STATE OF COLORADO
DEFERRED COMPENSATION PLAN

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2005 & 2004

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

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, 2005 and 2004. 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.

Terry + Stephenson, P.C.

Denver, Colorado
September 2, 2005

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DEFERRED COMPENSATION PLAN
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YEAR ENDED JUNE 30, 2005

Authority, Purpose, and Scope

This audit was conducted under Section 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 and compliance audit of the Deferred Compensation Plan for the Fiscal Year ended June 30, 2005, and to report on a current year finding and on the implementation status of the prior year recommendation.

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, 2005. Our opinion letter, dated September 2, 2005, is presented in the financial 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 savings 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 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 Corporation 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. The contract has been renewed for four consecutive one-year terms through June 30, 2005.

STATE OF COLORADO
DEFERRED COMPENSATION PLAN
FINANCIAL AUDIT REPORT SUMMARY
YEAR ENDED JUNE 30, 2005

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.

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 is one current year finding and recommendation related to 2005. The Department did not comply with the submission requirements for Exhibits N2 and N3.

STATE OF COLORADO
DEFERRED COMPENSATION PLAN
RECOMMENDATION LOCATOR
YEAR ENDED JUNE 30, 2005

Rec. No.	Page No.	Recommendation Summary	Plan's Response	Implementation Date
1	8	Comply with deadlines and include all required disclosures	Agree	August 2006

STATE OF COLORADO
DEFERRED COMPENSATION PLAN
DESCRIPTION OF PLAN
YEAR ENDED JUNE 30, 2005

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, 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. 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 Record keeper for the Plan from July 1, 2000 through June 30, 2005, was Great-West Life Annuity and Insurance Company.

The Deferred Compensation Committee assumed the fiduciary responsibility of the Public Officials' and Employees' Defined Contribution Plan effective July 1, 2002 under SB 02-231.

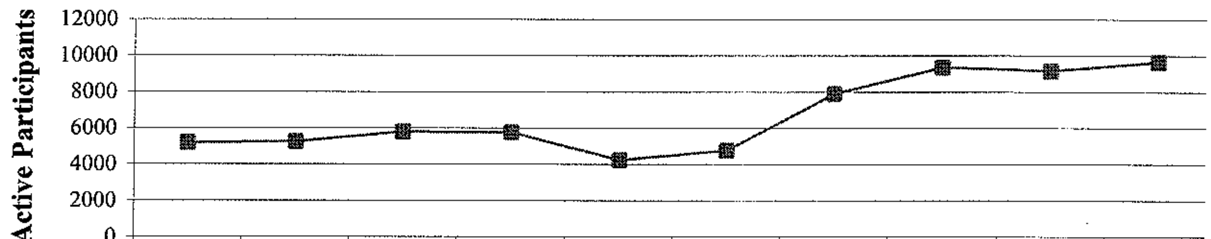
The plan added a 401(a) Defined Contribution Match Plan in January 2001 to accept the employer match. The employer match was suspended effective with May 2004 payroll under SB04-132. In January 2004, the 457 Plan implemented a loan program. Participants may request one loan each from the 457 Plan and the 401(a) Match Plan.

Growth of the Plan

The following graph shows change in active participants for calendar years 1995 through 2004. 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 calendar year 1999. Participation steadily increased over calendar years 2001 through 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 employer match and the advantages offered under the Economic Growth Tax Relief & Reconciliation Act of 2001 (EGTRRA), which provided increased portability and contribution limits among 457, 401(k), and 403(b) plans, has increased participation in the Plan.

Growth of the Plan (Continued)

