State of Colorado
Deferred Compensation Plan

Accountants' Report and Financial Statements

June 30, 2006 and 2005

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State of Colorado
Deferred Compensation Plan
June 30, 2006 and 2005

Contents

State of Colorado
Deferred Compensation Plan
Report Summary
June 30, 2006 and 2005

Purposes and Scope of Audit

The purposes and scope of this audit were to:

- Express an opinion on the statement of fiduciary net assets and the related statement of changes in fiduciary net assets of the State of Colorado Deferred Compensation Plan (the Plan) as of and for the year ended June 30, 2006, including consideration of internal control over financial reporting as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards.*

- Evaluate compliance with certain provisions of laws, regulations, and contracts for the year ended June 30, 2006.

- Issue a report on the Plan's compliance with certain provisions of laws, regulations, and contracts and on internal control over financial reporting based on our audit of the financial statements performed in accordance with *Government Auditing Standards*.

- Evaluate progress in implementing prior year audit recommendations.

Summary of Major Audit Comments

Audit Findings and Financial Statement Audit Report Section

The Description of Audit Findings and Recommendations section contains the following:

- The Plan's management did not timely distribute participant contributions that were in excess of federal contributory limits within the prescribed time frame.

- The Plan is not currently performing internal reconciliations between payroll reports and those reports received from Great-West for contributions in a timely manner.

- Contribution information is not being supplied to central payroll or the third-party administrator for recording.

- The Plan is not currently reviewing delinquent loans and reclassifying those that are delinquent for at least two quarters as "deemed distributions".

- The Plan did not submit financial reports timely.

Summary of Progress in Implementing Prior Audit Recommendations

The report for the year ended June 30, 2005, which is dated September 2, 2005, included one recommendation. This recommendation was implemented.

Audit Opinions and Reports

The independent accountants' reports included herein expressed unqualified opinions on the Plan's statements of fiduciary net assets as of June 30, 2006 and 2005, and the related statements of changes in fiduciary net assets for the years then ended and the accompanying supplemental schedules. These financial statements and schedules are the responsibility of the Plan's management.

No instances of noncompliance considered material to the financial statements were disclosed by the audit.

We noted certain areas in which the Plan could improve its internal controls and other procedures. These areas are discussed in the Description of Audit Findings and Recommendations section of this report.

Significant Audit Adjustments

Areas in which uncorrected misstatements were aggregated during the current engagement and pertaining to the latest period presented were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole. These areas included:

- Per the Plan, summary loans are to be repaid during each quarter. When loans are not repaid their status is to be changed from "loan" to either "delinquent" or "deemed distribution", depending on whether the loan is one quarter or more than two quarters delinquent, respectively.

The effect of the uncorrected misstatements, had they been recorded, would have been to decrease the Plan's investments by $99,305 for the year ended June 30, 2006 and increase participant distributions by $99,305.

State of Colorado
Deferred Compensation Plan
Recommendation Locator
Year Ended June 30, 2006

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
1	8	Distribute excess participant contributions within prescribed time constraints.	Agree	December 2007
2	9	Reconcile contributions to the Plan on a basis no less than monthly.	Agree	July 2007
3	10	Record, at a central location, all participant deferral elections.	Agree	March 2007
4	10	Classify loans properly as “deemed distributions” based on participant non-payment for two consecutive quarters.	Agree	June 2007
5	11	The Department has not provided financial reports in a timely manner.	Agree	June 2007

State of Colorado
Deferred Compensation Plan
Description of the Plan
June 30, 2006 and 2005

Description and Background

The State of Colorado Deferred Compensation Plan (the Plan) was established in 1981 to provide state employees and officials with a means of investing a portion of their state compensation on a tax-deferred basis. The Plan is governed by a nine-member Deferred Compensation Committee. The composition of the Committee is specified under Section 24-52-102(1)(a)(I)(B), C.R.S. as:

- The State Treasurer or designee.
- The State Controller or designee.
- Four employees who are participants in the Plan, one of whom may be a retiree who is a participant in the plan, elected by participants.
- One Governor’s appointee who is a participant in the Public Officials’ and Employees’ Defined Contribution Plan.
- One Senator or former Senator, who is a participant in the Plan, appointed by the President of the Senate.
- One Representative or former Representative, who is a participant in the Plan, appointed by the Speaker of the House of Representatives.

