COLLEGEINVEST
PREPAID TUITION FUND
Denver, Colorado

FINANCIAL STATEMENTS
June 30, 2007 and 2006

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Members of the Legislative Audit Committee:

This report contains the results of the financial audit of the Prepaid Tuition Fund of CollegeInvest as of June 30, 2007. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of the departments, institutions and agencies of State government.

Clifton Gunderson LLP

Greenwood Village, Colorado
December 10, 2007

Member of HLB International

COLLEGEINVEST
PREPAID TUITION FUND

FINANCIAL AUDIT
June 30, 2007

Report Summary 1

Recommendation Locator 4

FINANCIAL AUDIT REPORT SECTION

Description of CollegeInvest Prepaid Tuition Fund 5

Findings and Recommendations 7

Disposition of Prior Audit Recommendations 8

PREPAID TUITION FUND

Independent Auditor's Report 10

Management's Discussion and Analysis 12

Basic Financial Statements

Prepaid Tuition Fund Statements of Net Assets 19

Prepaid Tuition Fund Statements of Revenues, Expenses and Changes in Fund Net Assets 20

Prepaid Tuition Fund Statements of Cash Flows 21

Prepaid Tuition Fund Notes to Financial Statements 23

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards 41

REPORT SUMMARY

COLLEGEINVEST
PREPAID TUITION FUND
FINANCIAL AUDIT
FISCAL YEAR ENDED JUNE 30, 2007

Purpose and Scope

The Office of the State Auditor, State of Colorado engaged Clifton Gunderson LLP to conduct the financial audit of CollegeInvest Prepaid Tuition Fund (Prepaid Tuition Fund) for the fiscal year ended June 30, 2007. Clifton Gunderson LLP performed this 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.

The purpose and scope of our audit was to express an opinion on CollegeInvest's Prepaid Tuition Fund basic financial statements as of and for the fiscal year ended June 30, 2007.

Audit Opinions and Reports

We expressed an unqualified opinion on CollegeInvest's Prepaid Tuition Fund basic financial statements, as of and for the fiscal year ended June 30, 2007.

Summary of Key Findings and Recommendations

There was a significant deficiency relating to the recognition of investments. The finding is represented as Finding #1 in the Findings and Recommendations section of this report.

There was a significant deficiency relating to segregation of duties. The finding is represented as Finding #2 in the Findings and Recommendations section of this report.

Summary of Progress in Implementing Prior Year Audit Recommendations

There were no audit recommendations for the year ended June 30, 2006.

Required Communication

Auditor's Responsibility Under Generally Accepted Auditing Standards. Our audit of the financial statements of the CollegeInvest Prepaid Tuition Fund for the years ended June 30, 2007 and 2006, was conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Reasonable assurance in an audit is obtained by examining evidence supporting the amounts and disclosures in the financial statements on a test basis. An audit does not include verification of all transactions and account balances, nor does it represent a certification of the absolute accuracy of the financial statements.

In testing whether the financial statements are free of material misstatement, we focus more of our attention on items with a higher potential of material misstatement, and less on items that have a remote chance of material misstatement. For this purpose, accounting literature has defined materiality as "the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Although we may make suggestions as to the form and content of the financial statements, or even prepare them in whole or in part, the financial statements remain the representations of management. In an audit, our responsibility with respect to the financial statements is limited to forming an opinion as to whether the financial statements are a fair presentation of the Fund's financial position, results of operations, and cash flows.

Significant Accounting Policies. There were no significant accounting policies or their application which were either initially selected or changed during the year.

There were no significant, unusual transactions in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates. The following is management's description of the process utilized in forming estimates for the actuarial liability related to the future cash flows of the Prepaid Tuition Fund:

Management develops assumptions for its annual actuarial study of the future cash flows of the Prepaid Tuition Fund. The present value of future cash flows less amounts receivable from contract payments equals the liability for contracts and benefits payable.

Contract and installment cancellations assumptions are 1.75% and 5.12%, respectively, and are based on the Fund's past experience of cancellations.

The investment yield assumption is based on estimates of the yields that will be available on the investment portfolio and cash. For both fiscal years ended June 30, 2007 and 2006, the investment yield assumption was 4.5%. The actual annualized yield on investments of the fund was 3.2%.

Tuition increases are based on the current best estimate of future tuition increases for Colorado public four-year colleges and universities in existence at such time plus the State community colleges. For the fiscal year ended June 30, 2007, the tuition increases assumption is 5.5% for three years and 5.25% thereafter. For the fiscal years ended June 30, 2007 and 2006, the actual average tuition increased by 9.3% and 10.3%, respectively. However due to contract restrictions, average tuition as computed under the contract terms increased 5.5% in both the fiscal years ended June 30, 2007 and 2006.

Our conclusion regarding the reasonableness of the future cash flows of the Prepaid Tuition Fund was based primarily on our testing of the rate of return on the Fund's investments, our examination of past cancellations, our testing of the tuition increases, our tests of internal controls over receipts and distributions, and our examination of the administrative expenses and the projections used in the estimation of the Contracts and Benefits Payable liability.