PLAN PARTICIPANTS

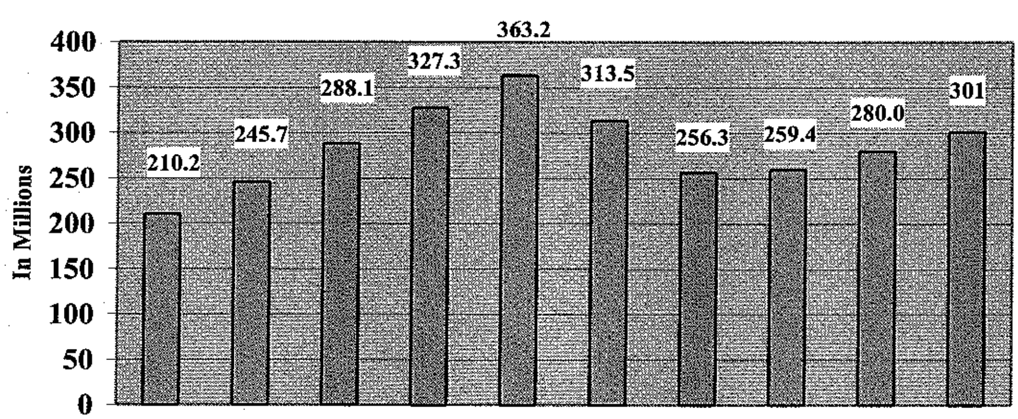


	1	2	3	4	5	6	7	8	9	10
Series1	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Series2	5,183	5,245	5,792	5,760	4,240	4,770	7,885	9,351	9,166	9,655

Source: 1995-1999 Security First Group, 2000-2004 Great-West Retirement Services

In the chart below, the Plan's assets have decreased from a high of $363.2 million as of June 30, 2000, to $256.3 million as of June 30, 2002 due to the increase in participants' use of plan assets to purchase years of service, reduction of early retirement age and therefore early retirement by plan participants. The increase in assets since 2002 is attributable to the offering of the employer match, which attracted more participants to the Plan and additional monthly contributions. The graph shows the change in the value of total assets, in millions, from June 30, 1996 through June 30, 2005.

PLAN ASSETS



Source: 1995-1999 Security First Group, 2000-2004 Great-West Benefit Corporation

Note: FY05 Plan assets do not include the loan receivable amount of $1.8 million.

Asset Fee

In July 2002, the asset fee was reduced to $9 per participant per year, with no fee charged to new participants for the first year and thereafter until the balance reached $900, in compliance with the one percent limitation in accordance with Section 24-52-102(5)(a), C.R.S. The $9 asset fee has continued through fiscal year 2005.

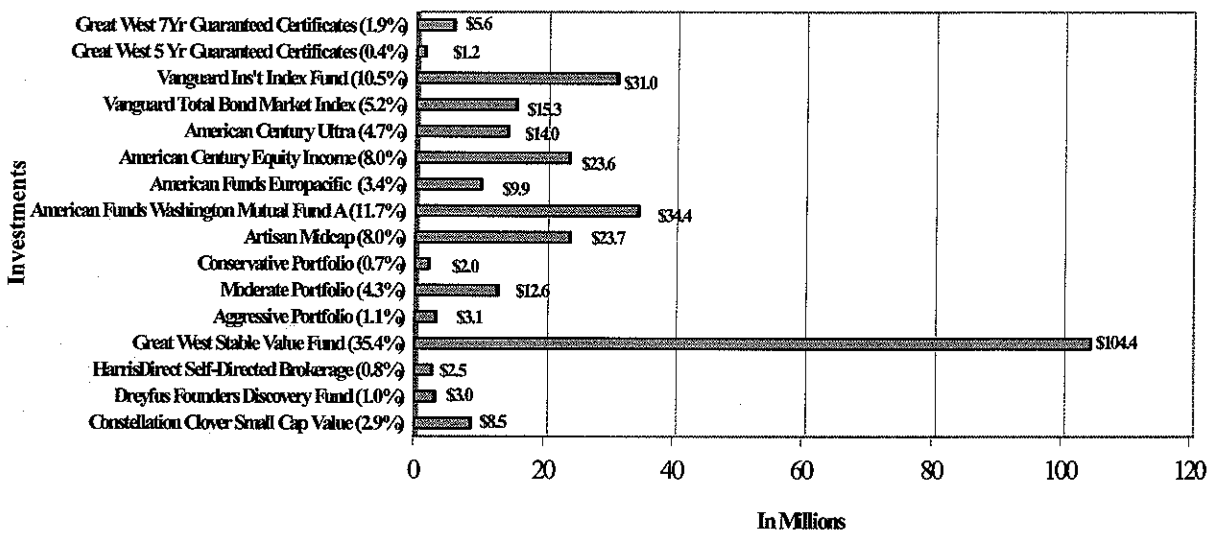
The Plan's Committee continues to review the asset fee on an annual basis. Commencing in 2002, Arnerich Massena, the investment consultant for the Plan, in conjunction with the staff accountant annually prepares a cost analysis based on current costs of the Plan and makes projections for future years. 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 asset fee based on the analysis.