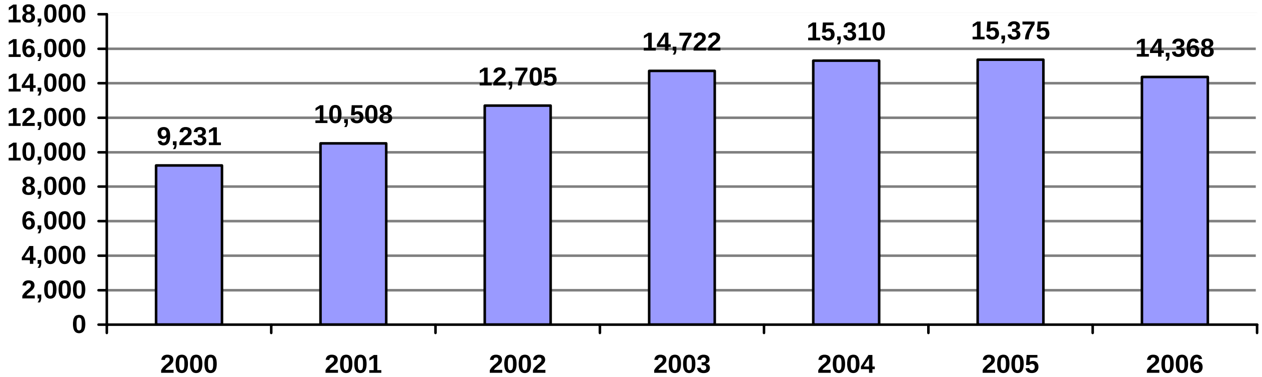
The Committee is staffed by the Employee Benefits Unit within the Department of Personnel and Administration (the Department). Statutory authority for the Plan and Deferred Compensation Committee is referenced in Sections 24-52-101 to 24-52-105, C.R.S. The Recordkeeper for the Plan is Great-West Life Annuity and Insurance Company (Great-West).

In January 2001, the Plan added a 401(a) Defined Contribution Match Plan to accept the employer match made possible by the Public Employees Retirement Association (PERA). The employer match was suspended, effective with May 2004 payroll, under SB04-132. In January 2004, the Plan implemented a loan program. Participants may request one loan each from the Plan and the 401(a) Match Plan. The loans are limited to the lesser of 50% of the participant’s vested account balance or $50,000.

Growth of the Plan

The following graph shows a steady increase in total participants for fiscal years 2000 through 2005, while 2006 shows a decline in participation caused by the enacted forced distributions described below. This increase in participation was a result of legislation that allowed the State to offer an employer match to those employees contributing to a supplemental retirement plan, such as the Plan. Additionally, the employer match and the advantages offered under the Economic Growth Tax Relief & Reconciliation Act of 2001 (EGTRRA), which provided purchase of service credit, increased portability and contribution limits among 457, 401(k) and 403(b) plans, has increased participation in the Plan. In 2006 the number of total participant accounts dropped due to a forced distribution, directed by the Committee and authorized in the plan document. The forced distributions consisted of terminated employees with account balances less than $1,000.

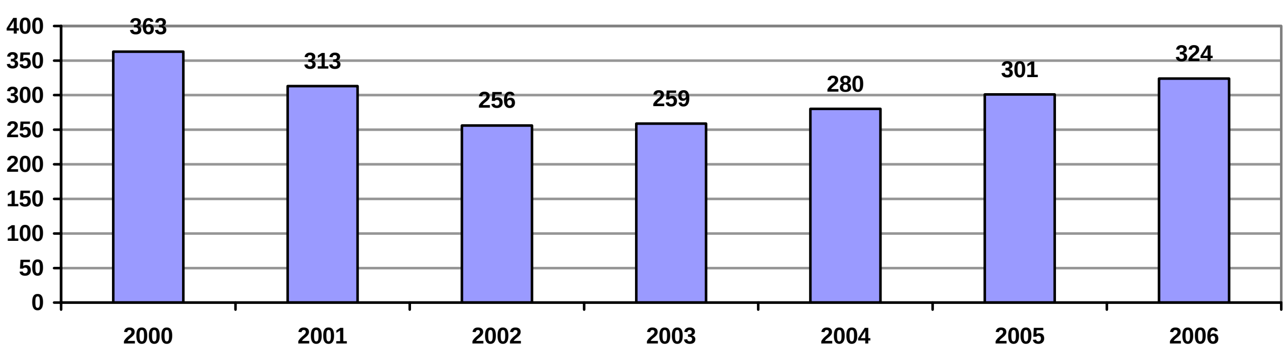
PLAN PARTICIPANTS



Source: 2000-2006 Great-West Retirement Services

In the chart below, the Plan's assets have decreased from a high of $363 million as of June 30, 2000, to $324 million as of June 30, 2006. The decrease in assets was due to the opportunity to purchase service credits (EGTRRA) in the defined benefit plan using the 457 and Match accounts. There has been an increase in assets since 2002 attributable to the offering of the employer match (offered from January 2001 through May 2004), which attracted more participants to the Plan and additional monthly contributions. The increase in assets for 2005 and 2006 was attributable to unrealized gains earned on invested assets. The graph shows the change in the value of total assets, in millions, from June 30, 2000 through June 30, 2006.

457 PLAN ASSETS



Source: 2000-2006 Great-West Retirement Services

Asset Fee

Effective July 1, 2005, the fee was revisited and new contracts were established. Based on industry trends and the proposal submitted by Great-West, the asset fee was increased to $20 per participant per year (from $9 per participant per year), with no fee charged to new participants for the first year and thereafter until the participant's account balance reached $2,000, in compliance with the one percent limitation in accordance with Section 24-52-102(5)(a), C.R.S.