Audit Adjustments. We noted one adjustment during our audit - an adjustment of $134,704 to reflect investments at fair market value. This adjustment has been reflected in the accompanying financial statements.

Other Information in Documents Containing Audited Financial Statements. In connection with the Fund's annual report, we did not perform any procedures or corroborate other information included in the annual report. However, we read management's discussion and analysis of financial conditions and results of operations and considered whether the information or the manner in which it was presented was materially inconsistent with information or the manner of presentation of the financial statements. Based on our reading, we concluded that the information did not require revision.

Disagreements With Management. There were no disagreements with management on financial accounting and reporting matters, auditing procedures, or other matters which would be significant to the Fund's financial statements or our report on those financial statements.

Consultations With Other Accountants. We were informed by management that they made no consultations with other accountants on the application of generally accepted accounting principles or generally accepted auditing standards.

Major Issues Discussed With Management Prior to Retention. There were no major issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors.

Difficulties Encountered in Performing the Audit. We encountered no serious difficulties in dealing with management related to the performance of our audit.

COLLEGEINVEST PREPAID TUITION FUND
RECOMMENDATION LOCATOR
FISCAL YEAR ENDED JUNE 30, 2007

Rec. No.	Page No.	Recommendation Summary	Entity's Response	Implementation Date
1	7	CollegeInvest should ensure that the investments are properly recorded at fair market value.	Agree	June 30, 2008
2	7	CollegeInvest should segregate duties of user setup and system administration from duties such as vendor setup, accounts payable and posting journal entries.	Agree	November 30, 2007 through June 30, 2008

DESCRIPTION OF
COLLEGEINVEST
PREPAID TUITION FUND

Organization

The Colorado General Assembly, pursuant to Colorado Revised Statutes 23-3.1-201, et seq., and 23-3.1-301, et seq., established a student obligation bond program (Student Loan Program Funds, which consist of the Borrower Benefit Fund, Bond Funds, the CollegeInvest Early Achievers Scholarship Fund, and the Nursing Teacher Loan Forgiveness Fund), a post secondary education expense program (Prepaid Tuition Fund), and an Internal Revenue Code Section 529 college savings program (Scholars Choice Fund, Direct Portfolio Fund, and Stable Value Plus Fund), which are administered by CollegeInvest. The programs assist families in meeting the expenses incurred in availing themselves of higher education opportunities. The Executive Director of the Colorado Department of Higher Education has responsibility for oversight and management of CollegeInvest, including appointing the Director. In addition, CollegeInvest has a nine person Board of Directors (Board) designated by the Governor and approved by the State Senate to serve four year terms.

Colorado Prepaid Tuition Fund

The Prepaid Tuition Fund was established in 1997 to provide families with an opportunity to save for future college education expenses. The Prepaid Tuition Fund offered an annual enrollment period for purchasers to buy prepaid tuition contracts. The Prepaid Tuition Fund offers certain federal and state tax advantages to investors and was designed to keep pace with average tuition inflation in Colorado. Originally, the investment was valued at and paid out at the level of average tuition or an average minimum of 4% per year over the life of the contract (when held until the first payment date), whichever was greater, at the time of payment. The contract terms were amended on February 20, 2003. Under the new terms, the investment is valued and paid out at the lesser of 1) the percentage increase in actual average tuition or 2) 5.5%. A purchaser can use amounts paid from the Prepaid Tuition Fund to pay for eligible expenses at private and public colleges, universities, and vocational schools throughout the United States.

The Colorado Constitution and other State laws prohibit the State from providing its full faith and credit to obligations of other entities, such as the Prepaid Tuition Fund. As a result, payments from the Prepaid Tuition Fund are not guaranteed in any way by the State, and are not considered to have created a debt or obligation of the State. Such payments are limited obligations, payable from the Prepaid Tuition Fund, but not from the other assets of the State or CollegeInvest. In accordance with State law, if it is determined that the Prepaid Tuition Fund is not actuarially sound as determined by an actuarial valuation, CollegeInvest may direct the distribution of available assets. If it is determined that the Prepaid Tuition Fund is not financially sound as determined by an annual audit, then CollegeInvest may discontinue permanently or for a period of time may suspend a particular aspect of the Prepaid Tuition Fund and the execution of additional contracts. As of August 1, 2002, the Fund was closed to new investors.

During the March 2004 legislative session, the General Assembly enacted H.B. 04-1350, making changes to the Prepaid Tuition Fund. Effective July 1, 2004, the State Treasurer is required to invest moneys in the Prepaid Tuition Fund based upon direction from CollegeInvest's Board of Directors. Prior to July 1, 2004, the State Treasurer invested moneys in the Prepaid Tuition Fund based on the advice and recommendations of CollegeInvest. CollegeInvest is required to evaluate the actuarial soundness of the Fund if, on the last day of the fiscal year, more than ten percent of the Fund is invested in 1) common or preferred stock, 2) corporate bonds, notes or debentures that are convertible into common stock, or preferred stock, or 3) investment trust shares. CollegeInvest may contract with a private consultant to provide this evaluation. As of June 30, 2007, none of these criteria were met, thus an evaluation was not necessary.

