

**State of Colorado Public Officials and Employees Defined
Contribution Retirement Plan**

Accountants' Report and Financial Statements

June 30, 2006 and 2005 (Compiled)

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State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

June 30, 2006 and 2005 (Compiled)

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State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Report Summary
June 30, 2006 and 2005 (Compiled)

Purposes and Scope of Audit

The purposes and scope of this audit were to:

- Express an opinion on the statement of fiduciary net assets and the related statement of changes in fiduciary net assets of the State of Colorado Public Officials and Employees Defined Contribution Retirement Plan (the Plan) as of and for the year ended June 30, 2006, including consideration of internal control over financial reporting as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with certain provisions of laws, regulations, and contracts for the year ended June 30, 2006.
- Issue a report on the Plan's compliance with certain provisions of laws, regulations, and contracts and on internal control over financial reporting based on our audit of the financial statements performed in accordance with *Government Auditing Standards*.
- Evaluate progress in implementing prior year audit recommendations.

Summary of Major Audit Comments

Audit Findings and Financial Statement Audit Report Section

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

- The Plan changed third-party administrators during the year and did not perform a timely reconciliation of assets transferred between the various administrators. When future transfers of this nature occur, the Plan should perform a timely reconciliation of the assets.
- The Plan's management should ensure that employee contributions are contributed to the Plan in a timely manner. We recommend performing a timely payroll reconciliation of participant contributions to ensure remittances are being timely received by the Plan.

Summary of Progress in Implementing Prior Audit Recommendations

As this is the first year audit for the State of Colorado Public Officials and Employees Defined Contribution Retirement Plan, prior audit recommendations were not issued.

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Report Summary (continued)
June 30, 2006 and 2005 (Compiled)

Audit Opinions and Reports

The independent accountants' report included herein expressed an unqualified opinion on the Plan's statement of fiduciary net assets as of June 30, 2006, and the related statement of changes in fiduciary net assets for the year then ended and the accompanying 2006 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, both individually and in the aggregate, to the financial statements as a whole. These areas included:

- During quarterly reconciliations of plan assets based on statements provided by the third-party administrators, an inter-fund transfer was classified as both a distribution and a contribution.

The effect of the uncorrected misstatements, had they been recorded, would have been to decrease the Plan's distributions by \$32,945 for the year ended June 30, 2006 and decrease participant contributions by \$32,945.

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Recommendation Locator
Year Ended June 30, 2006

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
1	7	Perform asset transfer reconciliations in a timely manner.	Agree	June 2007
2	7	Ensure contributions are made timely but preferably as soon as administratively possible.	Agree	Implemented

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Description of the Plan June 30, 2006 and 2005 (Compiled)

Description and Background

The Deferred Compensation Committee assumed the fiduciary responsibility of the State of Colorado Public Officials and Employees Defined Contribution 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 provider handling participant investments and contributions) for this Plan for Fiscal Year 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).