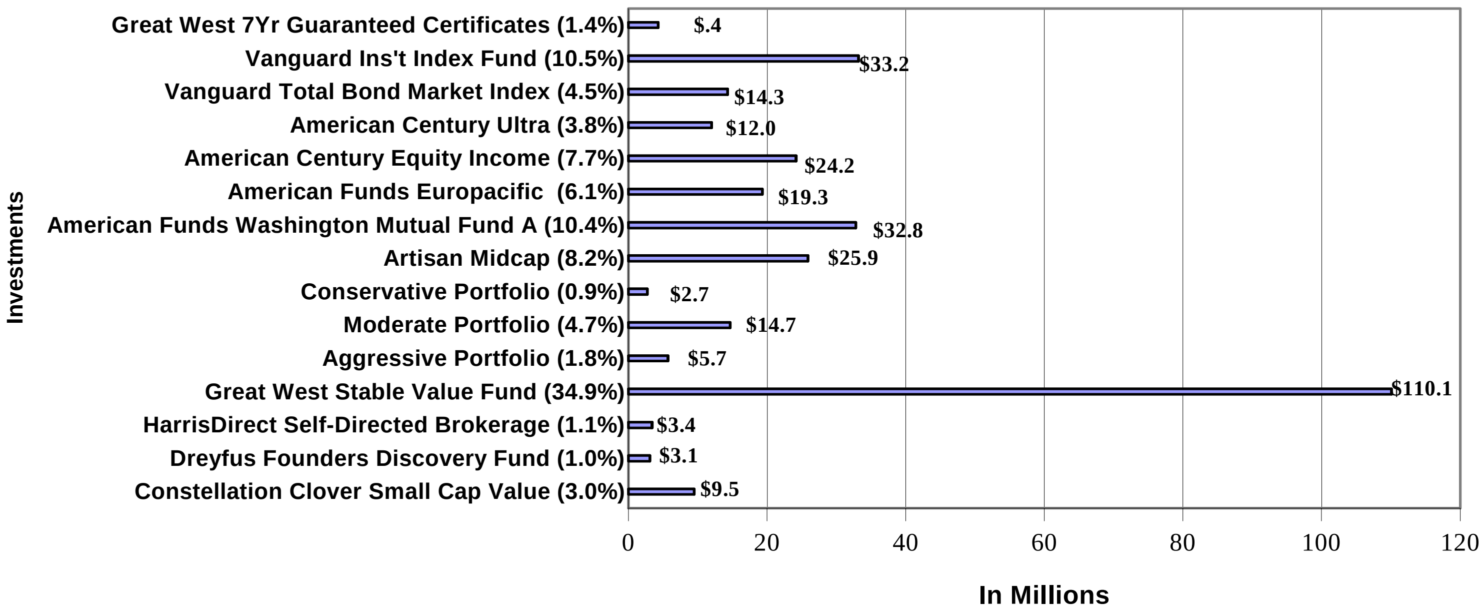
The Plan's Committee continues to review the asset fee on an annual basis. Commencing in 2002, Arnerich Massena, the investment consultant for the Plan, in conjunction with the Department, Financial Services staff accountants annually prepares a cost analysis based on current costs of the Plan and makes 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 seven 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 (5-year certificate was completely liquidated prior to June 30, 2006). 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, 2006. 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 the Plan (continued)
June 30, 2006 and 2005

Distribution of Plan Assets



The total Plan assets, shown in the above graph, do not include purchased annuities for $5.8 million. See Note 2 of the financial statements.

Finding of Excess Contribution Refunds and Recommendation

Excess contributions (contributions in excess of IRS guidelines for a given plan year) are required to be refunded to the participants prior to April 15 of the year following the Plan's year end. Excess contributions returned to participants before April 15 in the year following the plan year end are treated as participant wages during the year withheld for individual tax filing. Excess contributions returned to participants after April 15 of the subsequent year, after the plan year, are treated as plan distributions, during the year distributed, and as a result could be subject to a 10% early withdrawal penalty. We noted total excess contributions of $8,288 from 3 participants, which were not properly refunded to the participants in the time frame prescribed by the IRS.

The following explains the circumstances of the excess contributions for these three participants. Two participants exceeded the $28,000 catch-up amount by $2 and $2,286, respectively. An eligible plan may provide that, for one or more of the participant's last three taxable years ending before the participant attains normal retirement age, the plan ceiling including a catch-up amount, is an amount not in excess of $28,000. These appear to be exceptions in the payroll processing system where the control limitations within the processing system did not properly limit these participants' deferrals. We recommend that these reports be reviewed at the end of each calendar year to determine if corrective participant contributions are required.

One of the participants deferred a total of $34,000 during calendar year 2005, to be used to purchase service credits in his defined benefit plan with PERA. This participant's wage summary showed withholdings of $18,000 for 2005. Therefore, we recommend that the excess contribution report is reviewed to determine the proper classification of participant contributions.

Recommendation No. 1

Review excess contribution reports at the end of each calendar year to determine if corrective participant contributions are required.