FINDINGS AND RECOMMENDATIONS

Prepaid Tuition Fund

Finding #1: Investments

The Governmental Accounting Standards Board (GASB) Statement No. 31 requires that investments be reported at fair market value. Further, GASB Statement No. 40 requires that governmental entities disclose the fair market value of each investment type held. During the course of our audit, we noted that all of the investments of the Prepaid Tuition Fund were recorded on the books of CollegeInvest at amortized cost. For financial statement purposes, an adjustment had been made to the amortized cost of investments for the difference between historical cost and fair market value. The adjustment should have been made for the difference between amortized cost and fair market value. As a result, investments and unrealized gains were misstated by approximately $135,000. Although the misstatement was immaterial to the financial statements as a whole, there were misclassifications between investment types in the footnotes to the financial statements required by GASB Statement No. 40 that were material as a result of this error.

This error was due to the fact that there was a lack of review by knowledgeable staff of investment balances prior to issuing the financial statements.

Recommendation #1:

CollegeInvest should establish year end procedures for valuing and adjusting investments and implementing a procedure to review the values.

CollegeInvest's Response:

Agree. CollegeInvest records the amortized cost amounts in its general ledger for internal management purposes and should have reclassified these amounts in the financial statements prior to delivering the financial statement draft to the auditors. CollegeInvest will establish year end procedures for reviewing the valuation and adjustment of investment values prior to delivering the financial statement draft to the auditors. This will be implemented for fiscal year end June 30, 2008.

Finding #2: Segregation of Duties

CollegeInvest is responsible for designing and implementing internal controls that are sufficient to adequately safeguard its assets. A component of strong internal control over assets, such as cash, would include a proper segregation of duties. If a single employee has access to vendor setup rights, accounts payable, and blank check stock, it could create a situation where a false vendor could be established and paid without being detected in a timely manner.

As a part of our audit, we gained an understanding of access controls over network and financial systems. During our discussions with management, we discovered that both the Senior Accountant and the Accountant II have full system administration rights to the Great Plains financial software. Also, both positions have access to blank check stock, vendor setup rights, and the accounts payable module. Finally, the Senior Accountant possesses rights to enter and post journal entries. However, as a mitigating control, neither of these individuals receive the bank statement or prepare or review the bank reconciliations.

Recommendation #2:

CollegeInvest should improve its internal controls over cash and other assets by expanding its internal control procedures to include controls over employees' access to accounting system modules and blank check stock. In addition, CollegeInvest should adequately segregate the duties of user setup and system administration from duties such as vendor setup, accounts payable, and posting journal entries. Finally, accounting duties should be assigned to ensure that adequate segregation of duties exists.

CollegeInvest's Response:

Agree. CollegeInvest has already taken steps to secure access to blank check stock from personnel that have system administration rights. Staff with full administration rights do not have the authority to send wires, do not have access to blank check stock and do not have accounts payable invoice signature authority. CollegeInvest has the following compensating controls that mitigate the risk associated with accounting department staff with full administration rights to software:

1. All checks and corresponding invoices are reviewed by the Chief Financial Officer.
2. CollegeInvest performs a detailed review of actual to budget on a quarterly basis.

Additionally, CollegeInvest will implement a review of all new accounts payable vendors on a monthly basis. All new vendors will be approved by the Controller and the Chief Financial Officer. This process will be implemented as of November 30, 2007.

CollegeInvest also plans to transfer responsibility for administrative rights to the Information Technology Department by June 30, 2008. In the interim, CollegeInvest believes the controls surrounding cash disbursements will be sufficient to mitigate the risk associated with accounting department staff with full administration rights until the transfer of this function.

DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS

There were no findings or recommendations reported in the financial audit of the Prepaid Tuition Fund for the fiscal year ended June 30, 2006.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of CollegeInvest (a division of the Department of Higher Education, State of Colorado) Prepaid Tuition Fund as of and for the years ending June 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of CollegeInvest Prepaid Tuition Fund'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 audits 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 Note 1 – Organization and Summary of Significant Accounting Policies, the financial statements of the Prepaid Tuition Fund are intended to present the financial position, results of operations and cash flows for only that portion of the financial reporting entity, State of Colorado, that is attributable to the transactions of CollegeInvest Prepaid Tuition Fund. They do not purport to, and do not present fairly, the financial position of the State of Colorado as of June 30, 2007 and 2006, and the changes in its financial position and its cash flows, where applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CollegeInvest Prepaid Tuition Fund, as of June 30, 2007 and 2006, and the changes in its financial position and its cash flows 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 10, 2007 on our consideration of CollegeInvest Prepaid Tuition Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

