State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Accountants' Report and Financial Statements

June 30, 2007 and 2006

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State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Report Summary

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State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Report Summary

June 30, 2007 and 2006

Purposes and Scope of Audit

The purposes and scope of this audit were the following:

- The audit was performed by the certified public accounting firm of **BKD, LLP** under contract with the State of Colorado Auditor's Office 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 Public Officials and Employees Defined Contribution Retirement Plan (the Plan) as of and for the year ended June 30, 2007, 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.* The Deferred Compensation Committee (the Committee) assumed the fiduciary responsibility of the State of Colorado Public Officials and Employees Defined Contribution Retirement Plan (the Plan) effective July 1, 2002 under SB 02-231.
- Evaluate compliance with certain provisions of laws, regulations, and contracts for the year ended June 30, 2007.
- 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 is not providing adequate training to benefits administrators regarding the distribution of Plan enrollment information to newly-hired employees and does not have procedures in place to adequately record the timing of the distribution of this documentation to newly-hired employees. Additionally, for employees that make initial contributions to PERA and then subsequently elect to participant in the Plan, the Plan's management does not have adequate procedures in place to reconcile the transfer of these participant accounts to the Plan from PERA, nor the timely posting of these amounts to participant accounts within the Plan.

Summary of Progress in Implementing Prior Audit Recommendations

The report for the year ended June 30, 2006, which is dated September 29, 2006, included two recommendations. One recommendation was implemented, and one recommendation was deferred until the Plan changes bundled service providers in June 2010.

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan (continued)

Report Summary

June 30, 2007 and 2006

Audit Opinions and Reports

The independent accountants' reports included herein expressed an unqualified opinion on the Plan's statements of fiduciary net assets as of June 30, 2007 and 2006, 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 did note 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 and BKD, LLP agreed, both individually and in the aggregate, to the financial statements as a whole. These areas included:

- For an employee that made initial contributions to PERA and then subsequently elected to participate in the Plan, a substantial delay was noted between the time when the employee elected to participate in the Plan and the time when the employee's PERA account was transferred and posted to the employee's account within the Plan.

The effect of the uncorrected misstatements, had they been recorded, would have been to decrease the Plan's contributions by $5,063 for the year ended June 30, 2007, and increase the Plan's fiduciary net assets by $5,063 at June 30, 2007 and June 30, 2006.

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Recommendation Locator

Year Ended June 30, 2007

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
1	6	Ensure adequate training for benefit administrators and timely reconcile the transfer of participant accounts from PERA to the Plan.	Agree	Implemented / October 2008

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Description of the Plan

June 30, 2007 and 2006

Description and Background

The Deferred Compensation Committee (the Committee) assumed the fiduciary responsibility of the State of Colorado Public Officials and Employees Defined Contribution Retirement Plan (the Plan) effective July 1, 2002 under SB 02-231. Statutory authority for the Plan is referenced in Sections 24-52-201 to 24-52-208, C.R.S. The three Bundled Providers (retirement service providers handling participant investments and contributions) for the Plan for 2007 and 2006, effective July 1, 2005, are Great-West Life Annuity and Insurance Company, The Hartford and ICMA-RC.

The composition of the Committee is specified under Section 24-52-102(1)(a)(I)(B), C.R.S. as:

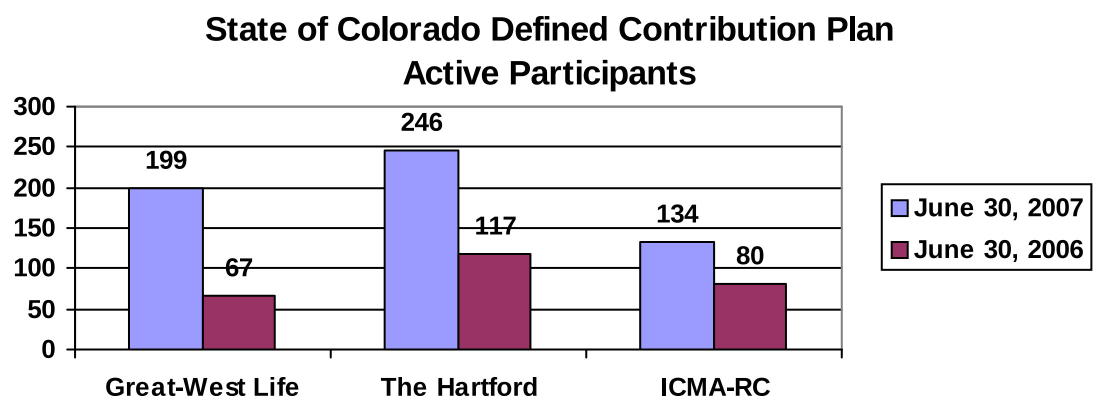
- The State Treasurer, or designee.
- The State Controller, or designee.
- Four employees who are participants in the Plan, one of whom may be a retiree who is a participant in the plan, elected by participants.
- One Governor's appointee who is a participant in the Public Officials' and Employees' Defined 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), Division of Human Resources.