Plan Investment Options

The Plan offers participants the opportunity to invest in fourteen different investment options from eight companies. Two additional options that are closed to new contributions include: Great West 7-year Guaranteed Certificates, and the Great West 5-year Guaranteed Certificates. 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, 2005. 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.

STATE OF COLORADO
DEFERRED COMPENSATION PLAN
DESCRIPTION OF PLAN
YEAR ENDED JUNE 30, 2005

Distribution of Plan Assets



The total Plan assets do not include purchased annuities for $6.4 million. See Note 2 of financials.

Finding and Recommendation

Implementation of GASB 40 – *Deposit and Investment Risk Disclosures*

Under *Government Auditing Standards*, the Deferred Compensation Plan was required to implement Government Accounting Standards Board (GASB) Statement No. 40 – *Deposit and Investment Risk Disclosures* in Fiscal Year 2005. GASB 40 requires new and expanded footnote disclosures for deposits and investments in audited financial statement reports issued under *Government Auditing Standards*.

As of June 30, 2005, the Plan had $122 million in investments that were subject to the reporting requirements under GASB 40. However, when the Department prepared the Plan's financial statements, the GASB 40 disclosures were incomplete. The missing disclosures in the financial statements were:

- Brief description of the types of investment authorized by legal or contractual provisions.
- Exposure to credit risk, custodial credit risk, concentration of credit risk.
- Investment disclosure organized by investment type.
- Dollar amount of unrated investments.
- Investments in any one issuer that represents 5 percent or more of total investments.

This lack of required information delayed the timely completion of the Deferred Compensation Plan's audited financial statements.

In addition, all state agencies and institutions are required annually to report information to the State Controller's Office to enable the SCO to prepare accurate and complete footnote disclosures for the State of Colorado's Comprehensive Annual Financial Report (CAFR). In order to implement GASB 40 for the State, the SCO created new Exhibits N2, *Credit Quality Rating for Debt Securities*, and N3, *Interest Rate Risk and Other Risk Disclosures*, to collect the appropriate information. According to the Fiscal Procedures Manual issued by the SCO, Exhibits N2 and N3 were due on August 17, 2005. However, the Department did not submit the exhibits by the deadline. An incomplete version of both exhibits was submitted on August 29, 2005. When the fact that the exhibits were incomplete was brought to the Department's attention during the audit, the Department prepared complete exhibits and submitted them on December 29, 2005.

Recommendation

The Department of Personnel & Administration should include all required disclosures in the annual financial statements prepared for the Deferred Compensation Plan and comply with deadlines and requested information required by the State Controller's Office.

Department of Personnel & Administration
Responses to Audit Recommendations
Deferred Compensation Financial Audit FY05

Recommendation No. 1:

Agree. As indicated in the narrative, this was the first year the Department was required to provide disclosures for GASB Statement 40. The information required is very detailed and can only be provided by the Department's outside investment companies. The Department worked diligently to obtain the required information, but underestimated the efforts it would take to complete the exhibits. The Department will allow for additional time in Fiscal Year 2006 to ensure the exhibits are completed accurately and timely.

Implementation Date: August 2006

STATE OF COLORADO
DEFERRED COMPENSATION PLAN
DISPOSITION OF PRIOR YEAR AUDIT RECOMMENDATIONS
YEAR ENDED JUNE 30, 2005

The following recommendations are from the audit for Fiscal Year 2004.

Recommendation (1):

The Department of Personnel and Administration should properly record participant loans and related interest earned in the Deferred Compensation Fund on a regular basis.

Fiscal Year 2005 Disposition (1):

Implemented. The Department of Personnel set-up and began recording loans in COFRS for the quarter ending September 30, 2004.

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

Global Representation:
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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, 2005 and 2004, and the statements of changes in fiduciary net assets for the years ended June 30, 2005 and 2004. 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, 2005 and 2004, 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, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America.

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As discussed in note 2 to the basic financial statements, during fiscal year 2005, the Plan implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures*, an amendment of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*.

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 23 and 24 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 September 2, 2005, 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 10 -12 is not a required part of the basic financial statements but is 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.