Department Response

Agree. For employees paid through the State's payroll system, CPPS, there is a system edit in place that does not allow an employee to make excess contributions. Additionally, Department staff monitor contributions on monthly basis to identify excess contributions and follow with agency payroll officers as necessary.

For those situations where the participant is paid through a payroll system other than CPPS, the Department will review excess contribution reports from the Third Party Administrator and follow up with the appropriate employer.

Implementation Date: December 2007

Finding of Deficiency in Internal Fiduciary Controls over Contributions and Recommendation

Through inquiry of Plan personnel, we noted that currently no internal testing is presently being performed to determine that participant accounts are being credited with the amount withheld and the correct amount of employer contributions. We recommend a random sample of employee contributions be periodically tested by Plan personnel monthly for accuracy after they are remitted to the third-party administrator (TPA) by an individual who does not have access or the ability to make adjustments to the contribution schedules remitted to the TPA.

Recommendation No. 2

Select a random sample of employee contributions monthly to ensure that participant accounts are being credited with the amount withheld and the correct amount of employer contributions.

Department Response

Agree. The Department will implement a process for reviewing the accuracy of employee Plan contributions on a random basis.

Implementation Date: July 2007

Findings for Discrepancies of Contributions and Recommendation

While testing contribution amounts for participant accounts, we noted one instance where a participant changed his/her deferral percentage through the individual payroll office at the agency for which the participant works and documentation was not provided to central payroll at the Department or Great-West regarding the change. Therefore, we were unable to verify whether the contributions made on behalf of this participant were in accordance with the participant's wishes. We recommend the Department continue to provide training and guidance to individual agencies to ensure they are properly following procedures already in place, to maintain that all deferral changes be processed through Great-West.

Additionally, we noted one participant who should have had an additional $2,000 withheld during the first payroll of fiscal year 2006 based on elective deferral information provided by Great-West. This exception was the result of the participant requesting a deferral change through their respective agency payroll department for which documented support was not available. Instances of this nature would be significantly reduced, if not eliminated by ensuring that all participant changes occur through Great-West directly.

Recommendation No. 3

Monitor individual agencies to ensure they are properly following procedures to maintain that all deferral changes are processed through Great-West.

Department Response

Agree. The Department will remind payroll officers of the proper procedures for processing Plan changes.

Implementation Date: March 2007.

Finding of Loan Classifications and Recommendation

Great-West provides a report of delinquent and default loans, including the number of months since the last payment was received along with the total loans that remain unpaid (both delinquent and default loans) by participants and the outstanding loan balances. According to the plan document, loans are considered delinquent at the end of a quarter in which payments are late or cease. The following quarter, if payments still have not been received, the loan should be classified as a "deemed distribution" or a defaulted loan whereby the amount of the default loan becomes a reduction of the loan receivable account and an increase in current year distributions. We noted that total outstanding loan balances of $99,305 pertained to loans for which payments ceased at least two quarters prior to the Plan's year end. We recommend a timely review of the delinquent loan report and the reclassification of those loans that are delinquent for at least two quarters.

Recommendation No. 4

Timely review delinquent loan report and reclassification of those loans that are delinquent for at least two quarters.

Department Response

Agree. The Department will review all delinquent loans and make the appropriate reclassification on its financial statements.

Implementation Date: June 2007

Finding of Financial Reporting and Recommendation

The external auditors, in accordance with the contract with the Office of the State Auditor, are required to issue a financial and compliance audit report by October 31, which includes an opinion on the basic financial statements, as well as any findings and recommendations resulting from the audit. Delays in completing the audit impact the State's ability to complete its financial reporting process in a timely manner.

Specifically of concern is that the external auditor did not receive the initial draft of the financial statements from the agency until October 13, 2006. This caused a delay in the external auditors' ability to meet their contractual obligations with the Office of the State Auditor.

Though the majority of the testwork was completed by October 31, the reporting process and issuance of the financial and compliance audit report extended more than three months after the deadline.

In addition to the current year report delays, prior year audit reports for the Deferred Compensation Plan have been delayed as well. For instance, the report for fiscal year 2005 was not released until March 2006 and fiscal year 2004's report was not released until April 2005.

Recommendation No. 5

We recommend the Department of Personnel and Administration evaluate options to expedite the closing and financial reporting processes, including coordination of deadlines with the external auditor and the Office of the State Auditor.

Department Response

Agree. The Department will evaluate its closing processes and determine if there are ways to expedite the process.

Implementation Date: June 2007

State of Colorado
Deferred Compensation Plan
Disposition of Prior Audit Recommendations
June 30, 2006 and 2005

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2005 included one recommendation. The disposition of this audit recommendation as of August 2006 was as follows:

Recommendation Number	Recommendation	Disposition
1	Comply with deadlines and include all required disclosures.	Implemented. The Department provided required disclosures prior to drafts of the 2006 financial statements being presented to the State for review.