CollegeInvest Prepaid Tuition Fund has net deficits of approximately $1,865,000 and $2,278,000 as of June 30, 2007 and 2006, respectively. During fiscal year 2005, a bond laddering strategy was implemented with the goal of matching bond maturities and coupon payments to expected net cash outflows. The bond portfolio will be evaluated on an annual basis and rebalanced, if necessary. The intent of the CollegeInvest Prepaid Tuition Fund is to hold the investments to maturity, which should reduce the Fund's economic dependency on market fluctuations. The CollegeInvest Prepaid Tuition Fund is dependent upon a positive return on its investments and/or future contributions from CollegeInvest to meet its obligations. See Notes 1, 9, and 10 in Notes to Financial Statements.

The Management's Discussion and Analysis on pages 12 to 18 is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Greenwood Village, Colorado
December 10, 2007

COLLEGEINVEST
PREPAID TUITION FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007 AND 2006

This section of the Prepaid Tuition Fund's financial statements is a discussion and analysis of the financial performance of the Prepaid Tuition Fund (Fund) for the years ended June 30, 2007 and 2006. The Fund is a qualified state tuition program pursuant to Internal Revenue Code (IRC) Section 529. CollegeInvest, a division of the Department of Higher Education of the State of Colorado, administers the Funds; the Student Loan Program Funds, which consists of the Borrower Benefit Fund, the Bond Funds, the CollegeInvest Early Achievers Scholarship Fund (formerly the College in Colorado Scholarship Trust), and the Nursing Teacher Loan Forgiveness Fund; and the College Savings Program, which consists of the Scholars Choice, Direct Portfolio, and Stable Value Plus Funds. The Fund is presented as a proprietary fund in the State of Colorado Comprehensive Annual Financial Report. CollegeInvest's Board of Directors (Board) approves the annual budget and the investment policy of the Prepaid Tuition Fund. Management of CollegeInvest is responsible for the financial statements, footnotes and this discussion. The management's discussion and analysis should be read in conjunction with the Fund's financial statements.

Overview of the Financial Statements:

This annual report contains two sections – management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows.

The Statement of Net Assets presents information on all of the Fund's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Fund Net Assets presents information that reflects how the Prepaid Tuition Fund's net assets changed during the past year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The Statement of Cash Flows reports the Fund's cash flows from operating, investing, and non-capital financing activities.

Analysis of Financial Activities:

The Fund was designed to provide families with an opportunity to save for future college education expenses. The Fund offers certain Federal and State tax advantages to investors. A purchaser can use amounts paid from the Fund to pay for eligible expenses at private and public colleges, universities, and vocational schools throughout the United States. As of August 1, 2002, the Fund was closed to new enrollments and gifts, although current investors with installment contracts may continue to make contract payments.

Analysis of Financial Activities (continued):

Effective February 20, 2003, the contract terms were amended as follows:

- ❖ Prior to the First Payout Date (the date identified in the contract on which is the anticipated date funds are needed to pay for school) withdrawals can be made from the Fund accounts. The withdrawals will be the lesser of:
    1) a pro rata share of assets in the Fund;
    2) the amount contributed; or
    3) average tuition as defined in the contract.

- ❖ The value of annual tuition unit increases for distributions will be limited to the lesser of 1) the percentage increase in actual average tuition at Colorado public colleges and universities (as defined in the Program Disclosure Statement), or 2) 5.5%.

CollegeInvest utilizes the Borrower Benefit Fund (within the Student Loan Program Funds of CollegeInvest) for payment of general and administrative expenses and other activities necessary to fulfill the purposes of the various funds, including the Fund. Expenses paid from the Borrower Benefit Fund related to the Fund are allocated to and reimbursed by the Fund.

Comparison of Current Year Results to Prior Year:

Condensed Statement of Net Assets as of June 30:	**2007**	2006	2005
	(dollar amounts expressed in thousands)		
Assets:			
Cash and investments	**$ 33,867**	$ 34,337	$ 37,284
Advance payment contract receivables	**2,694**	3,633	4,894
Interest receivable	**409**	427	428
Total assets	**36,970**	38,397	42,606
Liabilities:			
Accounts payable, accrued expenses and amounts due to Student Loan Program Funds	**87**	85	77
Contracts and benefits payable - current	**4,595**	4,276	3,928
Contracts and benefits payable - noncurrent	**34,153**	36,314	38,558
Total liabilities	**38,835**	40,675	42,563
Net assets restricted for contracts and benefits	**$ (1,865)**	$ (2,278)	$ 43

Cash and investments decreased by $470,000 from June 30, 2006 to June 30, 2007. For the fiscal year ended June 30, 2007, cash received from investments redeemed, installment payments, and interest on investments amounted to approximately $4.4 million, while cash decreased due to

Comparison of Current Year Results to Prior Year (continued):

tuition payments, cancellations, rollovers, and administrative expenses amounting to approximately $3.8 million. This resulted in a net increase in cash of $669,000. The investments decreased by $1.1 million which is primarily due to the Fund adjusting its fixed income investments to fair market value at June 30, 2007. The Fund expects to hold its fixed income investments to maturity and therefore, does not anticipate realizing investment losses. However, if the Fund's cash flows vary materially from those forecasted, the Fund may have to liquidate certain investments at the market value, which could be at a loss.