Jeny & Stephenson, P.C.

Denver, Colorado
September 2, 2005, except for Note 2, as to which the date is December 29, 2005

STATE OF COLORADO
DEPARTMENT OF PERSONNEL & ADMINISTRATION
DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005

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, 2005 Please read it in conjunction with the transmittal letter on page 3-6 and the financial statements, which begin on page 13.

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, 2005, 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, 2005, 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 15-21 of this report.

Financial Highlights

While the world equity market began to stabilize, plan assets for the Deferred Compensation Plan increased by $21.5 million or 8%. The Plan experienced a $6.1 million investment gain and an increase in interest income of $0.7 million or 9% for the same reason as noted above.

Participant withdrawals decreased by $19.7 million or 41% compared to the previous year primarily due to an increase in the cost to purchase PERA Service Credits. The Economic Growth Tax Relief & Reconciliation Act of 2001 (EGTRRA) allows plan participants to use the amounts invested in the Plan to purchase PERA Service Credits.

Participant contributions increased by $1.8 million or 6% due primarily to the continuation of an aggressive marketing campaign directed at the higher education institutions. This increased awareness of the Plan and the increase in the contribution limits to $14,000 per plan participant were the primary influences on the increased contributions.

STATE OF COLORADO
DEPARTMENT OF PERSONNEL & ADMINISTRATION
DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005

Deferred Compensation Administration Fund Net Assets

	June 30, 2004	June 30, 2005	% Change
Assets			
Plan Assets	$ 279,671,614	$ 301,234,877	8%
Other Assets	1,934,649	2,737,611	42%
Total Assets	281,606,263	303,972,488	8%
Liabilities			
Vouchers Payable and Accrued Liabilities	93,839	169,577	81%
Compensated Absences -			
Annual and Sick Leave	3,793	7,237	91%
Total Liabilities	97,632	176,814	81%
Net Assets			
Held in trust for pension benefits and other purposes	281,508,631	303,795,674	8%
Total Net Assets	$ 281,508,631	$ 303,795,674	8%

Deferred Compensation Administration Fund Changes in Net Assets

	June 30, 2004	June 30, 2005	% Change
Additions			
Interest Income	$ 7,951,971	$ 8,704,729	9%
Contribution:			
Employer	7,649,828	1,260,182	-84%
Participant	32,805,487	34,627,962	6%
Investment Gain/(Loss)	20,684,970	6,080,207	-71%
Other Additions	424,012	334,652	-21%
Total Additions	69,516,268	51,007,732	-27%
Deductions			
Operations	487,433	627,193	29%
Participant Withdrawals	47,769,007	28,093,496	-41%
Total Deductions	48,256,440	28,720,689	-40%
Changes In Net Assets	$ 21,259,828	$ 22,287,043	5%

STATE OF COLORADO
DEPARTMENT OF PERSONNEL & ADMINISTRATION
DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005

Below is a comparison of the Fiscal Year 2005 Budget to Actual Operation Deductions:

Comparison of Fiscal Year 2004
Budget to Actual Deductions

	Budget	Actual	Over (Under)
Personal Services	$ 228,283	$ 216,019	$ (12,264)
Workers Compensation	3,950	3,950	
Operating Expenses	24,050	23,727	(323)
Administration and Communication	182,977	182,695	(282)
Leased Space	9,891	9,891	-
Legal Services	5,388	6,335	947
Total Deductions	$ 454,539	$ 442,617	$ (11,922)

STATE OF COLORADO
DEFERRED COMPENSATION PLAN
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005 AND 2004

	2005 Pension Trust Fund	2004 Pension Trust Fund
ASSETS		
Cash in bank and with State Treasurer	$ 857,482	$ 901,256
Accounts receivable	1,876,093	1,033,319
Prepaid expenses	4,036	74
Plan assets	301,234,877	279,671,614
Total assets	303,972,488	281,606,263
LIABILITIES		
Vouchers Payable and accrued liabilities	169,577	93,839
Compensated absences- annual leave and sick leave	7,237	3,793
Total liabilities	176,814	97,632
NET ASSETS		
Held in trust for pension benefits and other purposes	303,795,674	281,508,631
Total net assets	$ 303,795,674	$ 281,508,631

