State of Colorado Deferred Compensation Plan

Accountants' Report and Financial Statements

June 30, 2008 and 2007

LEGISLATIVE AUDIT COMMITTEE

2009 MEMBERS

Representative Dianne Primavera
Chair

Senator David Schultheis
Vice-Chair

Senator Jim Isgar
Representative James Kerr
Representative Frank McNulty
Representative Joe Miklosi
Senator Shawn Mitchell
Senator Lois Tochtrop

Office of the State Auditor Staff

Sally Symanski
State Auditor

Dianne Ray
Deputy State Auditor

Pooja Tulsian
Legislative Auditor

BKD, LLP
Contract Auditor

State of Colorado Deferred Compensation Plan

June 30, 2008 and 2007

Contents

State of Colorado
Deferred Compensation Plan
Report Summary
June 30, 2008 and 2007

Purposes and Scope of Audit

The purposes and scope of this audit:

- 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, 2008, 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, 2008.

- 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 external auditor did not receive the initial draft of the Plan's financial statements from the Department of Personnel & Administration (the Department) until November 21, 2008, which was subsequent to the October 31, 2008 deadline for the external auditor to issue their financial and compliance audit report.

- The Department did not properly record certain transactions within the Plan's general ledger and, as a result, the external auditor proposed, and the Department recorded, journal entries considered necessary to materially present the Plan's financial statements in accordance with accounting principles generally accepted in the United States of America.

Summary of Progress in Implementing Prior Audit Recommendations

The report for the year ended June 30, 2007, which is dated December 17, 2007, except for Note 8 as to which the date is February 3, 2008, included five recommendations. Two recommendations were implemented and three recommendations are partially implemented.

The report for the year ended June 30, 2007, also noted four recommendations from the audit for the year ended June 30, 2006, that were not fully implemented during Fiscal Year 2007. These four recommendations are partially implemented, of which, three of these recommendations are included in the three partially-implemented recommendations noted in the preceding paragraph.

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, 2008 and 2007, 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. We did identify deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses as defined below.

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.

Significant Audit Adjustments

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

- The Plan's distributions and contributions were overstated by $9,998,595. This was adjusted to correct the distributions and contributions.
- The Plan's expenses and contributions were overstated by $206,969, which was the total amount of administrative fees withheld from participant accounts during Fiscal Year 2008. An adjustment was made to correct this.
- The Plan's investment loss and contributions were overstated by $514,010, which was the total amount of 12b-1 fees received by the Plan during fiscal 2008. This was corrected through an adjustment.
- At June 30, 2008, the Department recorded a $165,000 receivable and related transfer from the Plan's Deferred Compensation Plan Pension Trust Fund on the Plan's Administration Pension Trust Fund's general ledger; however, the Department did not record a

corresponding $165,000 payable and related transfer to the Plan's Administration Pension Trust Fund on the Plan's Deferred Compensation Pension Trust Fund's general ledger. This was adjusted.

The effect of the corrected misstatements was to decrease the Plan's participant contributions by $10,719,574, participant withdrawals by $9,998,595, administrative fees by $206,969 and net investment loss by $514,010, and to increase the Plan's accounts payable by $165,000 and other uses by $165,000.

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

- Per the Plan Document, delinquent participant loans that are not paid up-to-date by the end of the calendar quarter after the calendar quarter in which a payment is first delinquent will be in default and considered a "deemed distribution" and reported to the Internal Revenue Service as income to the participant.

The effect of the uncorrected misstatements, had they been recorded, would have been to decrease the Plan's participant withdrawals by $86,000 and $13,000 for the years ended June 30, 2008 and 2007, respectively, and decrease accounts receivable by $86,000 at June 30, 2007.

State of Colorado
Deferred Compensation Plan
Recommendation Locator
Year Ended June 30, 2008

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
1	9	The Department did not provide the initial draft of the financial statements in a timely manner.	Agree	September 2009
2	9	The Department of Personnel and Administration should thoroughly review the Plan's investment statements prepared by Great-West to ensure the Plan's assets, and changes therein, are properly recorded within the Plan's general ledger. Additionally, the Department should establish accounting procedures to ensure that transfers between the Plan's administration fund and benefit trust are properly recorded within the Plan's general ledger.	Agree	July 2009

State of Colorado
Deferred Compensation Plan
Description of the Plan
June 30, 2008 and 2007

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.

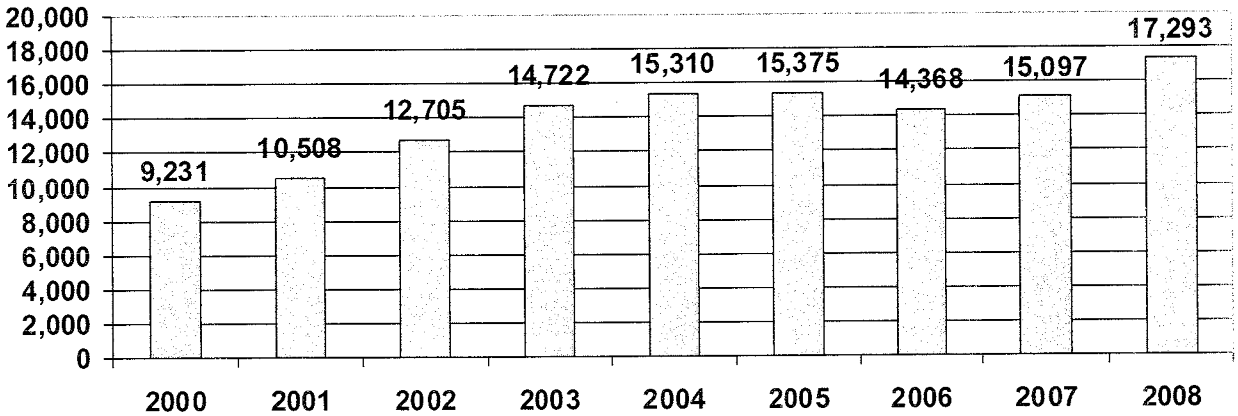
The Committee is staffed by the Employee Benefits Unit within the Department of Personnel & Administration (the Department). Statutory authority for the Plan and Deferred Compensation Committee is referenced in Sections 24-52-101 to 24-52-105, C.R.S. The record keeper for the Plan for Fiscal Year 2008 is Great-West Retirement Services (Great-West).