Independent Accountants' Report on Financial Statements and Supplementary Information

Members of the Legislative Audit Committee:

We have audited the accompanying statement of fiduciary net assets of the State of Colorado Deferred Compensation Plan (the Plan) as of June 30, 2006, and the related statement of changes in fiduciary net assets for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the State of Colorado Deferred Compensation Plan as of and for the year ended June 30, 2005, were audited by other accountants whose report dated September 2, 2005, except for Note 2 which was dated December 29, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures 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 audit provides a reasonable basis for our opinion.

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

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the State of Colorado Deferred Compensation Plan as of June 30, 2006, and its changes in fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2006, on our consideration of the Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Plan's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

\s\ **BKD, LLP**

Colorado Springs, Colorado
September 29, 2006

State of Colorado
Deferred Compensation Plan
Management's Discussion and Analysis
June 30, 2006, 2005 and 2004

The following discussion and analysis is supplementary information required by the Governmental Accounting Standards Board (GASB) and is intended to provide background and summary information for the State of Colorado Deferred Compensation Plan (the Plan). This discussion and analysis should be read in conjunction with the transmittal letter on pages 5-8 and the financial statements, including notes, which begin on page 15.

The Plan is governed by a Deferred Compensation Committee and is staffed by the Employee Benefits Unit within the Department.

There are two financial statements presented for fiduciary funds. The Statements of Fiduciary Net Assets as of June 30, 2006, 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, 2006, provides a view of the current year's additions and deductions to the Plan.

Below is a comparison of Fiscal Years 2004, 2005 and 2006 financial activity for the Plan. Specific notable items are as follows:

Revenue Change

As indicated in the comparison, the Plan did not receive the Administrative Reimbursement Fee in Fiscal Year 2006 as it had in Fiscal Year 2005 or 2004. Additionally, new revenue amounts (Reallowances/Explicit Fees) were received in Fiscal Year 2006 but not in Fiscal Year 2005 or 2004. This change in funding sources was due to a new contract with the third-party administrator that was effective July 1, 2005. Additionally, the employer match portion of the Plan was suspended during the 2004 Plan year due to the passage of Senate Bill 04-257.

Financial Highlights

While the world equity market began to stabilize in 2005, plan assets for the Deferred Compensation Plan increased by $21.5 million or 8% over 2004. The Plan experienced a $6.1 million investment gain and an increase in interest income of $0.7 million or 9% in 2005 for the same reason noted above.

Participant withdrawals decreased by $19.7 million or 41% in 2005 compared to 2004 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% in 2005 over 2004, 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.

The Plan's deductions for Administration and Communication expenses increased ½% from Fiscal Year 2004 to Fiscal Year 2005 and 265% from Fiscal Year 2005 to Fiscal Year 2006. This is due to an increase in the third-party administration fees as negotiated with the new contract during 2006.

The asset fees increased 26% from Fiscal Year 2004 to Fiscal Year 2005 and over 200% from Fiscal Year 2005 to Fiscal Year 2006 mainly due to an increase in the annual participant fee from $9 to $20, between 2005 and 2006.

Accounts Receivable increased 82% from Fiscal Year 2004 to Fiscal Year 2005, and 44% from Fiscal Year 2005to Fiscal Year 2006 due to an increase in the number and average amount of loans. Specifically, the number of loans increased from 307 in Fiscal Year 2004 to 772 in Fiscal Year 2005 to 908 in Fiscal Year 2006. In addition, the average loan amount in Fiscal Year 2004 was $3,365 and Fiscal Year 2005 was $1,254 as compared to $2,695 in Fiscal Year 2006.

Personal services declined 29% in 2006 as compared to 2005 and 10% as compared to 2004 as a result of renewing the contract with Great-West as of July 1, 2005, which reduced the associated wages with securing a vendor for the Plan's retirement services. However, administration and communication fees increased 265% in 2006 due to the change in accounting for revenues and expenses, as in years 2004 and 2005 the revenues and expenses were netted by Great-West, but for 2006, the Plan received fees and expenses at gross amounts.

State of Colorado
Deferred Compensation Plan
Management's Discussion and Analysis (continued)
June 30, 2006, 2005 and 2004

Deferred Compensation Plan Administration Fund Fiduciary Net Assets

	June 30, 2006	June 30, 2005	June 30, 2004	Percent Change from 2005	Percentage Change from 2004
Assets					
Plan assets	$ 320,992,599	$ 301,234,877	$ 279,671,614	7%	8%
Other assets	3,531,810	2,737,611	1,934,649	29%	42%
Total assets	324,524,409	303,972,488	281,606,263	7%	8%
Liabilities					
Vouchers payable and accrued liabilities	226,039	169,577	93,839	33%	81%
Compensated absences – annual and sick leave	8,473	7,237	3,793	17%	91%
Total liabilities	234,512	176,814	97,632	33%	81%
Net Assets					
Held in trust for pension benefits and other purposes	324,289,897	303,795,674	281,508,631	7%	8%
Total net assets	$ 324,289,897	$ 303,795,674	$ 281,508,631	7%	8%