Growth of the Plan

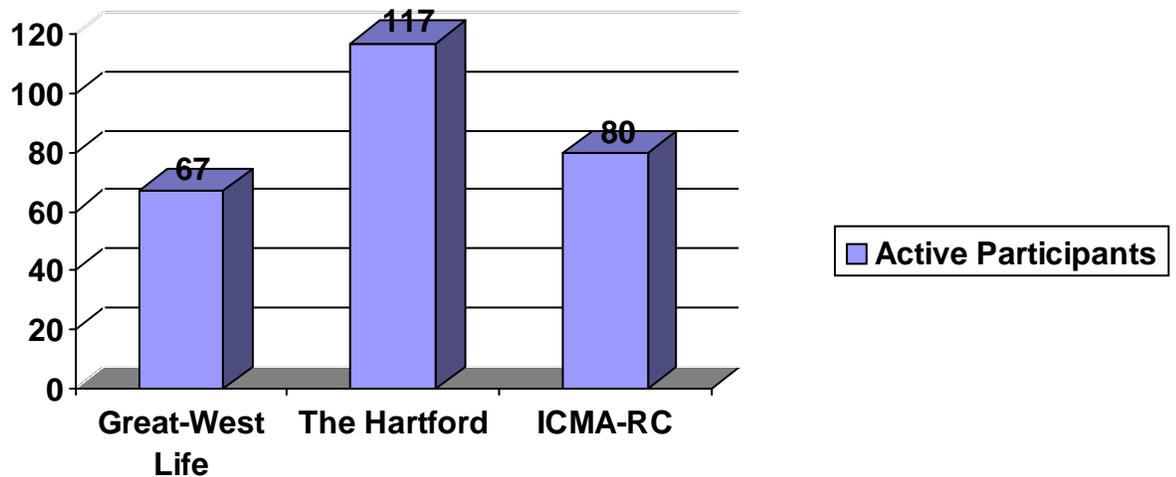
The Plan was effective January 1, 1999 as a result of House Bill 98-1191. At that time there were approximately 500 eligible employees as referenced in the definition of eligibility in Section 24-52-202(3) C.R.S. Over the course of the last eight years the eligibility has been expanded. Effective January 1, 2006, the Plan is now one of three retirement choices for new employees. The eligible population from 1998 to 2006 grew from 500 employees to approximately 40,000 employees, respectively. The average number of new employees for one year is approximately 2,500. New employees, except for those at Higher Education Institutions and various other exceptions, have retirement choice among the State of Colorado Public Officials and Employees Defined Contribution Retirement Plan (State DC Plan), the Public Employees Retirement Association Defined Benefit Plan (PERA DB Plan) or the Public Employees Retirement Association Defined Contribution Plan (PERA DC Plan).

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Description of the Plan (continued)

June 30, 2006 and 2005 (Compiled)

The table below shows the number of active participants for each of the Bundled Providers as of June 30, 2006. As of June 30, 2006, the State Defined Contribution Plan had approximately 260 participants. All other new hires since January 1, 2006 either have chosen the PERA DC plan or the PERA DB plan, were placed in their previous retirement plan because of the employee's previous enrollment due to the 12-month look back for eligibility or were placed in the PERA DB plan because they did not make a choice within 60 calendar days of hire date.



Asset Fee

The Plan's budget is administered entirely from vendor reimbursements per Section 24-52-203(9)(a) C.R.S. There are no specific asset fees charged, by the State, to participants for administration of the Plan per Section 24-52-203(9)(c) C.R.S, although allowed.

Plan Investment Options

The table below shows the current investment options offered by each Bundled Provider.

Great-West Funds	Hartford Funds	ICMA-RC Funds
American EuroPacific	Hartford International-Cap App	Fidelity Diversified Int'l
TCM Small-Cap Growth	Baron Small-Cap	Fidelity Small-Cap Retirement
Vanguard Instl Index	SSgA S&P 500	VT 500 Stock Index Fund
American Funds Growth R5	Growth Fund of America	Vantagepoint Growth Fund
Hotchis & Wiley Large-Cap	Hotkis & Wiley Large Value	American Century Value
Vanguard Bond Index	Hartford Total Return Bond	VT Pimco Total Return
Stable Value Fund	SEI Stable Asset Fund	ICMA Vantage Trust Plus
Munder Mid-Cap Core	American Beacon Small-Cap Value	T.Rowe Price Small Value
Veracity Small-Cap Value	Goldman Sachs Growth Opp	Ranier Small/Mid-Cap
Artisan Mid-Cap Value	Artisan Mid-Cap Value	Vantagepoint Equity Income
	Davis New York Venture	

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Description of the Plan (continued)

June 30, 2006 and 2005 (Compiled)

Great-West Portfolios	Hartford Strategic Allocations	ICMA-RC Model Portfolios
Aggressive	American Century: Aggressive	Vantagepoint LT Growth Fund
Moderate	American Century: Moderate	Vantagepoint Saving Oriented
		Vantagepoint Conservative
Conservative	American Century: Conservative	Growth
		Vantagepoint Traditional Growth
		Vantagepoint All Equity Growth

The investments listed 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.

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Description of Audit Findings and Recommendations

June 30, 2006

Findings for Internal Controls over Contributions and Recommendation

The defined contribution plan changed third-party administrators (TPA) during the first month of the Plan's fiscal year. An internal reconciliation of the transfer of funds from VALIC to Great West and The Hartford was not performed timely to ensure that the balances transferred from VALIC to the other two TPAs agreed. Therefore, some of the difference between the contributions is applicable to earnings on those investments during the transfer period for which we were unable to trace to confirmed TPA reports and reconcile all the contributions received during the first quarter of the Plan's fiscal year. However, we were able to trace all other reconciling items to the investment statements provided by the TPA. We recommend that when Plan assets are transferred between TPAs in future periods, a timely reconciliation be performed to ensure the accuracy of the transfer.

