically reviews the fee to assess and adjust the rate to meet this statutory requirement. Effective July 1, 2002, the fee is $9 per participant per year (excluding those participants in payout). This is a $2.25 quarterly deduction from each participant's account balance. The fee is only deducted from participants with an account balance of at least $900 to comply with the 1% limitation as defined by Section 24-52-102(5)(a), C.R.S.

As noted above, the Plan's administrative operations are recorded in the 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 asset 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.). Such revenues are deposited with the State Treasurer, and credited to the fund along with any investment earnings.

According to the third-party administrator contract with Great West Life, which began July 1, 2000, the Plan is to receive an additional payment for each quarter in which the Contractor's earnings are in excess of 0.22% of Plan assets. Great-West earned in excess of the 0.22% of the Plan assets in each subsequent quarter, owing a proportionate share to the State. In fiscal year 2002 and 2003, the Plan received $341,993 and $134,358, respectively as a result of excess fees earned by Great West Life.

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 recordkeeping services. The Committee contracts with a third party administrator to perform basic administration and recordkeeping services. Employee contributions are remitted to a bank depository from which the third party administrator transmits the contributions to the various investment providers for investment in the specific funds as designated by participants. The third party administrator maintains all records detailing employee contributions, related earnings, account balances, and fees for individual participants.

NOTE 4- OTHER PENSION PLANS

Plan Description

Virtually all of the State of Colorado employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require 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 1300 Logan Street, Denver, Colorado 80203, or by calling PERA at 303-832-9550 or 1-800-729-PERA (7372).

Plan members vest after five years of service and most are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with 5 years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 5 years of service credit, and their age plus years of service equals 80 or more. State troopers and judges comprise a small percentage of plan members but have higher contribution rates and are eligible for retirement benefits at different ages and years of service. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is 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.

Members 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 spouse or their eligible children under the age of 18 (23 if a full time student) are entitled to monthly benefit payments. If there is no eligible spouse, financially dependent parents will receive a survivor's benefit.

Funding Policy

Most employees contribute 8.0 percent (10.0 percent for state troopers) of their gross covered wages to an individual account in the plan. During FY02-03, the state contributed 10.04 percent (12.74 percent for state troopers and 11.82 percent for the Judicial Branch) of the employee's gross covered wages. Before January 1, 2003, 1.64 percent was allocated to the Health Care Trust Fund, and after January 1, 2003, 1.1 percent was allocated to the Health Care Trust Fund. Throughout the fiscal year, the amount needed to meet the match requirement established by the

NOTE 4- OTHER PENSION PLANS (CONTINUED)

PERA Board was allocated to the Matchmaker program (See Note 5 below.) The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

The annual gross covered wages subject to PERA is the 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. The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly.

The Plan's contributions to the three programs described above for the fiscal years ending June 30, 2003, 2002, and 2001 were $1,339, $1,717, and $1,175, respectively. These contributions met the contribution requirement for each year.

NOTE 5- VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

Beginning on January 1, 2001, the Matchmaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. For calendar years 2001 and 2002, the match was 100 percent of up to 3 percent of the employee's gross covered wages paid during the month (7 percent for judges in the Judicial Branch). For calendar year 2003, the match was 100 percent of up to 2 percent of employee's gross covered wages paid during the month (6 percent for judges in the Judicial Branch). The PERA Board sets the level of the match annually based on the actuarial funding of the defined benefit pension plan. Two percent of gross salary plus fifty percent of any reduction in the overall contribution rate due to over funding of the pension plan was available for the match. While the plan was not over funded, the maximum one year change in the match rate is statutorily limited to one percent, and therefore, the match changed from 3 percent to 2 percent. PERA offers a voluntary 401k plan entirely separate from the defined benefit pension plan. The state offers a 457 deferred compensation plan, described in this report, and certain agencies and institutions of the state offer a 403b plan. Members who contribute to any of these plans also receive the state match.

NOTE 6- POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Health Care Program

PERACare (formerly known as 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. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During FY03-04, the premium subsidy was $115.00 for those with 20 years of service credit ($230.00 for members under age 65), and it was reduced by 5 percent for each year of service fewer than 20. Medicare eligibility also affects the premium subsidy.

The Health Care Trust Fund is maintained by an employer's contribution as discussed above in Note 4.

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. As of December 31, 2002, there were 35,418enrollees in the plan.

Life Insurance Program

PERA provides its members access to two group life insurance plans offered by Prudential and Anthem Life (formerly known as Rocky Mountain Life). Members may join one or both plans, and they may continue coverage into retirement. Premiums are collected monthly by payroll deduction or other means.

Other Programs

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

SUPPLEMENTARY INFORMATION

STATE OF COLORADO
DEFERRED COMPENSATION PLAN
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2003

	Fiduciary Fund Type		
	Pension Trust Funds		
	Administration (Appropriated)	Deferred Compensation Plan (Non-appropriated)	Total
ASSETS			
Cash in bank and with State Treasurer	$ 814,791	$ 4,978	$ 819,769
Accounts receivable	55,160		55,160
Prepaid expenses	354		354
Plan assets	-	259,424,928	259,424,928
Total assets	870,305	259,429,906	260,300,211
Liabilities			
Vouchers Payable and accrued liabilities			
Compensated absences-	41,361	4,978	46,339
annual leave and sick leave	5,069	-	5,069
Total liabilities	46,430	4,978	51,408
Net Assets			
Held in trust for pension benefits and		-	-
other purposes	823,875	259,424,928	260,248,803
Total net assets	$ 823,875	$ 259,424,928	$ 260,248,803

STATE OF COLORADO
DEFERRED COMPENSATION PLAN
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSET
YEAR ENDED JUNE 30, 2003

	Pension Trust Funds		
	Administration (Appropriated)	**Deferred Compensation Plan (Non-appropriated)**	**Total**
ADDITIONS			
Asset fees	$ 119,126	$ -	$ 119,126
Interest income	35,663	7,242,714	7,278,377
Administrative reimbursement fee	160,302	-	160,302
Contribution:			-
Employer		8,762,286	8,762,286
Participant payroll deferral		27,575,359	27,575,359
Net investment gain/(loss)	8,449	(4,135,620)	(4,127,171)
Other revenue	134,358	-	134,358
Total additions	457,898	39,444,739	39,902,637
DEDUCTIONS			
Personal services	178,030	-	178,030
Workers compensation	3,273	-	3,273
Operating expenses	22,111	-	22,111
Indirect cost assessment	37,658	-	37,658
Administration and communication	76,341	-	76,341
Leases space	6,697	-	6,697
Legal services	3,349	-	3,349
Other	-	-	-
Assets fees	-	96,837	96,837
Participant withdrawals	-	45,481,590	45,481,590
Total deductions	327,459	45,578,427	45,905,886
Change in net assets	130,439	(6,133,688)	(6,003,249)
Net assets, beginning of year	693,433	265,558,619	266,252,052
Net assets, end of year	$ 823,872	$ 259,424,931	$ 260,248,803

TERRY & STEPHENSON, P.C.
Certified Public Accountants & Management Consultants

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Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Members of the Legislation Audit Committee:

We have audited the financial statements of the State of Colorado Deferred Compensation Plan as of and for the year ended June 30, 2003, and have issued our report thereon dated August 22, 2003. 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Colorado Deferred Compensation Plan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Jerry & Stephenson, P.C.

Denver, Colorado
August 22, 2003

STATE OF COLORADO
DEFERRED COMPENSATION PLAN
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www.state.co.us/auditor

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303-869-2800

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