Deferred Compensation Administration Fund Changes in Fiduciary Net Assets

	June 30, 2006	June 30, 2005	June 30, 2004	Percent Change from 2005	Percent Change from 2004
Additions					
Interest income	$ 12,743,246	$ 8,704,729	$ 7,951,971	46%	9%
Contribution					
Employer	—	1,260,182	7,649,828	(100%)	(84%)
Participant	36,417,899	34,627,962	32,805,487	5%	6%
Investment gain	8,646,040	6,080,207	20,684,970	42%	(71%)
Other additions	970,715	334,652	424,012	190%	(21%)
Total additions	58,777,900	51,007,732	69,516,268	15%	(27%)
Deductions					
Operations	1,274,391	627,193	487,433	103%	29%
Participant withdrawals	37,009,286	28,093,496	47,769,007	32%	(41%)
Total deductions	38,283,677	28,720,689	48,256,440	33%	(40%)
Change in Net Assets	$ 20,494,223	$ 22,287,043	$ 21,259,828	(8%)	5%

State of Colorado
Deferred Compensation Plan
Management's Discussion and Analysis (continued)
June 30, 2006, 2005 and 2004

Below is a comparison of the Fiscal Year 2006 Budget to Actual Operation Deductions:

	Budget	Actual	Over/(Under)
Comparison of Fiscal Year 2006 Budget to Actual Deductions			
Personal services	$ 203,611	$ 154,034	$ (49,577)
Workers' compensation	3,258	3,258	0
Operating expenses	23,919	16,425	(7,494)
Administration and communication	766,500	666,337	(100,163)
Leased space	7,511	7,511	0
Legal services	10,565	10,165	(400)
Indirect cost assessment	10,422	10,422	0
Total deductions	$ 1,025,786	$ 868,152	$ (157,634)

State of Colorado
Deferred Compensation Plan
Statements of Fiduciary Net Assets
June 30, 2006 and 2005

	2006 Pension Trust Fund	2005 Pension Trust Fund
Assets		
Cash in Bank with State Treasurer	$ 831,708	$ 857,482
Accounts receivable	2,700,102	1,876,093
Prepaid expenses	—	4,036
Plan assets	320,992,599	301,234,877
Total assets	324,524,409	303,972,488
Liabilities		
Vouchers payable and accrued liabilities	226,039	169,577
Compensated absences – annual leave and sick leave	8,473	7,237
Total liabilities	234,512	176,814
Net Assets		
Held in Trust for pension benefits and other purposes	324,289,897	303,795,674
Total net assets	$ 324,289,897	$ 303,795,674

State of Colorado
Deferred Compensation Plan
Statements of Changes in Fiduciary Net Assets
June 30, 2006 and 2005

	2006 Pension Trust Fund	2005 Pension Trust Fund
Additions		
Asset fee	$ 317,836	$ 90,959
Interest income	12,743,246	8,704,729
Reallowance/Explicit fees	652,879	160,000
Contribution		
Employer	—	1,260,182
Participant payroll deferral	36,417,899	34,627,962
Net investment gain	8,646,040	6,080,207
Other revenue	—	83,693
Total additions	58,777,900	51,007,732
Deductions		
Personal services	154,034	216,019
Workers' compensation and risk management	3,258	3,950
Operating expenses	16,425	23,727
Indirect cost assessment	10,422	54,808
Administration and communication	666,337	182,695
Leased space	7,511	9,891
Legal services	10,165	6,335
Asset fees	406,239	129,768
Participant withdrawals	37,009,286	28,093,496
Total deductions	38,283,677	28,720,689
Change in Fiduciary Net Assets	20,494,223	22,287,043
Fiduciary Net Assets, Beginning of Year	303,795,674	281,508,631
Fiduciary Net Assets, End of Year	$ 324,289,897	$ 303,795,674

State of Colorado
Deferred Compensation Plan
Notes to Financial Statements
June 30, 2006 and 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)(a)(I)(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.

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

The Internal Revenue Service (IRS) has determined that the provisions of the Plan are in compliance with IRC Section 457 in a private letter ruling dated September 26, 2005.

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."

The investments include purchased annuity contracts from Great-West Life Annuity and Insurance Company (Great-West), which are recorded at their contract value of $5,784,379 and $6,383,746 as of June 30, 2006 and 2005, 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 $315,208,220 and $294,851,131 are recorded within the Pension Trust Fund at fair value at June 30, 2006 and 2005, respectively.

In Fiscal Year 2005, the Plan implemented Governmental Accounting Standards Board Statement No. 40 – Deposit and Investment Risk Disclosures. The standard primarily changes the required disclosures of investment credit quality and interest rate risk for debt instruments.

As of June 30, 2006 the Plan had the following investments in debt instruments:

Investment Type	Fair Value	Rating (Moody's)
Bond Mutual Funds	$ 124,359,360	Unrated
Guaranteed Investment Contracts	$ 4,333,515	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 $104.4 million of the $128.7 million in debt instruments limits its investment maturities to an average duration of between two and five years.

Credit Quality Risk

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations to the Plan. This risk is assessed by national rating agencies, which assign a credit quality rating for many investments. The Plan's investment policy for $104.4 million of the $128.7 million in debt instruments 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.