The accompanying summary of significant accounting 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, 2005 AND 2004

	2005 Pension Trust Fund	2004 Pension Trust Fund
ADDITIONS		
Asset fees	$ 90,959	$ 93,994
Interest income	8,704,729	7,951,971
Administrative reimbursement fee	160,000	160,282
Contribution:		
Employer	1,260,182	7,649,828
Participant payroll deferral	34,627,962	32,805,487
Net investment gain/(loss)	6,080,207	20,684,970
Other revenue	83,693	169,736
Total additions	51,007,732	69,516,268
DEDUCTIONS		
Personal services	216,019	171,837
Workers compensation	3,950	3,862
Operating expenses	23,727	17,696
Indirect cost assessment	54,808	-
Administration and communication	182,695	181,740
Leased space	9,891	8,753
Legal services	6,335	3,401
Assets fees	129,768	100,144
Participant withdrawals	28,093,496	47,769,007
Total deductions	28,720,689	48,256,440
Change in net assets	22,287,043	21,259,828
Net assets, beginning of year	281,508,631	260,248,803
Net assets, end of year	$ 303,795,674	$ 281,508,631

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

STATE OF COLORADO
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENT
YEAR ENDED JUNE 30, 2005

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 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" (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.

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.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTIUNED)

Effective January 1, 2001, the State of Colorado (employer) offered a match under House Bill 00-1225. The employer match was 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 year 2004 through May 31, 2004 was 1%. The employer match was suspended effective with May 2004 payroll due to legislation (SB04-132). The legislation provided that any future match will be conditioned on PERA's actuarially determined liability for benefits being fully funded.

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 contributions for the year ended June 30, 2004 was $7,649,828 under the match program.

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.

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."

NOTE 2- INVESTMENTS- TRUST FUND ASSETS AND PROPERTY AND RIGHTS HELD UNDER DEFERRED COMPENSATION PLAN (CONTINUED)

The investments include purchased annuity contracts from Great West Life Assurance Company, which are recorded at their contract value of $6,383,745 and $7,146,472 as of June 30, 2005 and 2004, respectively. 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 $294,851,131 and $272,525,142 are recorded within the Pension Trust Fund at fair value at June 30, 2005 and 2004, respectively.

In Fiscal Year 2004-05, 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, 2005 the Plan had $122.2 million invested in the following debt instruments:

Investment Type	**Fair Value**	**Rating** (Moody's)
U.S. Government Agencies	$100,158,195	AAA
Bond Mutual Funds	$ 15,300,000	Unrated
Guaranteed Investment Contracts	$ 6,809,759	AA3

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 $100.1 million of the $122.2 million 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 $100.1 million of the $122.2 million limits investments to those with a credit quality rating of AAA, except corporate bonds may have an average quality rating of A, commercial banks domiciled in the United States, or A1/P1 rated commercial paper.

Concentration of Credit Risk: The Plan's investment policy calls for investment diversification within the portfolio to avoid unreasonable risks inherent in over investing specific instruments, individual financial institutions or maturities. Specifically, the policy for the majority of the investments states that no more than 30 percent of the portfolio may be invested in collateralized mortgage obligations; and no more than 15 percent in corporate bonds, with not more than one percent

NOTE 2- INVESTMENTS- TRUST FUND ASSETS AND PROPERTY AND RIGHTS HELD UNDER DEFERRED COMPENSATION PLAN (CONTINUED)

invested in one corporate issuer. At the end of Fiscal Year 2005 the Plan had the following investments exceeding 5 percent in a single issuer:

Investment Type	Percent of Portfolio
Federal Home Loan Mortgage Corporation	16.9
Federal National Mortgage Association	13.2
Federal Government Loan Mortgage Corporation	46.8

The Plan's advisory committee regularly reviews the Plan's investment products' risk characteristics to ensure each is performing at an acceptable level.

NOTE 3- ADMINISTRATIVE COMPONENT

Cash recorded in the Administration Pension Trust Fund at June 30, 2005 and 2004 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.

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 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.

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 percent limitation as defined by Section 24-52-102(5)(a), C.R.S.