Recommendation No. 1

We recommend that when Plan assets are transferred between TPAs in future periods, a timely reconciliation be performed.

Department Response

Agree. During the transition period, the Department staff did work closely with TPAs to ensure that the change was as seamless as possible for the participants. This work did include monitoring the dollar transfers on a gross basis to ensure the funds were transferred timely and accurately. The Department agrees however, that it should have formally documented this monitoring process and randomly selected participants' accounts to ensure that accounts were transferred accurately.

Implementation Date: June 2007

Findings of Timeliness of Remittances and Recommendation

Currently, the Plan's policy is to remit participant withholdings to the TPAs within a few days from the date payroll is paid and the Department of Labor requires that participants' contributions are remitted to a retirement plan within 15 business days subsequent to the month in which the contribution was withheld. During our testing, we noted one period where the funds were not received by the TPA for approximately two months because the respective service provider did not withdraw the contribution from the ACH account. Personnel at the Department did not notice/investigate the contributions remaining in the State's account until after the Department of Labor's remittance deadline had passed. We recommend the appropriate plan sponsor personnel at the Department, timely prepare reconciliations of participant withholdings to plan records to ensure any discrepancies are timely identified and resolved.

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Description of Audit Findings and Recommendations (continued)

June 30, 2006

Recommendation No. 2

We recommend the Department timely review the State's bank account used for the Plan withholdings and contributions and follow up on discrepancies.

Department Response

Agree. The Department does have a process in place for reviewing the bank account and following up when issues (*e.g.*, the TPA has not withdrawn the funds timely) arise. The exception noted by the auditor occurred when the unit responsible for the review was short staffed. Staff followed up on the issue as soon as it was identified. Going forward, the Department will ensure that adequate back-up is in place when staff is unavailable.

Implementation Date: Implemented



Independent Accountants' Report on Financial Statements and Supplementary Information

Members of the Legislative Audit Committee

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the State of Colorado Public Officials and Employees Defined Contribution Retirement Plan as of June 30, 2006, and the changes in its fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying 2006 supplementary information 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 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.

We have compiled the accompanying statement of fiduciary net assets as of June 30, 2005, and the related statement of changes in fiduciary net assets for the year then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A compilation is limited to presenting, in the form of financial statements, information that is the representation of the Plan's management. We have not audited or reviewed the statement of fiduciary net assets or the related statement of changes in fiduciary net assets referred to above and, accordingly, do not express an opinion or any other form of assurance on them.

Members of the Legislative Audit Committee

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

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

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

\s\ **BKD, LLP**

Colorado Springs, Colorado
September 29, 2006

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Management's Discussion and Analysis June 30, 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 transmittal letter on pages 1-3 and the financial statements, including notes, which begin on page 14.

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

There are two financial statements presented for fiduciary funds. The Statements of Fiduciary Net Assets, 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 Year 2005 and 2006 financial activity for the Plan. Specific notable items are as follows:

Financial Highlights

- The ending balance in Cash in Bank with State Treasurer decreased from about \$62,000 in Fiscal Year 2005 to about (\$6,200) in Fiscal Year 2006. This decrease is due to the Plan not receiving vendor reimbursements prior to year-end. As indicated in the financial statements, an accounts receivable was recorded for the outstanding amount.
- In Fiscal Year 2006 there are two deduction items that were not expenses in Fiscal Year 2005. These are Worker's Compensation and Risk Management. The Department made a management decision in Fiscal Year 2006 to allocate these costs to the Plan since the Department personnel provide administrative support. 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, 2006 and 2005 (Compiled)**