The debt securities held in guaranteed investment contracts are rated above A1 for commercial paper and the other investments listed as unrated consist of bond mutual funds that invest in numerous corporate and governmental debt securities.

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, 2006 and 2005 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 CAFR.

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% 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)(a), 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 was $9 per participant per year (excluding those participants in payout) and in July 2005, the fee increased to $20 annually. This is a $2.25 quarterly deduction from each participant's account balance increased to a $5 quarterly deduction for 2005. The fee is only deducted from participants with an account balance of at least $2,000 (2005) to comply with the 1% limitation as defined by Section 24-52-102(5)(a), C.R.S.

According to the third-party administrator contract, which began July 1, 2005, the Plan receives an annual $20 fee per participant (asset fee), a portion of the third-party administrator's fund operating expense fee (reallowance fee), and .20% of Plan assets invested in the Vanguard Total Bond, Vanguard Institutional Index, and Stable Value Funds (explicit fees).

Under the previous third-party administrator contract, the Plan received an annual $9 fee per participant and an additional payment for each quarter in which the Contractor's earnings were in excess of 0.22% of Plan assets, plus $160,000 annual administrative reimbursement.

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

All of the Department's employees hired prior to January 1, 2006, 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 P.O. Box 5800, Denver, Colorado 80217, or by calling PERA at 1-800-759-PERA (7372), or by visiting www.copera.org.

Prior to January 1, 2006, state employees and employees of local school districts were members of the combined State and School Division of PERA. On January 1, 2006, that combined division was segregated into a State Division and a separate School Division. PERA's financial statements at December 31, 2005, presented the state and school portions of the trust as a single division.

Employees hired by the state after January 1, 2006, are allowed 60 calendar days from date of hire to elect to participate in a defined contribution retirement plan administered by the State's Deferred Compensation Committee rather than becoming a member of PERA. If that election is not made, the employee becomes a member of PERA. PERA members electing the defined contribution plan are allowed an irrevocable election between the second and fifth year to change contributions to the defined benefit plan and, after one year, use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. Employer contributions to both defined contribution plans are the same as the contributions to the PERA defined benefit plan.

Defined benefit plan members vest after five years of service and if they were hired before July 1, 2005, 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. Persons hired on or after July 1, 2005, (except state troopers, plan members, inactive members, and retirees) are eligible for retirement benefits at any age with 35 years of service, at age 55 with 30 years of service, at 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 state troopers 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) may be entitled to a single payment or monthly benefit payments. If there is not an eligible spouse or child available to receive the benefits, financially dependent parents will receive a survivor's benefit.

Funding Policy

The contribution requirements of the plan members and their employers are established, and may be amended, by the General Assembly. Salary subject to PERA contribution is gross earnings less any reduction in pay to offset employer contributions to the State sponsored IRC 125 Plan established under Section 125 of the Internal Revenue Code.

Most employees contribute 8.0% of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2005 to December 31, 2005, the state contributed 10.15% of the employees salary. From January 1, 2006 through June 30, 2006, the state contributed these same percentage amounts plus an additional .5% for the Amortization Equalization Disbursement discussed below. During all of Fiscal Year 2006, 1.02% of the employees total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2005, the State and School Division of PERA was underfunded with an infinite amortization period, which means that the unfunded actuarially accrued liability would never be fully funded at the current contribution rate.

In the 2004 legislative session, the general assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional .5% of salary beginning January 1, 2006, another .5% of salary in 2007, and subsequent year increases of .4% of salary until the additional payment reaches 3.0% in 2012.

In the 2006 legislative session, along with other significant provisions affecting the plan, the general assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one-half percentage point of total salaries paid beginning January 1, 2008. The SAED is scheduled to increase by one-half percentage point through 2013 resulting in a cumulative increase of three percentage points. The SAED will be terminated when each division's trust fund reaches 100% funding. For state employers, each year's one-half percentage point increase in the SAED will be deducted from the amount of changes to state employees' salaries and used by the employer to pay the SAED.

The Plan's contributions to the Defined Benefit Plan and the Health Care Trust Fund for the fiscal years ending June 30, 2006 and 2005, were $9,039 and $8,015, respectively. These contributions met the contribution requirement for each year.

Note 5: Voluntary Tax-Deferred Retirement Plans

PERA offers a voluntary 401(k) Plan 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 403(b) or 401(a) plans.

Note 6: Postretirement Health Care and Life Insurance Benefits

Health Care Program

The PERA Health Care Program (the Program) began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the Program was converted to a trust fund in 1999. 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 2006, the premium subsidy was $115 for those with 20 years of service credit ($230 for members under age 65 and not eligible for Medicare), and it was reduced by 5% 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, 2005, there were 41,080 enrollees in the plan.

Life Insurance Program

During Fiscal Year 2006, PERA provided its members access to a group decreasing term life insurance plan offered by UnumProvident in which 41,180 members participated. Active members may join the Unum Provident Plan and continue coverage into retirement. Premiums are collected monthly by payroll deduction or other means. In addition, PERA maintained coverage for 13,375 members under closed group plans underwritten by Anthem Life, Prudential, and New York Life.