NOTE 3- ADMINISTRATIVE COMPONENT (CONTINUED)

According to the third-party administrator contract, 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 percent of Plan assets. The first additional payment from Great-West was due December 31, 2000 for the quarter ended September 30, 2000. Great-West earned in excess of the 0.22 percent of the Plan assets in each subsequent quarter, owing a proportionate share to the State. These additional payments totaled $154,432 and $82,037 for Fiscal Years 2004 and 2005, respectively.

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 to perform basic administration and record keeping services. Employee contributions are remitted to a bank depository from which the contractor 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 department/institution's 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), or by visiting www.copera.org.

Plan members vest after five years of service and 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.

NOTE 4- OTHER PENSION PLANS (CONTINUED)

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 FY04-05, the state contributed 10.15 percent of the employee's gross covered wages. Effective July1, 2004, 1.02 percent of the total contribution was allocated to the Health Care Trust Fund.

Salary subject to PERA contribution 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, 2005, 2004, and 2003 were $8,015, $7,223, and $1,339 respectively. These contributions met the contribution requirement for each year.

NOTE 5- VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

PERA offers a voluntary 401k plan entirely separate from the defined benefit pension plan. The state offers a 457 deferred compensation plan and certain agencies and institutions of the state offer a 403b or 401(a) plans. Members who contribute to any of these plans also receive the state match, when available.

In January 2001, the Matchmaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. The PERA Board sets the level of the match annually based on the actuarial funding of the defined benefit pension plan. The match is only available when the actuarial value of the defined benefit pension plan assets is 110 percent of actuarially accrued plan liabilities. This condition was not met during Fiscal Year 2004-2005.

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 Trust 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 Fiscal Year 2004-05, the premium subsidy was $115.00 for those with 20 years of service credit ($230.00 for members under age 65 and not eligible for Medicare), and it was reduced by 5 percent for each year of service fewer than 20.

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 medical and prescription benefit plans, and with several health maintenance organizations providing services within Colorado. As of December 31, 2004, there were 39,668 enrollees in the plan.

Life Insurance Program

PERA provides its members access to two group life insurance plans offered by Prudential Insurance Company and Anthem Life (formerly known as Rocky Mountain Life Insurance Company). Effective April 1, 2005, PERA consolidated the two plans, and UnumProvident became the administrator. Members who transitioned to the new plan 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 State has no liability for any of these post-retirement health care and life insurance plans.

NOTE 7- 457 LOAN PROGRAM

On January 5, 2004, the State of Colorado Deferred Compensation Committee implemented a loan program for the 457/401a 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% 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, 2005, $1,832,055 in loans and corresponding interest receivable were outstanding, consisting of 772 participant loans.

As of June 30, 2005, there were 23 late loans recorded. These loans were subsequently paid and therefore not considered in default status. Participants are notified of a default 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 - INVESTMENTS

In Fiscal Year 2004-05, 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.

NOTE 8 – INVESTMENTS (CONTINUED)

As of June 30, 2005 the Plan had the following investments in debt instruments:

Investment Type	Fair Value	Rating (Moody's)
U.S. Government Agencies	$100,158,195	AAA
Bond Mutual Funds	$ 15,300,000	Unrated
Guaranteed Investment Contracts	$ 6,809,759	AA3

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 $100.1 million of the $122.2 million limits its investment maturities to an average duration of between two and five years.

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Investment Type	Percent of Portfolio
Federal Home Loan Mortgage Corporation	16.9
Federal National Mortgage Association	13.2
Federal Government Loan Mortgage Corporation	46.8

The Plan's advisory committee regularly reviews the Plan's investment products' risk characteristics to ensure each is performing at an acceptable level.

SUPPLEMENTARY INFORMATION

STATE OF COLORADO
DEFERRED COMPENSATION PLAN
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005

	Fiduciary Fund Type		
	Pension Trust Funds		
	Administration (Appropriated)	Deferred Compensation Plan (Non-appropriated)	Total
ASSETS			
Cash in bank and with State Treasurer	$ 853,152	$ 4,330	$ 857,482
Accounts receivable	44,038	1,832,055	1,876,093
Prepaid expenses	4,036	-	4,036
Plan assets	-	301,234,877	301,234,877
Total assets	901,226	303,071,262	303,972,488
Liabilities			
Vouchers payable and accrued liabilities	165,247	4,330	169,577
Compensated absences- annual leave and sick leave	7,237	-	7,237
Total liabilities	172,484	4,330	176,814
Net Assets			
Held in trust for pension benefits and other purposes	728,742	303,066,932	303,795,674
Total net assets	$ 728,742	$ 303,066,932	$ 303,795,674