The Plan added a 401(a) defined contribution match plan in January 2001 to accept the employer match, made possible by the Public Employees Retirement Association (PERA). The 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 percent 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, Fiscal Year 2006 shows a decline in participation caused by the enacted forced distributions described below, and then total participation increased through Fiscal Year 2008. The increase in participation for Fiscal Years 2001 through 2005 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 Fiscal Year 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. The increase in participation for Fiscal Years 2007 and 2008 is due to school districts being allowed to participate in the Plan effective January 1, 2006, including Jefferson County School District with 733 and 506 participants in the Plan at June 30, 2007 and 2008, respectively.

457 PLAN PARTICIPANTS

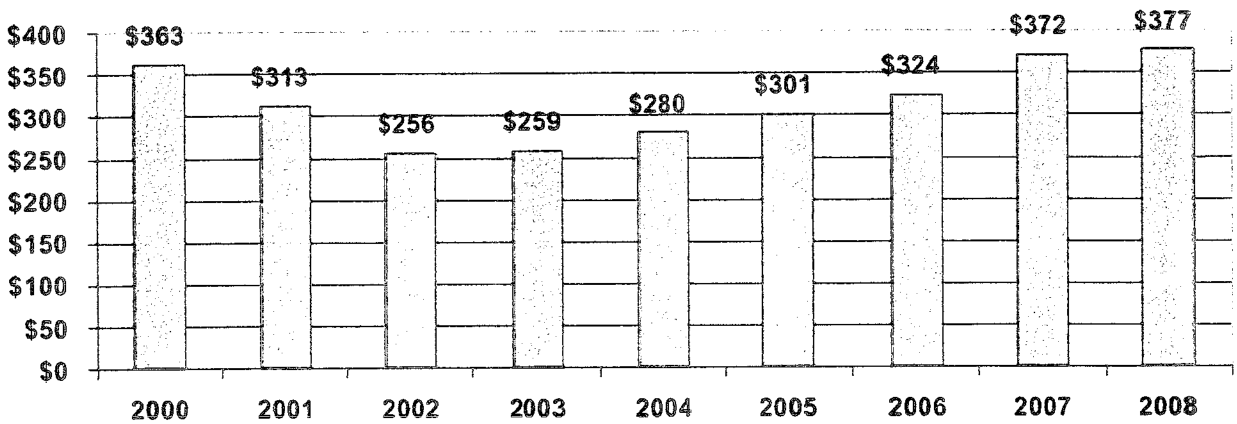


Source: 2000-2008 Great-West Retirement Services

As shown in the chart below, the Plan's assets have increased from a low of $256 million as of June 30, 2002, to $377 million as of June 30, 2008. The increase in assets is attributable to the participation by school districts beginning January 1, 2006, as well as 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 from 2005 through 2008 is attributable to increased participation and net 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, 2008.

457 PLAN ASSETS

(In millions)



Source: 2000-2008 Great-West Retirement Services

Administrative Fee

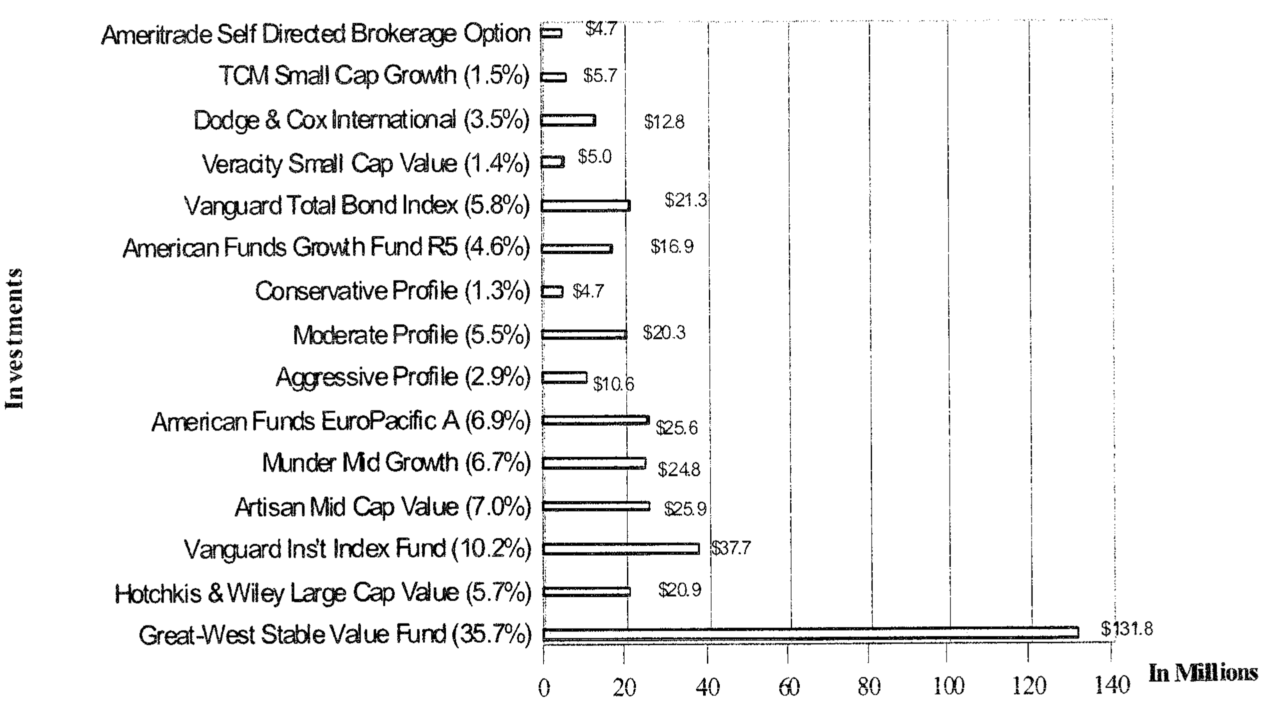
The Plan's Committee continues to review the administrative fee on an annual basis in conjunction with the Department of Personnel & Administration's financial services staff, who annually prepares a cost analysis based on current costs of the Plan and makes projections for future years. Recommendations 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 administrative fee based on the analysis.