Defined Contribution Administration Fund Fiduciary Net Assets

	June 30, 2006	June 30, 2005	Percent Change
Assets			
Cash in Bank and with State Treasurer	\$ —	\$ 61,841	0%
Accounts receivable	129,999	—	0%
Plan assets	<u>8,344,827</u>	<u>7,119,471</u>	17%
Total assets	<u>8,474,826</u>	<u>7,181,312</u>	18%
Liabilities			
Cash due to State Treasurer	6,185	—	0%
Vouchers payable and accrued liabilities	26,385	373	6,974%
Compensated absences – annual and sick leave	<u>480</u>	<u>228</u>	111%
Total liabilities	<u>33,050</u>	<u>601</u>	5,399%
Net Assets			
Held in trust for pension benefits and other purposes	<u>8,441,776</u>	<u>7,180,711</u>	18%
Total net assets	<u>\$ 8,441,776</u>	<u>\$ 7,180,711</u>	18%

Defined Contribution Administration Fund Changes in Fiduciary Net Assets

	June 30, 2006	June 30, 2005	Percent Change
Additions			
Vendor reimbursements	\$ 129,999	\$ 134,645	(3%)
Interest income	48,351	121,857	60%
Contribution			
Employer	797,098	685,371	16%
Participant	623,447	610,962	2%
Investment gain	<u>578,252</u>	<u>310,587</u>	86%
Total additions	<u>2,177,147</u>	<u>1,863,422</u>	17%
Deductions			
Operations	101,299	86,627	17%
Participant withdrawals	<u>814,783</u>	<u>1,044,556</u>	(22%)
Total deductions	<u>916,082</u>	<u>1,131,183</u>	19%
Change in Net Assets	<u>\$ 1,261,065</u>	<u>\$ 732,239</u>	72%

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Statements of Fiduciary Net Assets June 30, 2006 and 2005 (Compiled)

	2006 Pension Trust Fund	2005 Pension Trust Fund (Compiled)
Assets		
Cash in Bank with State Treasurer	\$ —	\$ 61,841
Accounts receivable	129,999	—
Plan assets	<u>8,344,827</u>	<u>7,119,471</u>
Total assets	<u>8,474,826</u>	<u>7,181,312</u>
Liabilities		
Cash due to State Treasurer	6,185	—
Vouchers payable and accrued liabilities	26,385	373
Compensated absences – Annual leave and sick leave	<u>480</u>	<u>228</u>
Total liabilities	<u>33,050</u>	<u>601</u>
Net Assets		
Held in Trust for pension benefits and other purposes	<u>8,441,776</u>	<u>7,180,711</u>
Total net assets	<u>\$ 8,441,776</u>	<u>\$ 7,180,711</u>

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Statements of Changes in Fiduciary Net Assets June 30, 2006 and 2005 (Compiled)

	2006 Pension Trust Fund	2005 Pension Trust Fund (Compiled)
Additions		
Vendor reimbursements	\$ 129,999	\$ 134,645
Interest income	48,351	121,857
Contribution		
Employer	797,098	685,371
Participant payroll deferral	623,447	610,962
Net investment gain	<u>578,252</u>	<u>310,587</u>
Total additions	<u>2,177,147</u>	<u>1,863,422</u>
Deductions		
Personal services	66,950	38,834
Workers' compensation and risk management	1,614	—
Operating expenses	911	2,583
Indirect cost assessment	5,369	808
Administration and communication	10,110	6,316
Legal services	10,817	14,492
Asset fees	5,528	23,594
Participant withdrawals	<u>814,783</u>	<u>1,044,556</u>
Total deductions	<u>916,082</u>	<u>1,131,183</u>
Change in Fiduciary Net Assets	1,261,065	732,239
Fiduciary Net Assets, Beginning of Year	<u>7,180,711</u>	<u>6,448,472</u>
Fiduciary Net Assets, End of Year	<u>\$ 8,441,776</u>	<u>\$ 7,180,711</u>

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Notes to Financial Statements June 30, 2006 and 2005 (Compiled)

Note 1: Plan Description

The State of Colorado Public Officials and Employees Defined Contribution Retirement Plan (the Plan) was 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, executive directors 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 personnel system is eligible to participate in the defined contribution plan unless the employee is:

- an employee of a Higher Education Institution,
- commencing employment as a PERA retiree, who is not an elected official, or
- has been a member of the Public Employees Retirement Association (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). At June 30, 2006, the Plan's three investment contractors reported a total of 756 accounts with 264 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 and defined contribution plans administered by PERA. From July 1, 2005 to June 30, 2006, the state contribution rate was 10.15%. The employee was required to contribute 8% of gross covered wages throughout the year.