STATE OF COLORADO
DEFERRED COMPENSATION PLAN
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSET
YEAR ENDED JUNE 30, 2005

	Pension Trust Funds		
	Administration (Appropriated)	Deferred Compensation Plan (Non-appropriated)	Total
ADDITIONS			
Asset fees	$ 90,959	$ -	$ 90,959
Interest income	29,673	8,675,056	8,704,729
Administrative reimbursement fee	160,000	-	160,000
Contribution:			
Employer	-	1,260,182	1,260,182
Participant payroll deferral	-	34,627,962	34,627,962
Net investment gain/(loss)	(7,442)	6,087,649	6,080,207
Other revenue	83,693	-	83,693
Total additions	356,883	50,650,849	51,007,732
DEDUCTIONS			
Personal services	216,019	-	216,019
Workers compensation	3,950	-	3,950
Operating expenses	23,727	-	23,727
Indirect cost assessment	54,808	-	54,808
Administration and communication	182,695	-	182,695
Leased space	9,891	-	9,891
Legal services	6,335	-	6,335
Asset fees	-	129,768	129,768
Participant withdrawals	-	28,093,496	28,093,496
Total deductions	497,425	28,223,264	28,720,689
Change in net assets	(140,542)	22,427,585	22,287,043
Net assets, beginning of year	869,284	280,639,347	281,508,631
Net assets, end of year	$ 728,742	$ 303,066,932	$ 303,795,674

STATE OF COLORADO
DEFERRED COMPENSATION PLAN
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2004

	Fiduciary Fund Type		
	Pension Trust Funds		
	Administration (Appropriated)	Deferred Compensation Plan (Non-appropriated)	Total
ASSETS			
Cash in bank and with State Treasurer	$ 896,894	$ 4,362	$ 901,256
Accounts receivable	65,586	967,733	1,033,319
Prepaid expenses	74	-	74
Plan assets	-	279,671,614	279,671,614
Total assets	962,554	280,643,709	281,606,263
Liabilities			
Vouchers payable and accrued liabilities	89,477	4,362	93,839
Compensated absences- annual leave and sick leave	3,793	-	3,793
Total liabilities	93,270	4,362	97,632
Net Assets			
Held in trust for pension benefits and other purposes	869,284	280,639,347	281,508,631
Total net assets	$ 869,284	$ 280,639,347	$ 281,508,631

STATE OF COLORADO
DEFERRED COMPENSATION PLAN
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSET
YEAR ENDED JUNE 30, 2004

	Pension Trust Funds		
	Administration (Appropriated)	Deferred Compensation Plan (Non-appropriated)	Total
ADDITIONS			
Asset fees	$ 93,994	$ -	$ 93,994
Interest income	28,868	7,923,103	7,951,971
Administrative reimbursement fee	160,282	-	160,282
Contribution:			
Employer	-	7,649,828	7,649,828
Participant payroll deferral	-	32,805,487	32,805,487
Net investment gain/(loss)	(20,182)	20,705,152	20,684,970
Other revenue	169,736	-	169,736
Total additions	432,698	69,083,570	69,516,268
DEDUCTIONS			
Personal services	171,837	-	171,837
Workers compensation	3,862	-	3,862
Operating expenses	17,696	-	17,696
Administration and communication	181,740	-	181,740
Leased space	8,753	-	8,753
Legal services	3,401	-	3,401
Asset fees	-	100,144	100,144
Participant withdrawals	-	47,769,007	47,769,007
Total deductions	387,289	47,869,151	48,256,440
Change in net assets	45,409	21,214,419	21,259,828
Net assets, beginning of year	823,872	259,424,931	260,248,803
Net assets, end of year	$ 869,281	$ 280,639,350	$ 281,508,631

Independent Auditors' Report on Compliance and other matters 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, 2005, and have issued our report thereon dated September 2, 2005. 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.

Terry + Stephenson, P.C.

Denver, Colorado
September 2, 2005

STATE OF COLORADO
DEFERRED COMPENSATION PLAN
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303-869-2800

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