After the first year of this contract with Great-West, which began July 1, 2005, the fee schedule was reviewed. Due to the excess of fund balance, as a result of the previous five-year contract with Great-West, the Committee reduced the administrative fee from $20 to $0 for Fiscal Year 2007. Since the excess fund balance resulted from participants' investments and fees associated with those investments, the Plan's Committee determined that the excess fund balance could be used to cover operational costs and that it was unnecessary to charge participants an administrative fee. Since the fund balance was not reduced sufficiently in Fiscal Year 2007, the decision for Fiscal Year 2008 was to continue not charging participants an administrative fee in an effort to reduce the fund balance to the agreed-upon amount.

Plan Investment Options

The Plan offers participants the opportunity to invest in 15 different investment options from ten companies. The Plan added a self-directed brokerage option in 2001. 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, 2008. 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.

Distribution of Plan Assets



The total Plan assets, shown in the above graph, do not include purchased annuities of $4.9 million. See Note 2 of the financial statements.

State of Colorado
Deferred Compensation Plan
Description of Audit Findings and Recommendations
June 30, 2008

Financial Reporting

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.

The external auditors discussed the proposed timeline for the Fiscal Year 2008 audit with the Department staff at the entrance conference. Specifically, the financial statements would be provided by the Department by mid-September; however, the Department did not provide the initial draft of the financial statements until November 12, 2008. This caused a delay in the external auditors' ability to meet their contractual obligations with the Office of the State Auditor.

Though substantially all of the audit test-work was completed by October 31, the reporting process and issuance of the financial and compliance audit report extended well past the deadline.

Recommendation No. 1

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's Response

Agree. Implementation Date: September 2009

The Department was in a staffing transition during this audit, which included a new staff accountant and a new Department Controller. The Department would like to note delays in receiving audit comments from the auditors.

General Ledger Trial Balance Adjustments

The Department obtains investment statements, which detail the Plan's assets, contributions, distributions, investment gains/losses, etc., from Great-West and records the Plan's activity in the general ledger based on these investment statements. However, we noted certain errors with respect to the Department's recording of the Plan's assets, expenses, contributions, investment gains/losses and inter-fund transfers, which are more fully described below:

Overstatement of Distributions and Contributions

During Fiscal Year 2008, Great-West changed its reporting process, consolidating all assets and related activity of all participating employers into one investment statement. The Department would record the activity from the consolidated statement. Prior to this change, the Department recorded the plan assets related to the Jefferson County School District (the District) employees separately from the other plan assets. The consolidation of the District's plan assets was reflected as a distribution on the District's statement and as a contribution on the Plan's consolidated statement. When the Department adjusted the Plan's general ledger based on both the District's and Great-West's consolidated statements, both distributions and contributions were overstated by $9,998,595. The Department recorded a reclassification entry to reduce both distributions and contributions by $9,998,595. This reclassification entry had no effect on the change in the Plan's fiduciary net assets for Fiscal Year 2008.

Overstatement of Contributions and Expenses

Under Senate Bill 07-156 (SB 07-156), the Committee may assess each participant a fee for administering the Plan. During Fiscal Year 2008, the total fees assessed to each participant ($206,969) were held in the Plan's fund within the benefit trust, which is included along with participant statements within the Plan's investment statements prepared by Great-West. These fees are reported on the statement as a Plan expense when deducted from each participant's account and as a contribution when the fees are deposited into the fund. The Department adjusted the Plan's general ledger based on total participants and the Plan's investment statements, resulting in overstating Plan expenses and contributions by $206,969. The Department corrected the overstatements. This reclassification entry had no effect on the change in the Plan's fiduciary net assets for Fiscal Year 2008.

Overstatement of Investment Loss

Under the Plan's "457 Plan Record keeper Contract" with Great-West, any fees charged by the investment companies to cover promotion, distributions, marketing expenses, and sometimes commissions to brokers (12b-1 fees) shall be remitted to the Department on a quarterly basis. . These fees are deducted from participant accounts and are recorded against the Plan's investment income on the statements prepared by Great-West. During Fiscal Year 2008, the total quarterly 12b-1 fees reimbursed to the Plan of $514,010 were deposited into the Plan's fund within the benefit trust and were reflected as contributions on the Plan's investment statements. When the Department adjusted the Plan's general ledger based on the total of participants and the Plan's investment statements, contributions were overstated by $514,010 and the Plan's investment loss was overstated by $514,010. The Department recorded a reclassification entry to decrease the Plan's investment loss, and decrease the Plan's contributions by $514,010. This reclassification entry had no effect on the change in the Plan's fiduciary net assets for Fiscal Year 2008.

Overstatement of Assets

The fees collected pursuant to SB 07-156 and the 12b-1 reimbursements may be used to pay direct and indirect costs of the administration of the Plan. During Fiscal Year 2008, in connection with the closing of the Plan's general ledger for Fiscal Year 2008, the Department appropriately recorded a liability for recordkeeping expenses owed to Great-West for the quarter-ended June 30, 2008; however, this resulted in a deficiency in the Plan's administration fund. Therefore, on the Plan's administration fund general ledger, the Department appropriately recorded a receivable of $165,000, and a corresponding inter-fund transfer-in, from the Plan's fund in the benefit trust, however, on the Plan's fund in the benefit trust general ledger, the Department did not record a corresponding liability and inter-fund transfer-out to the Plan's administration fund. The

Department recorded an adjusting entry to record a liability of $165,000, and a corresponding inter-fund transfer-out, on the Plan's fund in the benefit trust general ledger. This adjusting entry decreased the Plan's fiduciary net assets as of Fiscal Year-End 2008 by $165,000 or 0.04 percent.