Growth of the Plan

The Plan became effective January 1, 1999, as a result of House Bill 98-1191. At that time there were approximately 500 eligible employees as referenced in the definition of eligibility in Section 24-52-202(3) C.R.S. From its inception until January 1, 2006 the eligibility for the Plan was primarily elected and appointed state officials. Effective January 1, 2006, the Plan was expanded to include newly hired state employees and is now one of three retirement choices for new employees. New employees, except for those at Higher Education Institutions (4-year colleges and community colleges) and Judges, have retirement choice among the Plan, the Public Employees Retirement Association Defined Benefit Plan (PERA DB Plan) or the Public Employees Retirement Association Defined Contribution Plan (PERA DC Plan).

The table below shows the number of active participants for each of the Bundled Providers as of June 30, 2007 and 2006. New hires since January 1, 2006, who did not choose the Plan have either chosen the PERA DB or DC plan, defaulted to the PERA DB Plan due to the 12-month look back for eligibility, or were placed in the PERA DB plan because they did not make a timely decision within 60 calendar days of hire date.



In total, the Plan had 579 active participants at June 30, 2007.

Administrative Fee

The Department's costs to administer the Plan are reimbursed entirely from fees assessed on the Bundled Providers based on investment management fees assessed quarterly on participant accounts per Section 24-52-203(9)(a). Therefore no explicit administrative fees are charged by the State to participants for administration of the Plan per Section 24-52-203(9)(c) C.R.S. The Bundled Providers may seek reimbursement of administrative fees from Plan participants, in Section 24-52-203(9)(c) C.R.S.

Plan Investment Options

Each bundled service provider allows participants a wide selection of investment options consisting of mutual funds with varying risk levels. The investments provided that are categorized as aggressive, moderate or conservative, base the holdings of the funds upon the growth and security requirements of the participant. The aggressive portfolios have increased inherent risk and are expected to provide higher growth rates. The conservative funds focus on more stable investments with less growth potential.

Timeliness of Contributions

The Deferred Compensation Committee assumed the fiduciary responsibility of the State of Colorado Public Officials and Employees Defined Contribution Retirement Plan (the Plan) effective July 1, 2002 under SB 02-231. The Plan Management, located within the Department of Personnel & Administration, provides administrative support to the Committee and is responsible for the day-to-day operations of the Plan. Statutory authority under the Plan is referenced in Sections 24-52-201 to 24-52-208, C.R.S. The three bundled providers (investment service providers handling participant investments and contributions) of this Plan for fiscal years 2007 and 2006, effective July 1, 2005 are Great-West Life Annuity and Insurance Company, The Hartford and ICMA-RC. Each bundled service provider contains between 134 and 246 active participants for a total of 579 active participants with balances totaling $11,500,000 as of June 30, 2007.

The Plan's current policy stipulates, under Section 3.1 of the amended and restated Plan Document effective October 1, 2004 and amended under C.R.S. 24-52-205, an employee hired after January 1, 2006 shall make an irrevocable written election within sixty days of commencing employment with the State to participate in the State of Colorado Defined Contribution Plan (the Plan), or the Plans offered by the Colorado Public Employees' Retirement Association (PERA). Generally, the State of Colorado does not participate in Social Security; therefore, by statute, prior to electing to participate in any plan, employees' contributions must begin to be withheld from their wages. These contribution amounts are held by PERA until the employee makes an election. At the time the employee elects to participate in the Plan, the prior contributions to PERA are required to be transferred to the Bundled Provider of the participant's choice within 90 days. If the employee does not complete a written election to participate in the Plan or one of the other available options within sixty days of employment commencement, the employee will default to membership in the PERA Defined Benefit Plan.

We obtained enrollment forms for all 25 participants who elected the Plan since January 1, 2006 to verify the participant affirmatively elected to participate in the Plan under one of the three bundled providers servicing the Plan. Our testing included reviewing the date of participant enrollment and the date of participant hire, as well as verifying participant investment direction election to the participant's contribution history. We noted during our testing of participant contributions that one of the 25 participants enrolled in the Plan after the 60 calendar days of employment with the State of Colorado. The participant's account balance held at PERA was transferred into the Plan after the participant's election, to begin contributions to the Plan.