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.

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Notes to Financial Statements June 30, 2006 and 2005 (Compiled)

The Pension Trust Fund activity is reported on the accrual basis of accounting. Assets of the Plan, which includes 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: Other Pension Plans

Plan Description

All of the Department's employees, hired prior to January 1, 2006, participate in a defined benefit pension plan. The Plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The Plan is a cost sharing multiple employer plan administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the Plan is placed with the Board of Trustees of PERA. Changes to the Plan require legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at P.O. Box 5800, Denver, Colorado 80217, or by calling PERA at 1-800-759-PERA (7372), or by visiting www.copera.org.

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

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

Defined benefit plan members vest after five years of service and if they were hired before July 1, 2005, most are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with 5 years of service. Persons hired on or after July 1, 2005, (except state troopers, plan members, inactive members, and retirees) are eligible for retirement benefits at any age with 35 years of service, at age 55 with 30 years of service, at age 60 with 20 years of service, or at age 65 with 5 years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 5 years of service credit, and their age plus years of service equals 80 or more. State troopers and judges comprise a small percentage of plan members but have higher contribution rates, and state troopers are eligible for retirement benefits at different ages and years of service. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Notes to Financial Statements June 30, 2006 and 2005 (Compiled)

Members disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, their spouse or their eligible children under the age of 18 (23 if a full time student) may be entitled to a single payment or monthly benefit payments. If there is not an eligible spouse or child available to receive the benefits, financially dependent parents will receive a survivor's benefit.

Funding Policy

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

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

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

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

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

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

State of Colorado Public Officials and Employees Defined Contribution Retirement Plan

Notes to Financial Statements June 30, 2006 and 2005 (Compiled)

Note 4: Voluntary Tax-Deferred Retirement Plans

PERA offers a voluntary 401(k) Plan separate from the defined benefit pension plan. The state offers a 457 Deferred Compensation Plan and certain agencies and institutions of the state offer a 403(b) or 401(a) plans.

Note 5: Postretirement Health Care and Life Insurance Benefits

Health Care Program

The PERA Health Care Program (the Program) began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the Program was converted to a trust fund in 1999. Under this Program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During Fiscal Year 2006, the premium subsidy was \$115 for those with 20 years of service credit (\$230 for members under age 65 and not eligible for Medicare), and it was reduced by 5% for each year of service fewer than 20.

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

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured medical and prescription benefit plans, and with several health maintenance organizations providing services within Colorado. As of December 31, 2005, there were 41,080 enrollees in the plan.

Life Insurance Program

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

Other Programs

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

Supplementary Information

**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		
	Defined Contribution		Total
	Administration (Appropriated)	Plan (Non- appropriated)	
Assets			
Cash in Bank with State Treasurer	\$ —	\$ —	\$ 0
Accounts receivable	129,999	—	129,999
Plan assets	<u>—</u>	<u>8,344,827</u>	<u>8,344,827</u>
Total assets	<u>129,999</u>	<u>8,344,827</u>	<u>8,474,826</u>
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	<u>480</u>	<u>—</u>	<u>480</u>
Total liabilities	<u>33,050</u>	<u>—</u>	<u>33,050</u>
Net Assets			
Held in Trust for pension benefits and other purposes	<u>96,949</u>	<u>8,344,827</u>	<u>8,441,776</u>
Total net assets	<u>\$ 96,949</u>	<u>\$ 8,344,827</u>	<u>\$ 8,441,776</u>

**State of Colorado Public Officials and Employees
Defined Contribution Retirement Plan**

**Combining Statement of Changes in Fiduciary Net Assets
June 30, 2006**

	Pension Trust Funds		
	Administration (Appropriated)	Defined Contribution Plan (Non- appropriated)	Total
Additions			
Vendor reimbursements	\$ 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	—	<u>578,252</u>	<u>578,252</u>
Total additions	<u>131,480</u>	<u>2,045,667</u>	<u>2,177,147</u>
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	—	<u>814,783</u>	<u>814,783</u>
Total deductions	<u>95,771</u>	<u>820,311</u>	<u>916,082</u>
Change in Fiduciary Net Assets	35,709	1,225,356	1,261,065
Fiduciary Net Assets, Beginning of Year	<u>61,240</u>	<u>7,119,471</u>	<u>7,180,711</u>
Fiduciary Net Assets, End of Year	<u>\$ 96,949</u>	<u>\$ 8,344,827</u>	<u>\$ 8,441,776</u>