Recommendation No. 2

The Department of Personnel and Administration should thoroughly review the Plan's investment statements prepared by Great-West to ensure the Plan's assets, and changes therein, are properly recorded within the Plan's general ledger. Additionally, the Department should establish accounting procedures to ensure that transfers between the Plan's administration fund and benefit trust are properly recorded within the Plan's general ledger.

Department's Response

Agree. Implementation Date: July 2009

The Department will review Great-West statements and develop procedures to ensure that assets and transfers are properly recorded.

State of Colorado
Deferred Compensation Plan
Disposition of Prior Audit Recommendations
June 30, 2008 and 2007

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2007 included five recommendations. The disposition of these audit recommendations as of December 18, 2008 was as follows:

Recommendation Number	Recommendation	Disposition
1	The Department should implement controls to ensure that participant contributions are calculated on eligible compensation, as defined in the Plan Document. Additionally, the Department should consult with legal counsel to determine the appropriate action, if any, that should be taken with regard to correcting the errors in participant contributions withheld from employee pay and take actions to correct relevant participant accounts as deemed necessary.	Implemented.
2	The Department should implement the necessary controls to ensure that all Plan assets are properly recorded in the Plan's financial statements, including developing a process for statewide reconciliations of Plan contributions and reviewing Great-West's processes for recording the Plan assets of other participating employers.	Partially Implemented. A process has been developed to receive employee contribution information from all participating employers on a monthly basis. In addition, it is now required, as part of an employer's participation in the Plan, to utilize the "Plan Service Center" maintained by Great-West in order to accurately reflect all Plan assets. Implementation Date: July 1, 2009
3	The Department should implement controls to ensure all non-termination participant distributions processed by Great-West are in accordance with approved distribution request.	Implemented.

State of Colorado
Deferred Compensation Plan
Disposition of Prior Audit Recommendations (continued)
June 30, 2008 and 2007

Recommendation Number	Recommendation	Disposition
4	The Department should ensure adequate documentation is maintained to support participant contribution elections by performing the following:	
	a) Continue to train the payroll officers of the various State agencies and the payroll departments of the various other participating employers on the established procedures for changing participant contribution elections and the required documentation to be maintained for pre-approved election changes.	a) Implemented.
	b) Conducting periodic audits to determine if amounts contributed are supported by documentation at Great-West and, in instances where discrepancies are identified, performing follow-up as appropriate.	b) Partially Implemented. In conjunction with 2007 Recommendation #2, contributions are reviewed on a quarterly basis effective with 4th quarter 2008 data. Implementation Date: July 1, 2009
	c) Following-up on and resolving the five contribution amounts identified during the audit that did not have adequate supporting documentation.	c) Implemented.

State of Colorado
Deferred Compensation Plan
Disposition of Prior Audit Recommendations (continued)
June 30, 2008 and 2007

Recommendation Number	Recommendation	Disposition
5	The Department should adjust distributions from the Plan for defaulted loans when the loan default occurs and work with Great-West to develop a reconciliation process for defaulted loans.	Partially Implemented. The Department utilizes the quarterly default loan report to provide an additional communication to the participant whose loan may end-up in default. The Department researches the reason for missed loan payments and works with the agency payroll or personnel office to inform the employee of the options to repay the loan timely. Implementation Date: July 1, 2009

Comments from the June 30, 2006 audit that were not fully implemented during Fiscal Year 2007 and the disposition of these audit recommendations as of December 18, 2008 was as follows:

Recommendation Number	Recommendation	Disposition
1	Distribute excess participant contributions within prescribed time constraints.	Partially Implemented. The Department still relies on a system edit in central payroll to prevent any excess contributions for those employees paid through central payroll. For those employees paid through the payroll system at other participating employers, the Department reviews the excess contributions report from Great-West annually and follow up with appropriate staff at the other payroll locations to ensure excess contributions to the Plan are disbursed timely. Implementation Date: July 1, 2009

Wells Fargo Center
1700 Lincoln Street, Suite 1400
Denver, CO 80203-4514
303.861.4545 Fax 303.832.5705 www.bkd.com

Independent Accountants' Report on Financial Statements and Supplementary Information

Members of the Legislative Audit Committee
Denver, Colorado

We have audited the accompanying statements of fiduciary net assets of the State of Colorado Deferred Compensation Plan (the Plan) as of June 30, 2008 and 2007, 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 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, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Colorado Deferred Compensation Plan as of June 30, 2008 and 2007, and its 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 18, 2008, 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 Plan's 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 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.

BKD, LLP

December 18, 2008

State of Colorado
Deferred Compensation Plan
Management's Discussion and Analysis
June 30, 2008, 2007, and 2006

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 Description of the Plan on pages 5–8 and the financial statements, including notes, which begin on page 22.

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

There are two financial statements presented for fiduciary funds. The Statements of Fiduciary Net Assets indicate the net assets available to pay future payments and give a snapshot at a particular point in time. The Statements of Changes in Fiduciary Net Assets provide a view of the additions and deductions to the Plan.

Below is a comparison of Fiscal Years' 2006, 2007, and 2008 financial activity for the Plan. Specific notable items are as follows:

Financial Highlights

Plan assets decreased by \$3.4 million or 1 percent from 2007 to 2008 due to deteriorating economic conditions, which was partially offset with increased participation in the Plan and a decrease in participant withdrawals. The Plan experienced a \$75.2 million or 223 percent decrease in net investment gain, excluding interest and dividend income, from 2007 to 2008 due to deteriorating economic conditions. Plan assets increased \$55.5 million or 17 percent from 2006 to 2007 due to increased participation in the Plan and improved economic conditions, coupled with a decrease in participant withdrawals. The Plan experienced a \$24.4 million or 263 percent increase in net investment gain, excluding interest and dividend income, from 2006 to 2007 due to improved economic conditions.