We determined that the delay in the transfer of funds from PERA was the result of a recently hired benefits administrator at the Department of Law not distributing the appropriate retirement plan information to the participant in a timely fashion. We found this same problem affected 15 other employees hired in the Department of Law between January 2006 and July 2006. As a result, the participants did not have the allotted 60 calendar days to participate in the selection of a retirement plan. After the Plan Management was alerted to the error, the Plan Attorney was consulted for alternative action. The attorney determined that a date of notice would be given to affected employees, and these employees were given 60 days from the date of notice to select a retirement plan as of November 8, 2006. This participant in our sample enrolled within the 60 calendar days from the date of notice and a complete rollover occurred, transferring all previous contributions to the PERA defined benefit plan to the appropriate bundled service provider. Although we did not test the remaining 15 employees affected by the discrepancy, we confirmed with the Plan Administrator through review of letters presented to the affected employees that these employees received the option to participate in the various retirement plan options as noted above. Additionally during our testing of participant contributions, we noted another one of the 25 participants tested above who was hired in early calendar year 2006 and did not receive credit for the previously withheld contribution to PERA until September 2006. This contribution was for an amount equal to the first month of the participant's fiscal year 2006 contribution. The participant exception noted was the result of the bundled service provider not allocating amounts previously received from PERA to the participant's account until September 2006.

The Department should track the participants' funds throughout the transfer process. Within 60 days of employment commencement, employees that wish to participate in the Plan are required to complete a Retirement Choice Election Form and provide it to their respective payroll office. The respective payroll office reviews the form to ensure it is properly completed and documents its review, including the date received and the date the employee's election was entered into the central payroll system. A copy of this form is then forwarded to PERA. On a daily basis, a selection file that captures these employee elections, based on information entered into the central payroll system, is also sent to PERA. PERA then confirms the employee's election per the selection file with that on the election form that was provided to PERA. Upon confirmation of the employee's choice, PERA begins the 90 day period for when the employee's funds held by PERA are required to be transferred to the Bundled Provider of the employee's choice.

The result of the participant not being able to choose a retirement plan within the normally allotted 60 calendar days or delayed allocation of contributions by the bundled service provider could potentially have affected the investment earnings the participant experienced because the participants did not have timely access to investment options. The Department should ensure all benefit administrators are trained on requirements for employee enrollment in retirement plan options and establish reconciliation procedures between contribution information from participants and information from providers on distribution of participant funds to investment options.

Recommendation No. 1

The Department of Personnel & Administration should improve controls over participant contributions by:

a) Establishing adequate training for benefits administrators and a method of recording the disbursement of Plan information to ensure that all employee retirement plan options are discussed with new employees in a timely manner to ensure employees are given the required 60 day time period to select a retirement plan at the beginning of employment.

b) Department personnel should review the daily employee selection files to identify employees that have elected to participate in the Plan. For those employees that have elected to participate in the Plan, Department personnel should monitor the employee's account maintained by the Bundled Provider of the employee's choice to ensure the employee's funds previously held by PERA are timely posted to the employee's account. Additionally, Department personnel should periodically follow-up with PERA during the 90 day transfer period to ensure that employee funds are timely transferred to the Bundled Provider of the employee's choice. Any delays in the transfer, or discrepancies noted, should be investigated and resolved in a timely manner to ensure that employee funds are timely transferred and posted to the employee's account.

Department's Response

a) Agree. Implementation Date: Implemented

In 2007, the Department established training sessions regarding retirement choice in conjunction with benefits. To date, the Department has provided four of these two-day training sessions, which included 3-hours on retirement choice. Seventy HR Administrators have attended representing all of the Departments and many of the colleges. The Department has limited ability to compel agency staff to attend training, so the understanding of the systems depends on cooperation of the agencies to attend the training DPA provides.

b) Agree. Implementation Date: October 2008

PERA has up to 90 days to transfer assets from a participant who has made a choice within the 60 days but the first and/or second payroll contributions defaulted to PERA. The Department will develop a process to follow up on situations in which employees defaulted to PERA and later selected a State DC Plan provider to help ensure their contributions are transferred timely. The Department will follow up on any discrepancies noted. Additionally, the Department will contact PERA to see if PERA could assist in establishing a more efficient process.

In general, the Department believes that the problems noted here would occur less frequently if the State DC plan was administered by PERA since retirement savings plans are more directly within PERA's core functions and competencies. Further, the State may be needlessly duplicating overhead by having both PERA and DPA administering defined contribution plans. The Department is consulting with the Deferred Compensation Plan Committee and PERA regarding this potential change.