Cash and investments decreased by approximately $3.0 million from June 30, 2005 to June 30, 2006. For the fiscal year ended June 30, 2006, cash received from installment payments and interest on investments amounting to approximately $2.9 million, while cash decreased due to tuition payments, cancellations, and rollovers amounting to approximately $3.6 million. This resulted in a net decrease in cash of $700,000. The investments decreased by $2.3 million which is primarily due to the Fund adjusting its fixed income investments to fair market value at June 30, 2006.

Advance payment contract receivables decreased by approximately $1.0 million from June 30, 2006 to June 30, 2007. The decrease was a combination of installment contract principal payments received of $800,000 and cancellations and rollovers to other qualified plans of $143,000. Advance payment contract receivables decreased by approximately $1.3 million from June 30, 2005 to June 30, 2006. The decrease was a combination of installment contract principal payments received of $1.0 million and cancellations and rollovers to other qualified plans of $255,000.

The decrease to contracts and benefits payable from June 30, 2006 to June 30, 2007 of $1.8 million was the net result of (1) a decrease of approximately $3.5 million for payments to contract holders for current tuition payments, cancellations and rollovers, and (2) an increase in the liability of approximately $1.7 million due to the accumulation of future benefits to contract holders. The decrease to contracts and benefits payable from June 30, 2005 to June 30, 2006 of $1.9 million was the net result of (1) a decrease of approximately $3.6 million for payments to contract holders for current tuition payments, cancellations, and rollovers, and (2) an increase in the liability of approximately $1.7 million due to the accumulation of future benefits to contract holders. See the contracts and benefits expense variance explanation for further details.

Comparison of Current Year Results to Prior Year (continued):

Condensed Statement of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30:	**2007**	2006	2005
	(dollar amounts expressed in thousands)		
Operating revenues:			
Contract income	**$ 251**	$ 303	$ 393
Investment income	**1,463**	1,588	1,037
Net realized and unrealized gain (loss) on investments	**714**	(2,260)	2,102
Total operating revenues	**2,428**	(369)	3,532
Operating expenses:			
Contracts and benefits expense	**1,821**	1,757	6,534
Other expenses	**194**	195	216
Total operating expenses	**2,015**	1,952	6,750
Net operating income (loss) before transfers	**413**	(2,321)	(3,218)
Transfer from Student Loan Program Funds	**-**	-	1,600
Change in net assets	**413**	(2,321)	(1,618)
Net assets, beginning of year	**(2,278)**	43	1,661
Net assets, end of year	**$ (1,865)**	$ (2,278)	$ 43

Contract income decreased by $52,000 for the year ended June 30, 2007 from the year ended June 30, 2006 due primarily to the continued reduction in the number of participants making installment contract payments. The number of installment contracts decreased by approximately 210 from 1,300 as of June 30, 2006 to 1,090 as of June 30, 2007 primarily as a result of final installment payments received from contract holders. Additionally, during the contract's early amortization period, a large percentage of the monthly payment is used for paying the interest and as the contract is paid down, more of the monthly payment is applied to principal, resulting in a decrease in contract income.

Contract income decreased by $90,000 for the year ended June 30, 2006 from the year ended June 30, 2005. The decrease is due to a reduction in the number of participants making installment contract payments. The number of installment contracts decreased by 235 from 1,535 as of June 30, 2005 to 1,300 as of June 30, 2006 primarily as a result of final installment payments received from contract holders.

Comparison of Current Year Results to Prior Year (continued):

Investment income and net realized and unrealized gain on investments are comprised of the following:

	2007	2006	2005
	(dollar amounts expressed in thousands)		
Interest income	**$ 1,463**	$ 1,588	$ 1,005
Dividend income	**-**	-	32
Total investment income	**$ 1,463**	$ 1,588	$ 1,037
Realized gain on investments	**$ -**	$ -	$ 1,885
Unrealized gain (loss) on investments	**714**	(2,260)	217
Net realized and unrealized gain on investments	**$ 714**	$ (2,260)	$ 2,102

During the year ended June 30, 2005, the Borrower Benefit Fund within the Student Loan Program Funds transferred $1.6 million to the Fund. Utilizing gains on earnings and the $1.6 million transfer, the Fund effected a change in its investment strategy from 60% equity and 40% fixed income to 100% fixed income as of January 2005. The goal of the amended investment strategy is to minimize volatility of investment values and returns by purchasing high grade bonds with maturities that match projected future cash flows of the Fund. The increases in interest income and decreases in dividend income are due to a change in the investment policy statement and investment strategy of the Fund as described below.