**State of Colorado Public Officials and Employees
Defined Contribution Retirement Plan
Combining Statement of Fiduciary Net Assets
June 30, 2005 (Compiled)**

	<u>Fiduciary Fund Type</u>		
	<u>Pension Trust Funds</u>		
	<u>Defined Contribution</u>		<u>Total</u>
	<u>Administration (Appropriated)</u>	<u>Plan (Non- appropriated)</u>	
Assets			
Cash in Bank with State Treasurer	\$ 61,841	\$ —	\$ 61,841
Accounts receivable	—	—	0
Plan assets	<u>—</u>	<u>7,119,471</u>	<u>7,119,471</u>
Total assets	<u>61,841</u>	<u>7,119,471</u>	<u>7,181,312</u>
Liabilities			
Vouchers payable and accrued liabilities	373	—	373
Compensated absences – annual leave and sick leave	<u>228</u>	<u>—</u>	<u>228</u>
Total liabilities	<u>601</u>	<u>—</u>	<u>601</u>
Net Assets			
Held in Trust for pension benefits and other purposes	<u>61,240</u>	<u>7,119,471</u>	<u>7,180,711</u>
Total net assets	<u>\$ 61,240</u>	<u>\$ 7,119,471</u>	<u>\$ 7,180,711</u>

**State of Colorado Public Officials and Employees
Defined Contribution Retirement Plan**

**Combining Statement of Changes in Fiduciary Net Assets
June 30, 2005 (Compiled)**

	Pension Trust Funds		
	Administration (Appropriated)	Defined Contribution Plan (Non- appropriated)	Total
Additions			
Vendor reimbursements	\$ 120,962	\$ 13,683	\$ 134,645
Interest income	157	121,700	121,857
Contribution			
Employer	—	685,371	685,371
Participant payroll deferral	—	610,962	610,962
Net investment gain	<u>3,154</u>	<u>307,433</u>	<u>310,587</u>
Total additions	<u>124,273</u>	<u>1,739,149</u>	<u>1,863,422</u>
Deductions			
Personal services	38,834	—	38,834
Workers' compensation and risk management	—	—	0
Operating expenses	2,583	—	2,583
Indirect cost assessment	808	—	808
Administration and communication	6,316	—	6,316
Legal services	14,492	—	14,492
Asset fees	—	23,594	23,594
Participant withdrawals	<u>—</u>	<u>1,044,556</u>	<u>1,044,556</u>
Total deductions	<u>63,033</u>	<u>1,068,150</u>	<u>1,131,183</u>
Change in Fiduciary Net Assets	61,240	670,999	732,239
Fiduciary Net Assets, Beginning of Year	<u>—</u>	<u>6,448,472</u>	<u>6,448,472</u>
Fiduciary Net Assets, End of Year	<u>\$ 61,240</u>	<u>\$ 7,119,471</u>	<u>\$ 7,180,711</u>



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, 2006, and have issued our report thereon dated September 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

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

Compliance and Other Matters

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

We noted certain matters that we reported to the Plan's management in a separate letter dated September 29, 2006, which are also described in the Description of Audit Findings and Recommendations section of this report as Recommendations No. 1 - 2.

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

\s\ BKD, LLP

September 29, 2006



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, 2006, we wish to communicate the following to you.

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

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

Significant Accounting Policies

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

Management Judgments and Accounting Estimates

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

Audit Adjustments

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

Members of the Legislative Audit Committee

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

- During quarterly reconciliations of plan assets based on statements provided by the third-party administrators, an inter-fund transfer was classified as both a distribution and a contribution.
- Areas in which uncorrected misstatements were aggregated during the current engagement and pertaining to the latest period presented were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole, include the effect of the uncorrected misstatements, had they been recorded, would have been to decrease the Plan's distributions by \$32,945 for the year ended June 30, 2006 and decrease participant contributions by \$32,945.

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

\s\ **BKD, LLP**

September 29, 2006

**State of Colorado Public Officials and Employees
Defined Contribution Retirement Plan
Audit Report Distribution Summary**

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