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Disposition of Prior Audit Recommendations

June 30, 2007 and 2006

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2006 included two recommendations. The disposition of these audit recommendations as of September 2007 was as follows:

Recommendation Number	Recommendation	Disposition
1	Perform asset transfer reconciliations in a timely manner.	Deferred. The Department will document the processes and procedures performed to reconcile the transfer of Plan assets when the Plan changes bundled service providers upon the expiration of the current contracts that extend through June 2010. Implementation Date: June 2010
2	Ensure contributions are made timely but preferably as soon as administratively possible.	Implemented. The Department has ensured that adequate back-up support is in place when staff is unavailable to perform a review of the reconciliations between the payroll contributions withheld from participants and the amount recorded by the bundled service providers.

LLP

Independent Accountants' Report on Financial Statements and Supplementary Information

Members of the Legislative Audit Committee

We have audited the accompanying statements of fiduciary net assets of the State of Colorado Public Officials and Employees Defined Contribution Retirement Plan (the Plan) as of June 30, 2007 and 2006, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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 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 Plan.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of June 30, 2007 and 2006, and the changes in its fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2007, 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 audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. 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 audits 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**

December 17, 2007

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Management's Discussion and Analysis
June 30, 2007, 2006 and 2005 (Compiled)

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 Public Officials' and Employees' Defined Contribution Retirement Plan (the Plan). This discussion and analysis should be read in conjunction with the report summary on pages 1-2 and the financial statements, including notes, which begin on page 13.

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 Statement of Fiduciary Net Assets indicates the net assets available to pay future payments and give a snapshot at a particular point in time. The Statement of Changes in Fiduciary Net Assets provides a view of the additions and deductions to the Plan.

Below is a comparison of Fiscal Years 2007, 2006 and 2005 financial activity for the Plan. Specific notable items are as follows:

Financial Highlights

- The ending balance in Cash in Bank and with State Treasurer decreased from about $62,000 in Fiscal Year 2005 to about ($6,200) in Fiscal Year 2006 due to the Plan not receiving administrative fees from the bundled service providers prior to year-end. This same balance increased to about $66,200 in 2007 due to the Department more actively following up with the bundled service providers to help ensure fees were received by June 30, 2007. As indicated in the financial statements, an accounts receivable was recorded for outstanding amounts.

- Plan assets increased from about $8.3 million in 2006 to about $11.5 million in 2007, or a 38% increase from 2006 to 2007. In addition, employer and participant contributions increased about 137% and 139%, respectively, between 2006 and 2007, as a result of increased participation in the Plan. Active participant accounts increased from 264 in 2006 to 579 in 2007, or a 119% increase from 2006 to 2007.

- Operating expenses for the Plan increased from $101,299 in Fiscal Year 2006 to $133,316 in Fiscal Year 2007, or an increase of 32%. This increase was mainly due to an increase in the Plan's personal services expenses related to staff salary increases, a payment for accrued annual and sick leave for a retiring employee, and annual audit fees.

- Operating expenses for the Plan increased from $86,627 in Fiscal Year 2005 to $101,299 in Fiscal Year 2006, or an increase of 17%. This increase due to a Department management decision to allocate Worker's Compensation and Risk Management charges to the Plan beginning in Fiscal Year 2006. This change was made because Department personnel provide administrative support to the Plan. The allocation is proportionate based on the Plan's budget.

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Management's Discussion and Analysis (continued)

June 30, 2007, 2006 and 2005 (Compiled)

Defined Contribution Administration Fund Fiduciary Net Assets

	June 30, 2007	June 30, 2006	June 30, 2005	Percent Change from 2006	Percent Change from 2005
Assets					
Cash in Bank and with State Treasurer	$ 66,235	$ —	$ 61,841	0%	0%
Accounts receivable	161,697	129,999	—	24%	0%
Prepaid expenses	12	—	—	0%	0%
Plan assets	11,527,247	8,344,827	7,119,471	38%	17%
Total assets	11,755,191	8,474,826	7,181,312	39%	18%
Liabilities					
Cash due to State Treasurer	—	6,185	—	0%	0%
Vouchers payable and accrued liabilities	14,933	26,385	373	(43%)	6,974%
Compensated absences – annual and sick leave	925	480	228	93%	111%
Total liabilities	15,858	33,050	601	(52%)	5,399%
Net Assets					
Held in trust for pension benefits and other purposes	11,739,333	8,441,776	7,180,711	39%	18%
Total fiduciary net assets	$ 11,739,333	$ 8,441,776	$ 7,180,711	39%	18%