Interest and dividend income increased by \$5.9 million or 43 percent from 2007 to 2008 due to continued growth in the number of Plan participants and, as a result of deteriorating economic conditions, changes in the composition of plan assets. Interest and dividend income increased by \$0.9 million or 7 percent from 2006 to 2007 due to increased participation in the Plan.

Participant contributions increased by \$4.9 million or 12 percent from 2007 to 2008 due to increased participation in the Plan. Participant contributions increased \$3.8 million or 10 percent from 2006 to 2007 due to increased participation in the Plan, including a full year of participation by employees of the Jefferson County School District and related rollovers from previous plans.

Participant withdrawals decreased by \$4.9 million or 16 percent from 2007 to 2008 due to a decrease in the number of employee terminations. Participant withdrawals decreased by \$5.3 million or 14 percent from 2006 to 2007 due to the increased cost to purchase PERA Service Credits.

Accounts receivable increased 12 percent from 2007 to 2008 and 16 percent from 2006 to 2007 due to an increase in the number and average amount of loans. At June 30, 2008, 2007, and 2006, the outstanding loans receivable totaled $3,497,202, $2,876,241, and $2,446,992, respectively. Specifically, the number of loans increased from 908 in 2006 to 1,112 in 2007, and to 1,247 in 2008. In addition, the average loan amount in 2006 was $2,695 as compared to $2,587 in 2007 and $2,804 in 2008.

Operations and administrative fee deductions increased from 2007 to 2008 by $183,103 or 20 percent due to increased participation in the Plan and one-time fees incurred for the performance audit of $57,782, coupled with a decrease in personal services as a result of administrative staff vacancies and changes. Operations and administrative fee deductions decreased from 2006 to 2007 by $27,491 or 3 percent due to fewer minimum distributions to participants.

Deferred Compensation Plan Condensed Statement of Fiduciary Net Assets

	June 30, 2008	June 30, 2007	June 30, 2006	Percentage Change from 2007 - 2008	Percentage Change from 2006 - 2007
Assets					
Cash in bank with state treasurer and other assets	$ 107,841	$ 827,859	$ 831,708	-87%	0%
Accounts receivable	3,497,202	3,129,630	2,700,102	12%	16%
Plan assets	374,082,851	377,442,949	321,953,636	-1%	17%
Total assets	377,687,894	381,400,438	325,485,446	-1%	17%
Liabilities					
Vouchers payable and accrued liabilities	200,646	209,317	226,039	-4%	-7%
Compensated absences - annual and sick leave	9,803	9,308	8,473	5%	10%
Total liabilities	210,449	218,625	234,512	-4%	-7%
Net Assets					
Held in trust for pension benefits and other purposes	377,477,445	381,181,813	325,250,934	-1%	17%
Total fiduciary net assets	$ 377,477,445	$ 381,181,813	$ 325,250,934	-1%	17%

State of Colorado
Deferred Compensation Plan
Management's Discussion and Analysis (continued)
June 30, 2008, 2007, and 2006

Deferred Compensation Plan Condensed Statement of Changes in Fiduciary Net Assets

	June 30, 2008	June 30, 2007	June 30, 2006	Percentage Change from 2007 - 2008	Percentage Change from 2006 - 2007
Additions					
Interest and dividend income	$ 19,536,785	$ 13,654,093	$ 12,745,858	43%	7%
Contributions					
Participant payroll deferrals	46,174,583	41,229,420	37,389,921	12%	10%
Net investment gain (loss)	(41,477,348)	33,726,496	9,287,479	-223%	263%
Other revenue	2,000	500	-	300%	100%
Total additions	24,236,020	88,610,509	59,423,258	-73%	49%
Deductions					
Operations	1,006,865	875,499	868,152	15%	1%
Administrative fees	106,690	54,953	89,791	94%	-39%
Participant withdrawals	26,826,833	31,749,178	37,010,055	-16%	-14%
Total deductions	27,940,388	32,679,630	37,967,998	-15%	-14%
Change in Fiduciary Net Assets	$ (3,704,368)	$ 55,930,879	$ 21,455,260	-107%	161%

Below is a comparison of the 2008 Budget to Actual Operation Deductions:

	Budget	Actual	Over/(Under)
Comparison of Fiscal Year 2008 Budget to Actual Deductions			
Personal services	$ 126,952	$ 126,952	$ -
Workers' compensation and risk management	4,272	4,272	-
Operating expenses	20,945	17,087	(3,858)
Indirect cost assessment	13,611	13,611	-
Administration and communication	772,000	766,475	(5,525)
Leased space	9,557	9,552	(5)
Legal services	11,134	11,133	(1)
Performance audit	90,000	57,783	(32,217)
Total	$ 1,048,471	$ 1,006,865	$ (41,606)

State of Colorado
Deferred Compensation Plan
Statements of Fiduciary Net Assets
June 30, 2008 and 2007

	2008 Pension Trust Fund	2007 Pension Trust Fund
Assets		
Cash in bank with state treasurer	$ 107,841	$ 827,836
Accounts receivable	3,497,202	3,129,630
Prepaid expenses	-	23
Plan assets	374,082,851	377,442,949
Total assets	377,687,894	381,400,438
Liabilities		
Vouchers payable and accrued liabilities	200,646	209,317
Compensated absences - annual leave and sick leave	9,803	9,308
Total liabilities	210,449	218,625
Net Assets		
Held in trust for pension benefits and other purposes	377,477,445	381,181,813
Total fiduciary net assets	$ 377,477,445	$ 381,181,813

State of Colorado
Deferred Compensation Plan
Statements of Changes in Fiduciary Net Assets
Years Ended June 30, 2008 and 2007

	2008 Pension Trust Fund	2007 Pension Trust Fund
Additions		
Interest and dividend income	$ 19,536,785	$ 13,654,093
Contributions		
Participant payroll deferrals	46,174,583	41,229,420
Net investment gain (loss)	(41,477,348)	33,726,496
Other revenue	2,000	500
Total additions	24,236,020	88,610,509
Deductions		
Personal services	126,952	140,803
Workers' compensation and risk management	4,272	4,995
Operating expenses	17,087	10,855
Indirect cost assessment	13,611	21,406
Administration and communication	766,475	680,373
Leased space	9,552	4,793
Legal services	11,133	12,274
Performance audit	57,783	-
Administrative fees	106,690	54,953
Participant withdrawals	26,826,833	31,749,178
Total deductions	27,940,388	32,679,630
Change in Fiduciary Net Assets	(3,704,368)	55,930,879
Fiduciary Net Assets, Beginning of Year	381,181,813	325,250,934
Fiduciary Net Assets, End of Year, as Restated	$ 377,477,445	$ 381,181,813

State of Colorado
Deferred Compensation Plan
Notes to Financial Statements
June 30, 2008 and 2007

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 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 or any city and county, county, city, town or political subdivision. 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, unforeseeable emergency or purchase of service in the PERA Defined Benefit Plan.