Other Programs

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

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 durations of one to five (1-5) years or, Principal Residence with durations 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 participants' vested account balances, 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 on the first business day of the month in which the loan is approved. 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, 2006, $2,446,992 in loans and corresponding interest receivable were outstanding, consisting of 908 participant loans.

As of June 30, 2006, there were 9 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.

Supplementary Information

State of Colorado
Deferred Compensation Plan
Combining Statement of Fiduciary Net Assets
June 30, 2006

	Fiduciary Fund Type		
	Pension Trust Funds		
	Administration (Appropriated)	Deferred Compensation Plan (Non-appropriated)	Total
Assets			
Cash in Bank with State Treasurer	$ 831,708	$ —	$ 831,708
Accounts receivable	253,110	2,446,992	2,700,102
Prepaid expenses	—	—	0
Plan assets	—	320,992,599	320,992,599
Total assets	1,084,818	323,439,591	324,524,409
Liabilities			
Vouchers payable and accrued liabilities	226,039	—	226,039
Compensated absences – annual leave and sick leave	8,473	—	8,473
Total liabilities	234,512	—	234,512
Net Assets			
Held in Trust for pension benefits and other purposes	850,306	323,439,591	324,289,897
Total net assets	$ 850,306	$ 323,439,591	$ 324,289,897

State of Colorado
Deferred Compensation Plan
Combining Statement of Changes in Fiduciary Net Assets
June 30, 2006

	Pension Trust Funds		
	Administration (Appropriated)	Deferred Compensation Plan (Non-appropriated)	Total
Additions			
Asset fees	$ 317,836	$ —	$ 317,836
Interest income	27,882	12,715,364	12,743,246
Reallowance/Explicit fees	652,879	—	652,879
Contribution			
Employer	—	—	0
Participant payroll deferral	—	36,417,899	36,417,899
Net investment gain/(loss)	(8,880)	8,654,920	8,646,040
Other revenue	—	—	0
Total additions	989,717	57,788,183	58,777,900
Deductions			
Personal services	154,034	—	154,034
Workers' compensation and risk management	3,258	—	3,258
Operating expenses	16,425	—	16,425
Indirect cost assessment	10,422	—	10,422
Administration and communication	666,337	—	666,337
Leased space	7,511	—	7,511
Legal services	10,165	—	10,165
Asset fees	—	406,239	406,239
Participant withdrawals	—	37,009,286	37,009,286
Total deductions	868,152	37,415,525	38,283,677
Change in Fiduciary Net Assets	121,565	20,372,658	20,494,223
Fiduciary Net Assets, Beginning of Year	728,742	303,066,932	303,795,674
Fiduciary Net Assets, End of Year	$ 850,307	$ 323,439,590	$ 324,289,897

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 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 Assets
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 and risk management	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 Fiduciary Net Assets	(140,542)	22,427,585	22,287,043
Fiduciary Net Assets, Beginning of Year	869,284	280,639,347	281,508,631
Fiduciary Net Assets, End of Year	$ 728,742	$ 303,066,932	$ 303,795,674

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

Members of the Legislative Audit Committee:

We have audited the financial statements of the State of Colorado Deferred Compensation Plan (the Plan) as of and for the year ended June 30, 2006, and have issued our report thereon dated September 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Plan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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

We noted certain matters that we reported to the Plan's management in a separate letter dated September 29, 2006, which are also described in the Description of Audit Findings and Recommendations section of this report as Recommendations No. 1 - 4.

This report is intended solely for the information and use of the Legislative Audit Committee, the Deferred Compensation Committee and the management of the Plan and is not intended to be and should not be used by anyone other than these specified parties.

\s\ **BKD, LLP**

September 29, 2006

BKD LLP

Independent Accountants' Audit Committee Communication

Members of the Legislative Audit Committee:

As part of our audit of the financial statements of the State of Colorado Deferred Compensation Plan (the Plan) as of and for the year ended June 30, 2006, we wish to communicate the following to you.

Auditors' Responsibility Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America (GAAS) is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing GAAS procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our contract with the State Auditor more specifically describes our responsibilities.

Significant Accounting Policies

The Plan's significant accounting policies are described in Note 1 of the audited financial statements.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets and changes in net assets and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed including those which management recorded, include:

- Classification of loans as distributions

- Areas in which uncorrected misstatements were aggregated during the current engagement and pertaining to the latest period presented were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole, include accounting for participant loans as deemed distribution because of late payments. The effect of the uncorrected misstatements, had they been recorded, would have been to decrease the Plan's investments by $99,305 for the year ended June 30, 2006 and increase participant distributions by $99,305.

This letter is intended solely for the information and use of the Legislative Audit Committee, the Deferred Compensation Committee and management of the Plan and is not intended to be and should not be used by anyone other than these specified parties.

\s\ **BKD, LLP**

September 29, 2006

State of Colorado
Deferred Compensation Plan
Audit Report Distribution Summary

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