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Management's Discussion and Analysis (continued)

June 30, 2007, 2006 and 2005 (Compiled)

Defined Contribution Administration Fund Changes in Fiduciary Net Assets

	June 30, 2007	June 30, 2006	June 30, 2005	Percent Change from 2006	Percent Change from 2005
Additions					
Administrative Fees	$ 243,041	$ 129,999	134,645	87%	(3%)
Interest income	94,999	48,351	121,857	96%	60%
Contribution					
Employer	1,887,141	797,098	685,371	137%	16%
Participant	1,488,022	623,447	610,962	139%	2%
Investment gain	1,435,222	578,252	310,587	148%	86%
Total additions	5,148,425	2,177,147	1,863,422	136%	17%
Deductions					
Operations	133,316	101,299	86,627	32%	17%
Participant withdrawals	1,717,552	814,783	1,044,556	111%	(22%)
Total deductions	1,850,868	916,082	1,131,183	102%	19%
Change in Net Assets	$ 3,297,557	$ 1,261,065	732,239	161%	72%

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Statements of Fiduciary Net Assets

June 30, 2007 and 2006

	2007 Pension Trust Fund	2006 Pension Trust Fund
Assets		
Cash in bank and with State Treasurer	$ 66,235	$ -
Accounts receivable	161,697	129,999
Prepaid expenses	12	-
Plan assets	11,527,247	8,344,827
Total assets	11,755,191	8,474,826
Liabilities		
Cash due to State Treasurer	-	6,185
Vouchers payable and accrued liabilities	14,933	26,385
Compensated absences - annual leave and sick leave	925	480
Total liabilities	15,858	33,050
Net Assets		
Held in Trust for pension benefits and other purposes	11,739,333	8,441,776
Total fiduciary net assets	$ 11,739,333	$ 8,441,776

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Statements of Changes in Fiduciary Net Assets

June 30, 2007 and 2006

	2007 Pension Trust Fund	2006 Pension Trust Fund
Additions		
Administrative fees	$ 243,041	$ 129,999
Interest income	94,999	48,351
Contribution		
Employer	1,887,141	797,098
Participant	1,488,022	623,447
Net investment gain	1,435,222	578,252
Total additions	5,148,425	2,177,147
Deductions		
Personal services	94,324	66,950
Workers' compensation and risk management	2,494	1,614
Operating expenses	10,712	911
Indirect cost assessment	2,340	5,369
Administration	11,209	10,110
Legal services	6,292	10,817
Leased space	2,398	-
Fees	3,547	5,528
Participant withdrawals	1,717,552	814,783
Total deductions	1,850,868	916,082
Change in Fiduciary Net Assets	3,297,557	1,261,065
Fiduciary Net Assets, Beginning of Year	8,441,776	7,180,711
Fiduciary Net Assets, End of Year	$ 11,739,333	$ 8,441,776

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Notes to Financial Statements

June 30, 2007 and 2006

Note 1: Plan Description

The State of Colorado Public Officials and Employees Defined Contribution Retirement Plan (the Plan) became effective January 1, 1999. The Plan is authorized by Sections 24-52-201 through 24-52-208, C.R.S. and is governed by the nine-member Deferred Compensation Committee. The state is the sole contributing employer of the Plan.

Prior to January 1, 2006, the following state employees were eligible to participate in the Plan: a member of the general assembly, the Governor, the Lieutenant Governor, the Attorney General, the Chief Deputy Attorney General, the Solicitor General, the Secretary of State, the Deputy Secretary of State, the State Treasurer, the Deputy State Treasurer, any district attorney, any assistant district attorney, any chief deputy district attorney, any deputy district attorney, or other employee of a district attorney, a member of the Public Utilities Commission, an executive director of any department of the State of Colorado appointed by the Governor, an employee of the Senate or the House of Representatives, and a nonclassified employee of the Governor's Office.

After December 31, 2005, in addition to the individuals listed above, any new employee hired in the State of Colorado personnel system is eligible to participate in the defined contribution plan unless the employee is one of the following:

- An employee of a Higher Education Institution,
- A Public Employees Retirement Association (PERA) retiree, who is not an elected official, or
- Has been a member of (PERA) or this defined contribution plan within the prior twelve months.