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.

Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 financial statement presentation. These reclassifications had no effect on changes in fiduciary net assets.

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 Insurance Company (Great-West), which are recorded at their contract value of $4,893,152 and $5,354,951 as of June 30, 2008 and 2007, 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 investments of $369,189,699 and $372,087,998 are recorded within the Deferred Compensation Plan Pension Trust Fund at fair value at June 30, 2008 and 2007, 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, 2008, the Plan had the following investment in debt instruments:

Investment Type	Fair Value	Rating (Moody's)
Bond mutual funds	$ 153,269,504	Unrated

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 $131.8 million of the $153.3 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 $131.8 million of the $153.3 million in debt instruments limits investments to those with a credit quality rating of AAA, except for corporate bonds that have an average quality rating of A, commercial banks domiciled in the United States, or A1/P1 rated commercial paper.

The bond mutual funds listed as unrated invest in numerous corporate and governmental debt securities. The 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, 2008 and 2007, is on deposit with the state treasurer. Detailed information on the state treasurer's pooled cash and investments and the related risk categories is available from that office and in the State's Comprehensive Annual Financial Report.

Accrued compensated absences are recognized and recorded as personal service expenses. The corresponding liability represents an unpaid obligation for vested annual and sick leave of the State's employees who work for the Plan.

The Plan's administrative operations are recorded in the Administration Pension Trust Fund. Revenues are collected from an assessment on each Plan participant's investment balance as of the end of each calendar quarter, which is known as an administrative fee. This fee is set by the Plan's Committee and may not exceed 1.0 percent of the participant's assets in the Plan (Section 24-52-102(5)(a), C.R.S.). Under SB07-156, Section 24-52-102(5)(a), C.R.S., was amended to allow the Committee the option to deposit such revenue with the state treasurer, who shall credit such revenue to the Plan's Administration Pension Trust Fund along with any investment earnings, or with Great-West, who shall hold such revenue in a separate fund within the Plan's Deferred Compensation Plan Pension Trust Fund along with any investment earnings. At June 30, 2008, this revenue was held by Great-West in a separate fund within the Plan's Deferred Compensation Plan Pension Trust Fund. At June 30, 2007, this revenue was held by the state treasurer and was credited to the Plan's Administration Pension Trust Fund.

Per Section 24-52-102(5)(a), C.R.S. and prior to SB07-156, any administrative fee collected in excess of expenditures shall be used to reduce participants' administrative fees in subsequent years.

Under SB07-156, Section 24-52-102(5)(a), C.R.S., was further amended to allow the Committee to establish a reasonable level of reserves for the Plan based upon the prior year's revenue and expenses and the projections for the next year, and any revenue collected in excess of the reserves established by the Committee shall be used to reduce the participants' annual fees in subsequent years or, to the extent permitted by law, may be credited back to the participants. Accordingly, the Committee periodically reviews the fee to assess and adjust the rate to meet this statutory requirement. Effective July 1, 2006, the fee was reduced from $20 per participant per year (excluding those participants in payout) to $0. This fee holiday was put into effect due to an excess fund balance (i.e., revenue collected in excess of expenditures) in the Administration Pension Trust Fund.

According to the Great-West contract, which began July 1, 2005, the Plan also receives all of the third-party administrator's fund operating expense fee (i.e., reallowance fee), and .20 percent of Plan assets invested in the Vanguard Total Bond, Vanguard Institutional Index, and Stable Value Funds (i.e., explicit fees).

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 (TPA) for a five-year period to perform basic administration and record keeping services. The current contract with the TPA began on July 1, 2005 and expires June 30, 2010. The Plan pays the TPA an annual $39 fee per participant for these services. Employee contributions are remitted to a bank depository from which the TPA transmits the contributions to the various investment providers for investment in the specific funds as designated by participants. The TPA 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 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 http://www.copera.org.

Non-higher education employees hired by the state after January 1, 2006, are allowed 60 days to elect to participate in either 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, and the member is allowed 60 days from commencing employment to elect to participate in a defined contribution plan administered by PERA rather than the defined benefit 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. Currently, higher education employees, except for community college employees, are required to participate in their institution's optional plan, if available, unless they are active or inactive members of PERA with at least one year of service credit. In that case they may elect either PERA or their institution's optional plan. Community college employees hired after January 1, 2008, are required to become members of PERA and must elect either PERA's defined benefit or defined contribution plan with 60 days, unless they had been a PERA member within the prior twelve months. In that case they are required to remain in the PERA plan in which they participated previously.

PERA members electing the defined contribution plan are allowed an irrevocable election between the second and fifth year to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. However, making this election subjects the member to the rules in effect for those hired on or after January 1, 2007, as discussed below. Employer contributions to both defined contribution plans are the same as the contributions to the PERA defined benefit plan. Employee contributions are 100 percent vested for the State DC Plan. The PERA plans each have a graduated scale where vesting is 100 percent 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 percent 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 percent 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 their original hire date as follows:

- Hired before July 1, 2005 - 3.5 percent, compounded annually.
- Hired between July 1, 2005, and December 31, 2006 - the lesser of 3 percent or the actual increase in the national Consumer Price Index.
- Hired on or after January 1, 2007 - the lesser of 3 percent or the actual increase in the national Consumer Price Index, limited to a 10 percent 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 percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)

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.