Interest income decreased by $125,000 for the year ended June 30, 2007 from the year ended June 30, 2006. The change is primarily due to the maturity of two investments totaling $1.8 million. Interest income increased by $583,000 and dividend income decreased by $32,000 for the year ended June 30, 2006 from the year ended June 30, 2005.

For the years ended June 30, 2007 and 2006, interest income was comprised of interest on corporate and treasury bonds. For the year ended June 30, 2005, interest income was comprised of interest on Treasury Inflation-Protected Securities for the first half of the year and on corporate and treasury bonds for the last half of the year. The annualized yield on investments, including unrealized gains and losses, of the Fund was 3.2% and (4.2%) for the fiscal years ended June 30, 2007 and 2006, respectively.

The fixed income investment portfolio had an unrealized gain of $714,000 and a loss of $2.3 million as of June 30, 2007 and 2006, respectively, due to market adjustments of investment values.

Contracts and benefits expense consists of the annual accrual of future benefits adjusted for the actual experience of tuition payments, cancellations, and rollovers during the year. This expense increased by $64,000 for the year ended June 30, 2007 from the year ended June 30, 2006, and decreased by $4.8 million for the year ended June 30, 2006 from the year ended June 30, 2005. The changes are due primarily to a change in the investment return assumption for the Fund's investments. For the year ended June 30, 2005, the Fund revised its investment strategy and the investment return assumption was reduced to 4.5%. A higher investment return assumption results

Comparison of Current Year Results to Prior Year (continued):

in a lower liability. Therefore, lowering the investment return assumption as of June 30, 2005 increased the liability and the corresponding expense, or accrual of future benefits. The small increase for fiscal year 2007 was due to contract holder withdrawals slightly lower than expected.

The Fund's statute limits its administrative expenses to 1% of contract price. The Fund's expenses subject to this limit have been as follows:

	2007	2006	2005
	(dollar amounts expressed in thousands)		
Expenses subject to the 1% cap	**$ 171,000**	$ 175,000	$ 192,000
1% cap	**$ 278,000**	$ 308,000	$ 341,000

Expenses did not exceed the 1% cap of contract price for the years ended June 30, 2007, 2006, or 2005. There is no assurance that the 1% cap will be sufficient to cover operating costs in the future as the overall program decreases.

Economic Factors and Future Years' Rates:

- As of August 1, 2002, the Fund suspended execution of new contracts. The Fund is collecting payments on installment contracts but does not have any other incoming cash payments except what it receives in interest income.

- The Fund's amended contract terms limit the annual percentage increases in average tuition for distributions to the lesser of 1) the percentage increase in actual average tuition of Colorado public colleges and universities, or 2) 5.5%. In addition, the Fund offers a minimum cumulative return of 4% per annum calculated at the time of distribution. Average tuition as computed under these contract terms increased 5.5% in fiscal years 2006 and 2007 from $30.88 per unit as of August 1, 2005 to $32.58 per unit as of August 1, 2006 and to $34.37 as of August 1, 2007. Actual average tuition of Colorado public colleges and universities increased by 10.3% and 9.3% for the 2006-2007 and 2007-2008 school years, respectively.

- During the year ended June 30, 2005, the Fund amended its investment policy. The goal of the amended investment strategy is to minimize volatility of investment values and returns by purchasing high grade bond investments with maturities that match projected future cash flows of the Fund. The Fund has implemented the amended investment strategy. See Note 2 in the notes to financial statements for details on investments.

Economic Factors and Future Years' Rates (continued):

- Future fair market valuation of fixed income securities may fluctuate based on interest rates. The Fund's intent is to hold these investments to maturity. The Fund has not liquidated any investments prior to maturity since the amended investment policy was placed into effect. However, if the Fund liquidated fixed income securities prior to maturity it may experience different returns than expected.

- The contract and benefit liability is calculated based on assumptions determined by management. Management utilizes past experience, as well as consultation with an actuary who is experienced in prepaid tuition plans, to determine the assumptions used in the liability calculation. The assumptions related to the timing of cash flows were used as a basis for management's investment decisions. Variances between the cash flows experienced by the Fund and the assumptions utilized by management may impact the ability of the Fund to meet its obligations as they come due.

- The Borrower Benefit Fund did not contribute any monies or fund any general and administrative expenses during the years ended June 30, 2007 or 2006. During the year ended June 30, 2005, the Borrower Benefit Fund contributed $1.6 million to the Fund to implement the new fixed income investment strategy. Contributions are considered voluntary contributions and may not be available in future years. If it is determined that the Fund is not financially sound, then the Fund may discontinue permanently or for a period of time may suspend that particular aspect of the Fund.

Requests for Information:

This report is designed to provide a general overview of the Fund's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Kenton J. Spuehler, Chief Financial Officer, CollegeInvest, 1801 Broadway, Suite 1300, Denver, CO 80202.