Notwithstanding these limitations, an employee is eligible to participate in the Plan if they are a PERA retiree serving as a state elected official. Participation in the plan by eligible employees is voluntary; however, if the election to participate is not made within 60 days the employee automatically becomes a member of the Public Employees Retirement Association (PERA) Defined Benefit Plan. At June 30, 2007, the Plan's three Bundled Providers reported a total of 1,237 accounts with 579 individuals actively contributing to the Plan. Contributions to the Plan are set in statute as a percent of salary and are required to be the same as the contributions to the defined benefit plan administered by PERA. Effective July 1, 2005, the state contribution rate was 10.15% and employees are required to contribute 8% of gross covered wages.

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.

Note 2: Summary of Significant Accounting Policies

The accompanying financial statements reflect the financial activities of the Plan and are in conformance with generally accepted accounting principles applicable to governmental units.

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.

The Pension Trust Fund activity is reported on the accrual basis of accounting. Assets of the Plan, which include employer contributions, employee payroll deferrals and the related earnings, are held by the investment companies in the State's name and are recorded at fair value.

Note 3: Cash

The Plan deposits cash with the Colorado State Treasurer as required by Colorado Revised Statutes. The State Treasurer pools these deposits and invests them in securities in accordance with Section 24-75-601.1, C.R.S. The Plan reports its share of the Treasurer's unrealized gains/losses on the basis of its participation in the State Treasurer's pool. During the years ended June 30, 2007 and 2006, the Plan's share of unrealized gain (losses) were $411 and $0. All of the Treasurer's investments are reported at fair value, which is determined based quoted on market prices at year end. The State Treasurer does not invest any of the pool in any external investment pool, and there is no assignment of income related to participation in the pool. Additional information on the Treasurer's pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report.

Note 4: Investments

The Plan holds investments for its participants. These investments, which total $11,527,247 and $8,344,827 for June 30, 2007 and 2006, respectively, are recorded within the Pension Trust Fund at fair value. As of June 30, 2007, the Plan had $2.7 million of the $11.5 million invested in debt instruments, specifically bond mutual funds.

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.

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 $2.7 million invested in debt instruments are unrated. The Deferred Compensation Committee does not actively manage credit quality risk for the Plan except through its mutual fund selection process.

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. As of June 30, 2007 the Plan's investments in debt instruments, $2.7 million, had an average duration of 4.4 years. The Deferred Compensation Committee does not actively manage interest rate risk for the Plan except through its mutual fund selection process.

Note 5: Fees

In accordance with Section 24-52-203(9)(a), the Plan assesses each provider a fee for the actual and reasonable costs of administering the Plan. For Fiscal Years 2007 and 2006, this fee was $43,333 and $39,397 respectively, per each provider. Revenue for this fee is recorded in the Administration Pension Trust Fund and deposited with the State Treasurer.

Each participant is charged a quarterly investment management fee by the provider for the management of its investment funds. These fees range from 0.30% to 1.70% of the participant's account balance.

Note 6: Other Pension Plans

Plan Description

All of the Department's employees, hired prior to January 1, 2006, participate in the Public Employees' Retirement Association (PERA) 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 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 an actuarial assessment and legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at P.O. Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting www.copera.org.

Employees of the State Personnel System (excluding those employed at Higher Education Institutions) hired by the state after January 1, 2006, are allowed 60 calendar days from date of hire to elect to participate in either a defined contribution retirement plan administered by the State's Deferred Compensation Committee (State DC Plan), or a defined contribution retirement plan administered by PERA (PERA DC Plan) or the defined benefit retirement plan administered by PERA (PERA DB Plan). If no election is made, the employee becomes a member of the PERA DB Plan.

Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan, or the institution's optional retirement plan. Based on the 2006 legislation, higher education employees hired on or after January 1, 2008, would have had the additional option of participating in the state's defined contribution plan or PERA's defined contribution plan. However 2007 legislation repealed that decision for the 4-year colleges, but allowed retirement choice between the two PERA plans for employees of the community colleges. These plans are discussed in further detail below.

Employees electing either of the PERA retirement plans are allowed a one-time irrevocable election between the second and fifth year of employment to switch between the two plans. For those employees who switch from the PERA DC Plan to the PERA DB Plan, they may utilize their account balance to purchase service in the DB Plan once they have completed one year of service under the DB Plan. Employer contributions to both the State DC Plan and the PERA DC Plan are the same as the contributions to the PERA DB Plan, as defined in statute. Employee contributions are 100% vested for the State DC Plan. The PERA plans each have a graduated scale where vesting is 100% after five years. Vesting means the amount the employee owns or is eligible for at termination of employment or retirement.

Defined benefit plan members (except state troopers) vest after five years of service and are eligible for full retirement based on their original hire date as follows:

- Hired before July 1, 2005 - age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired on or after January 1, 2007 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service.