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 percent (10.0 percent for state troopers) of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2007, to December 31, 2007, the State contributed 11.15 percent (13.85 percent for state troopers and 14.66 percent for the Judicial Branch) of the employee's salary. From January 1, 2008, through June 30, 2008, the state contributed 12.05 percent (14.75 percent for state troopers and 15.56 percent for the Judicial

Branch). During all of Fiscal Year 2007–08, 1.02 percent 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, 2007, 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 percent of salary beginning January 1, 2006, another .5 percent of salary in 2007, and subsequent year increases of .4 percent of salary until the additional payment reaches 3.0 percent 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 percent.

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 PERA for the Fiscal Years ending June 30, 2008 and 2007, were $9,066 and $7,972, respectively. These contributions met the contribution requirement for each year.

Note 5: Voluntary Tax-Deferred Retirement Plans

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The State offers a 457 deferred compensation plan and certain agencies and institutions of higher education of the State offer 403(b) or 401(a) plans.

Note 6: Other Postemployment Benefits

Health Care Plan

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the program was converted to a trust fund in 1999. The plan is a cost-sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for health care coverage. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its Comprehensive Annual Financial Report, 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 http://www.copera.org.

After the PERA subsidy, the benefit recipient pays the balance of the premium through an automatic deduction from the monthly retirement benefit. Monthly premium costs for participants depend on the health care plan selected, the PERA subsidy amount, Medicare eligibility, and the number of persons covered. 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 entitled to 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 percent for each year of service less than 20 years.

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employers' contributions as discussed above in Note 4. Beginning July 1, 2004, state agencies and institutions are required to contribute 1.02 percent of gross covered wages to the Health Care Trust Fund. The Plan is not required to make contributions to the Health Care Trust Fund.

The Health Care Trust Fund offers two general types of plans: fully-insured plans offered through health care organizations and self-insured plans administered for PERA by third-party vendors. As of December 31, 2007, there were 44,214 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2007, the Health Care Trust Fund had an unfunded actuarial accrued liability of $1.045 billion, a funded ratio of 19.9 percent, and a 38-year amortization period.

Other Programs

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

Note 7: 457 Loan Program

On January 5, 2004, the State of Colorado Deferred Compensation Committee implemented a loan program for the 457/401a Match Plan participants. Participants are allowed a maximum of one loan per Plan at any given time. There are two types of loans available: General Purpose with a duration of one to five (1-5) years, or Principal Residence with a duration of one to fifteen (1-15) years. Refinancing an existing loan is not permitted. A minimum account balance of $2,000 is required to apply for a loan. The minimum loan amount available to participants is $1,000. The maximum amount available in aggregate for all plans is $50,000 or 50 percent of the vested account balance, whichever is less. The vested account balance remaining after a loan disbursement may not be reduced below the amount of outstanding loan balance at any time by withdrawal or distribution, including hardship withdrawals.

A $50 origination fee shall be charged for each requested loan. An additional annual maintenance fee of $25 ($6.25 per quarter) will be deducted quarterly from the participant's account balance. The interest rate for loans is fixed at one percent (1 percent) over the Prime Rate published in *The Wall Street Journal*. The interest rate is subject to change by the 457 Committee; however, the rate may not exceed twelve percent (12 percent) at any given time. Loan payments shall be made through payroll deduction on a monthly basis.

As of June 30, 2008 and 2007, $3,497,202 and $2,876,241, respectively, in loans and corresponding interest receivable were outstanding, consisting of 1,247 and 1,112, respectively, participant loans. The average loan amount was $2,804 and $2,587 as of June 30, 2008 and 2007, respectively.

As of June 30, 2008 and 2007, there were 18 and 21 loans, respectively, considered delinquent totaling $38,000 and $47,000, respectively. Additionally, at June 30, 2008 and 2007, there were 43 and 27 loans, respectively, in default totaling $114,000 and $86,000, respectively. Participants are notified of delinquency at the end of the calendar quarter in which a missed payment occurs. The participant must make missed payments by the end of the calendar quarter after the quarter of the missed payments. If payments are still not made, the loan will be in default and considered a "deemed distribution," at which time the outstanding balance and any missed payments are reported to the IRS as income. The participant will receive a 1099R for the year in which the loan default occurs.

Note 8: Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the participants' account balances and the amounts reported in the statements of fiduciary net assets.

Supplementary Information

State of Colorado
Deferred Compensation Plan
Combining Statement of Fiduciary Net Assets
June 30, 2008

	Fiduciary Fund Type Pension Trust Funds		
	Administration (Appropriated)	Deferred Compensation Plan (Non-appropriated)	Total
Assets			
Cash in bank with state treasurer	$ 107,841	$ -	$ 107,841
Accounts receivable	-	3,497,202	3,497,202
Prepaid expenses	-	-	-
Due from Deferred Compensation Plan fund	165,000	-	165,000
Plan assets	-	374,082,851	374,082,851
Total assets	272,841	377,580,053	377,852,894
Liabilities			
Vouchers payable and accrued liabilities	200,646	-	200,646
Due to Administration fund	-	165,000	165,000
Compensated absences - annual leave and sick leave	9,803	-	9,803
Total liabilities	210,449	165,000	375,449
Net Assets			
Held in trust for pension benefit and other purposes	62,392	377,415,053	377,477,445
Total fiduciary net assets	$ 62,392	$ 377,415,053	$ 377,477,445

State of Colorado
Deferred Compensation Plan
Combining Statement of Fiduciary Net Assets
June 30, 2007