COLLEGEINVEST
PREPAID TUITION FUND
STATEMENTS OF NET ASSETS
JUNE 30, 2007 AND 2006
(dollar amounts expressed in thousands)

	2007	2006
Assets:		
Current assets:		
Cash deposits	$ **1,962**	$ 1,293
Investments	**1,837**	32
Advance payment contract receivables	**616**	815
Interest receivable	**409**	427
Total current assets	**4,824**	2,567
Noncurrent assets:		
Investments	**30,068**	33,012
Advance payment contract receivables	**2,078**	2,818
Total noncurrent assets	**32,146**	35,830
Total assets	**36,970**	38,397
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	**29**	33
Due to Student Loan Program Funds	**58**	52
Contracts and benefits payable	**4,595**	4,276
Total current liabilities	**4,682**	4,361
Noncurrent liabilities:		
Contracts and benefits payable	**34,153**	36,314
Total noncurrent liabilities	**34,153**	36,314
Total liabilities	**38,835**	40,675
Net assets restricted for contracts and benefits	**(1,865)**	(2,278)
Total net assets	$ **(1,865)**	$ (2,278)

The accompanying notes are an integral part of these financial statements.

COLLEGEINVEST
PREPAID TUITION FUND
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(dollar amounts expressed in thousands)

	2007	2006
Operating revenues:		
Contract income	$ 251	$ 303
Investment income	1,463	1,588
Net realized and unrealized (loss) gain on investments	714	(2,260)
Total operating revenues	2,428	(369)
Operating expenses:		
Contracts and benefits expense	1,821	1,757
General and administrative expenses	138	142
Salaries and benefits	56	53
Total operating expenses	2,015	1,952
Change in net assets	413	(2,321)
Net assets, beginning of year	(2,278)	43
Net assets, end of year	$ (1,865)	$ (2,278)

The accompanying notes are an integral part of these financial statements.

COLLEGEINVEST
PREPAID TUITION FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(dollar amounts expressed in thousands)

	2007	2006
Cash Flows from Operating Activities:		
Cash receipts from advance payment contracts	**$ 1,056**	$ 1,323
Cash distributions for advance payment contracts	**(3,529)**	(3,406)
Cash payments to suppliers for goods and services	**(170)**	(151)
Cash payments to employees for service	**(56)**	(53)
Net cash used by operating activities	**(2,699)**	(2,287)
Cash Flows from Investing Activities:		
Redemptions of investments	**1,853**	73
Income received from investments	**1,515**	1,589
Net cash provided by investing activities	**3,368**	1,662
Increase (decrease) in cash and cash equivalents	**669**	(625)
Cash and cash equivalents, beginning of period	**1,293**	1,918
Cash and cash equivalents, end of period	**$ 1,962**	$ 1,293

The accompanying notes are an integral part of these financial statements.

COLLEGEINVEST
PREPAID TUITION FUND
STATEMENTS OF CASH FLOWS (continued)
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(dollar amounts expressed in thousands)

	2007	2006
Reconciliation of net gain (loss) to net cash used by operating activities:		
Change in net assets	**$ 413**	$ (2,321)
Items reflected as investing activities:		
Income received from investments	**(1,515)**	(1,589)
Adjustments to reconcile net gain (loss) to net cash used by operating activities:		
Net depreciation (appreciation) of fair value of investments	**(714)**	2,249
Changes in operating assets and liabilities:		
Advance payment contract receivables	**939**	1,261
Interest receivable	**18**	1
Accounts payable and accrued expenses	**(4)**	14
Due to Student Loan Program Funds	**6**	(6)
Contracts and benefits payable	**(1,842)**	(1,896)
Net cash used by operating activities	**$ (2,699)**	$ (2,287)

The accompanying notes are an integral part of these financial statements.

1. Organization and Summary of Significant Accounting Policies:

Pursuant to the Colorado Revised Statutes 23-3.1-201, et seq., and 23-3.1-301, et seq., as amended, CollegeInvest is a division of the Colorado Department of Higher Education (Department) of the State of Colorado. The Executive Director of the Department (Executive Director) has responsibility for oversight and management of CollegeInvest and appoints the Director of CollegeInvest. In addition, CollegeInvest has a nine-person Board of Directors (Board) designated by the Governor and approved by the State Senate to serve four-year terms.

The Colorado General Assembly established a student obligation bond program (Student Loan Program Funds), a post secondary education expense program (Prepaid Tuition Fund), a college savings program (Scholars Choice, Direct Portfolio, and Stable Value Plus Funds), a scholarship trust program (CollegeInvest Early Achievers Scholarship Fund) and a Nursing Teacher Loan Forgiveness program (Nursing Teacher Loan Forgiveness Fund) which are administered by CollegeInvest. The mission of CollegeInvest is to be Colorado's higher education financing leader and to help Colorado families break down the financial barriers to college. The operations of the programs of CollegeInvest are accounted for under generally accepted accounting principles. CollegeInvest receives no grants from, and is not otherwise financially assisted by, the State or any local government of the State. CollegeInvest is an enterprise under Section 20, Article X of the Colorado Constitution.