Members are also eligible for retirement benefits without a reduction for early retirement based on their original hire date as follows:

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- Hired on or after January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more.

State troopers and judges 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.

Members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5% times the number of years of service times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit and limited to a 15% increase between periods. For retirements after January 1, 2009 or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

Retiree benefits are increased annually based on the participant's original hire date as follows:

- Hired before July 1, 2005 – 3.5%, compounded annually.
- Hired between July 1, 2005 and December 31, 2006 – the lesser of 3% or the actual increase in the national Consumer Price Index.
- Hired on or after January 1, 2007 – the lesser of 3% or the actual increase in the national Consumer Price Index, limited to a 10% reduction in a reserve established for cost of living

increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 percent of the employer contributions for this population.)

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

For those employees who choose the State DC Plan they are immediately 100% vested with the first payroll contribution. At any time that they terminate employment, they may take a distribution of the full account balance subject to applicable taxes, early withdrawal penalties and market fluctuations.

For those employees who choose the PERA DC Plan they are immediately vested for the employee portion of the contribution and 50% vested for the employer contribution for the first year and 10% each year thereafter until they reach 5 years of service or 100% for the employer contribution. At any time that they terminate employment, they may take a distribution of the full account balance subject to the vesting schedule, applicable taxes, early withdrawal penalties and market fluctuations.

Funding Policy

The contribution requirements of 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% (10.0% for state troopers) of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2006, to December 31, 2006, the state contributed 10.65% (13.35% for state troopers and 14.16% for the Judicial Branch) of the employee's salary. From January 1, 2007, through June 30, 2007, the state contributed 11.15% (13.85% for state troopers and 14.66% for the Judicial Branch). During all of Fiscal Year 2006-07, 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 division of PERA in which the state participates was under-funded 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, the general assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one-half percentage point of total salaries paid beginning January 1, 2008. The SAED is scheduled to increase by one-half percentage point through 2013 resulting in a cumulative increase of three percentage points. For state employers, each year's one-half percentage point increase in the SAED will be deducted from the amount of changes to state employees' salaries, and used by the employer to pay the SAED. Both the AED and SAED will terminate when funding levels reach 100%.

Historically members have been allowed to purchase service credit at reduced rates. However, legislation passed in the 2006 session required, that future agreements to purchase service credit be sufficient to fund the related actuarial liability.

The Plan's contributions to the Defined Benefit Plan and the Health Care Trust Fund for the fiscal years ending June 30, 2007 and 2006 and were $7,972, and $8,820, respectively. These contributions met the contribution requirement for each year.

Voluntary Tax Deferred Retirement Plans

PERA offers a voluntary 401(k) plan separate from the defined benefit pension plan and defined contribution retirement plan. The state offers a voluntary supplemental 457 deferred compensation plan separate from the State's defined contribution retirement plan. Certain agencies and institutions of higher education of the state offer a 403(b) or 401(a) plans.

Note 7: 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. Effective July 1, 2000, the maximum monthly subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not eligible for Medicare; and $115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5% for each year of service less than 20 years.

The Health Care Trust Fund is maintained by an employer's contribution as discussed above in Note 3.

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 benefit plans, and another carrier for prescription benefit plans, and with several health maintenance organizations providing services within Colorado. As of December 31, 2006, there were 42,433 enrollees in the plan.

Life Insurance Program

During Fiscal Year 2006-07, PERA provided its members access to a group decreasing term life insurance plan offered by UnumProvident in which 41,101 members participated. Active members may join the UnumProvident Plan and continue coverage into retirement. Premiums are collected by monthly payroll deductions or other means. In addition, PERA maintained coverage for 12,790 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.

Supplementary Information

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Combining Statement of Fiduciary Net Assets

June 30, 2007

	Fiduciary Fund Type		
	Pension Trust Funds		
	Administration (Appropriated)	Defined Contribution Plan (Non-appropriated)	Total
Assets			
Cash in bank and with State Treasurer	$ 66,235	$ -	$ 66,235
Accounts receivable	161,697	-	161,697
Prepaid expenses	12	-	12
Plan assets	-	11,527,247	11,527,247
Total assets	227,944	11,527,247	11,755,191
Liabilities			
Vouchers payable and accrued liabilities	14,933	-	14,933
Compensated absences - annual leave and sick leave	925	-	925
Total liabilities	15,858	-	15,858
Net Assets			
Held in Trust for pension benefit and other purposes	212,086	11,527,247	11,739,333
Total fiduciary net assets	$ 212,086	$ 11,527,247	$ 11,739,333