	Fiduciary Fund Type Pension Trust Funds		
	Administration (Appropriated)	Deferred Compensation Plan (Non-appropriated)	Total
Assets			
Cash in bank with state treasurer	$ 827,836	$ -	$ 827,836
Accounts receivable	253,389	2,876,241	3,129,630
Prepaid expenses	23	-	23
Plan assets	-	377,442,949	377,442,949
Total assets	1,081,248	380,319,190	381,400,438
Liabilities			
Vouchers payable and accrued liabilities	209,317	-	209,317
Compensated absences - annual leave and sick leave	9,308	-	9,308
Total liabilities	218,625	-	218,625
Net Assets			
Held in trust for pension benefit and other purposes	862,623	380,319,190	381,181,813
Total fiduciary net assets	$ 862,623	$ 380,319,190	$ 381,181,813

State of Colorado
Deferred Compensation Plan
Combining Statement of Changes in Fiduciary Net Assets
Year Ended June 30, 2008

	Pension Trust Funds		
	Administration (Appropriated)	Deferred Compensation Plan (Non-appropriated)	Total
Additions			
Interest and dividend income	$ 28,368	$ 19,508,417	$ 19,536,785
Contributions			
Participant payroll deferrals	-	46,174,583	46,174,583
Net investment gain (loss)	11,266	(41,488,614)	(41,477,348)
Other revenue	2,000	-	2,000
Total additions	41,634	24,194,386	24,236,020
Deductions			
Personal services	126,952	-	126,952
Workers' compensation and risk management	4,272	-	4,272
Operating expenses	17,087	-	17,087
Indirect cost assessment	13,611	-	13,611
Administration and communication	766,475	-	766,475
Leased space	9,552	-	9,552
Legal services	11,133	-	11,133
Performance audit	57,783	-	57,783
Administrative fees	-	106,690	106,690
Participant withdrawals	-	26,826,833	26,826,833
Total deductions	1,006,865	26,933,523	27,940,388
Other Sources (Uses)			
Transfer from Deferred Compensation Plan fund	165,000	-	165,000
Transfer to Administration fund	-	(165,000)	(165,000)
Total other sources (uses)	165,000	(165,000)	-
Change in Fiduciary Net Assets	(800,231)	(2,904,137)	(3,704,368)
Fiduciary Net Assets, Beginning of Year	862,623	380,319,190	381,181,813
Fiduciary Net Assets, End of Year	$ 62,392	$ 377,415,053	$ 377,477,445

State of Colorado
Deferred Compensation Plan
Combining Statement of Changes in Fiduciary Net Assets
Year Ended June 30, 2007

	Pension Trust Funds		
	Administration (Appropriated)	Deferred Compensation Plan (Non-appropriated)	Total
Additions			
Interest and dividend income	$ 39,677	$ 13,614,416	$ 13,654,093
Contributions			
Participant payroll deferrals	-	41,229,420	41,229,420
Net investment gain	-	33,726,496	33,726,496
Other revenue	500	-	500
Transfer from Deferred Compensation Plan fund	847,639	-	847,639
Total additions	887,816	88,570,332	89,458,148
Deductions			
Personal services	140,803	-	140,803
Workers' compensation and risk management	4,995	-	4,995
Operating expenses	10,855	-	10,855
Indirect cost assessment	21,406	-	21,406
Administration and communication	680,373	-	680,373
Leased space	4,793	-	4,793
Legal services	12,274	-	12,274
Adminstrative fees	-	54,953	54,953
Participant withdrawals	-	31,749,178	31,749,178
Transfer to Administration fund	-	847,639	847,639
Total deductions	875,499	32,651,770	33,527,269
Change in Fiduciary Net Assets	12,317	55,918,562	55,930,879
Fiduciary Net Assets, Beginning of Year	850,306	324,400,628	325,250,934
Fiduciary Net Assets, End of Year	$ 862,623	$ 380,319,190	$ 381,181,813

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
Denver, Colorado

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, 2008, and have issued our report thereon dated December 18, 2008. 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 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 on the Plan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we collectively consider to be a significant deficiency.

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. We consider the deficiency described in recommendation #2 that can be found in the description of audit findings and recommendations to be a significant deficiency in internal control over financial reporting.

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 and contracts, 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.

BKD, LLP

December 18, 2008

Independent Accountants' Audit Committee Communication

Members of the Legislative Audit Committee
Denver, Colorado

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, 2008, 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 that, 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:

- The Plan's distributions and contributions were overstated by $9,998,595. This was adjusted to correct the distributions and contributions. The Plan's expenses and contributions were overstated by $206,969, which was the total amount of administrative fees withheld from participant accounts during Fiscal Year 2008. An adjustment was made to correct this.

- The Plan's investment loss and contributions were overstated by $514,010, which was the total amount of 12b-1 fees received by the Plan during fiscal 2008. This was corrected through an adjustment.

- At June 30, 2008, the Department recorded a $165,000 receivable and related transfer from the Plan's Deferred Compensation Plan Pension Trust Fund on the Plan's Administration Pension Trust Fund's general ledger; however, the Department did not record a corresponding $165,000 payable and related transfer to the Plan's Administration Pension Trust Fund on the Plan's Deferred Compensation Pension Trust Fund's general ledger. This was adjusted.

The effect of the above corrected misstatements was to decrease the Plan's participant contributions by $10,719,574, participant withdrawals by $9,998,595, administrative fees by $206,969 and net investment loss by $514,010, and to increase the Plan's accounts payable by $165,000 and other uses by $165,000.

- Per the Plan Document, delinquent participant loans that are not paid up-to-date by the end of the calendar quarter after the calendar quarter in which a payment is first delinquent will be in default and considered a "deemed distribution" and reported to the Internal Revenue Service as income to the participant.

The effect of the above uncorrected misstatements, had they been recorded, would have been to decrease the Plan's participant withdrawals by $86,000 and $13,000 for the years ended June 30, 2008 and 2007, respectively, and decrease accounts receivable by $86,000 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.

BKD, LLP

December 18, 2008

State of Colorado
Deferred Compensation Plan
Audit Report Distribution Summary

The electronic version of this report is available on the Web site of the
Office of the State Auditor
www.state.co.us/auditor

A bound report may be obtained by calling the
Office of the State Auditor
303.869.2800

Please refer to the Report Control Number below when requesting this report.

Report Control No. 1948