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Combining Statement of Changes in Fiduciary Net Assets

Year Ended June 30, 2007

	Pension Trust Funds		
	Administration (Appropriated)	Defined Contribution Plan (Non-appropriated)	Total
Additions			
Administrative fees	$ 243,041	$ -	$ 243,041
Interest income	1,865	93,134	94,999
Contribution			
Employer	-	1,887,141	1,887,141
Participant	-	1,488,022	1,488,022
Net investment gain	-	1,435,222	1,435,222
Total additions	244,906	4,903,519	5,148,425
Deductions			
Personal services	94,324	-	94,324
Workers' compensation and risk management	2,494	-	2,494
Operating expenses	10,712	-	10,712
Indirect cost assessment	2,340	-	2,340
Administration	11,209	-	11,209
Legal services	6,292	-	6,292
Leased space	2,398	-	2,398
Fees	-	3,547	3,547
Participant withdrawals	-	1,717,552	1,717,552
Total deductions	129,769	1,721,099	1,850,868
Change in Fiduciary Net Assets	115,137	3,182,420	3,297,557
Fiduciary Net Assets, Beginning of Year	96,949	8,344,827	8,441,776
Fiduciary Net Assets, End of Year	$ 212,086	$ 11,527,247	$ 11,739,333

State of Colorado Public Officials and Employees
Defined Contribution Retirement Plan

Combining Statement of Fiduciary Net Assets

June 30, 2006

	Fiduciary Fund Type		
	Pension Trust Funds		
	Administration (Appropriated)	Defined Contribution Plan (Non-appropriated)	Total
Assets			
Cash in bank and with State Treasurer	$ -	$ -	$ -
Accounts receivable	129,999	-	129,999
Plan assets	-	8,344,827	8,344,827
Total assets	129,999	8,344,827	8,474,826
Liabilities			
Cash due to State Treasurer	6,185	-	6,185
Vouchers payable and accrued liabilities	26,385	-	26,385
Compensated absences - annual leave and sick leave	480	-	480
Total liabilities	33,050	-	33,050
Net Assets			
Held in Trust for pension benefit and other purposes	96,949	8,344,827	8,441,776
Total fiduciary net assets	$ 96,949	$ 8,344,827	$ 8,441,776

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Combining Statement of Changes in Fiduciary Net Assets

Year Ended June 30, 2006

	Pension Trust Funds		
	Administration (Appropriated)	Defined Contribution Plan (Non-appropriated)	Total
Additions			
Administrative fees	$ 129,999	$ -	$ 129,999
Interest income	1,481	46,870	48,351
Contribution			
Employer	-	797,098	797,098
Participant payroll deferral	-	623,447	623,447
Net investment gain	-	578,252	578,252
Total additions	131,480	2,045,667	2,177,147
Deductions			
Personal services	66,950	-	66,950
Workers' compensation and risk management	1,614	-	1,614
Operating expenses	911	-	911
Indirect cost assessment	5,369	-	5,369
Administration and communication	10,110	-	10,110
Legal services	10,817	-	10,817
Asset fees	-	5,528	5,528
Participant withdrawals	-	814,783	814,783
Total deductions	95,771	820,311	916,082
Change in Fiduciary Net Assets	35,709	1,225,356	1,261,065
Fiduciary Net Assets, Beginning of Year	61,240	7,119,471	7,180,711
Fiduciary Net Assets, End of Year	$ 96,949	$ 8,344,827	$ 8,441,776

BKD LLP

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 Public Officials and Employees Defined Contribution Retirement Plan (the Plan) as of and for the year ended June 30, 2007, and have issued our report thereon dated December 17, 2007. 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 Controls over Financial Reporting

In planning and performing our audit, we considered the Plan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Plan's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Plan's financial statements that is more than inconsequential will not be prevented or detected by the Plan's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Plan's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 in the Description of Audit Findings and Recommendations section of this report.

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

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

/s/ **BKD, LLP**

December 17, 2007

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 Public Officials and Employees Defined Contribution Retirement Plan (the Plan) as of and for the year ended June 30, 2007, 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 2 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 the following:

- For an employee that made initial contributions to PERA and then subsequently elected to participate in the Plan, a substantial delay was noted between the time when the employee elected to participate in the Plan and the time when the employee's PERA account was transferred and posted to the employee's account within the Plan. The effect of the uncorrected misstatements, had they been recorded, would have been to decrease the Plan's contributions by $5,063 for the year ended June 30, 2007, and increase the Plan's fiduciary net assets by $5,063 at June 30, 2007.

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

/s/ **BKD, LLP**

December 17, 2007

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

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