Prepaid Tuition Fund

The Prepaid Tuition Fund (Fund) was established in 1997 to provide families with an opportunity to save for future college education expenses. The Fund offered an annual enrollment period for purchasers to buy prepaid tuition contracts until July 31, 2002. Effective August 1, 2002, the Fund ceased accepting new contracts. The Fund offers certain Federal and State tax advantages to investors.

The Fund was designed to keep pace with average tuition inflation in Colorado. Under the original contract terms, a purchaser bought tuition units based on current average tuition levels and the investment was valued and paid out at the level of average tuition or an average minimum of 4% per year over the life of the contract (when held until the first payout date), whichever was greater, at the time of payout. The contract terms were amended on February 20, 2003. Under the new terms, the annual increase in average tuition as defined below is limited to the lesser of 1) the percentage increase in actual average tuition at Colorado public colleges and universities, or 2) 5.5%.

Average tuition is determined annually by the Fund by adding (1) the sum of the applicable year's resident, undergraduate, general full-time tuition at all Colorado public four-year colleges and universities, to (2) the average full-time tuition at the State community colleges for that year. Full-time tuition equates to the tuition charged for the equivalent of fifteen credit hours for each of two semesters. The total of (1) and (2) above is then divided by the number of Colorado public four-year colleges and universities in existence at such time plus one for the State community colleges.

1. Organization and Summary of Significant Accounting Policies (continued):

Prepaid Tuition Fund (continued)

A purchaser can use amounts contributed and earned in the Fund to pay eligible expenses at private and public colleges, universities and vocational schools throughout the United States.

A qualified withdrawal is a withdrawal made to pay qualified higher education expenses of the student. All withdrawals other than qualified withdrawals are considered non-qualified withdrawals. Non-qualified withdrawals are subject to a 10% penalty on earnings per Section 529 of the Internal Revenue Code. A non-qualified withdrawal is not subject to the 10% penalty only if the withdrawal is: (i) made on account of the death or disability of the student; (ii) made on account of a scholarship received by the student, to the extent that the withdrawal does not exceed the amount of the scholarship; or (iii) a non-taxable transfer to another account or to another Section 529 program on behalf of a student or for a different student who is a family member of the original student. A nonqualified withdrawal may also be subject to recapture in the event a deduction had been taken from Colorado taxable income.

The Colorado Constitution and other State laws prohibit the State from providing its full faith and credit to obligations of other entities, such as the Fund. As a result, payments from the Fund are not guaranteed in any way by the State, and are not considered to have created a debt or obligation of the State. Such payments are limited obligations, payable from the Fund, but not from the other assets of CollegeInvest or the State.

In accordance with the Colorado Revised Statutes (CRS) 23-3.1-206.7(5)(d), CollegeInvest shall evaluate the actuarial soundness of the Prepaid Tuition Fund if, on the last day of the fiscal year, more than ten percent of the Fund is invested in common or preferred stock; corporate bonds, notes, or debentures that are convertible into common or preferred stock; or investment trust shares. CollegeInvest may contract with a consultant to perform this actuarial evaluation. If, based upon an actuarial evaluation, CollegeInvest determines that the Fund is not actuarially sound, CollegeInvest may direct the distribution of available assets. As of June 30, 2007 and 2006 investments of the Fund were 100% fixed income and therefore, an actuarial valuation was not obtained. The Fund has estimated its contract and benefit liability as of June 30, 2007 and 2006 based on cash flows prepared by an actuary without a formal actuarial report. The CRS also states that if it is determined that the Fund is not financially sound, then the Fund may discontinue permanently or for a period of time may suspend a particular aspect of the Fund and the execution of additional contracts. Likewise, if it is determined that an excess amount exists in the Fund, CollegeInvest would calculate the portion of such excess that would be attributable on a pro rata basis to each tuition unit. As of August 1, 2002, the Fund suspended execution of new contracts.

1. Organization and Summary of Significant Accounting Policies (continued):

Reporting Entity:

The Fund was established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. Purchaser payments and the earnings thereon are invested to meet the obligations for future higher education expenses of a named student under each contract. The payment of general and administrative expenses and other activities of the Fund necessary to fulfill its purposes are recorded within the Fund. There are no other funds of CollegeInvest combined with the Fund in the accompanying financial statements. Thus, the accompanying financial statements are not intended to present the financial position, results of operations, and cash flows of CollegeInvest as a whole in conformity with accounting principles generally accepted in the United States of America.

Budgets and Budgetary Accounting:

By statute, the Fund is continuously appropriated through user charges. Therefore, the budget is not legislatively adopted and a Statement of Revenues and Expenses – Budget to Actual is not a required part of these financial statements. Total budgeted expenses for the Prepaid Tuition Fund for the fiscal year ended June 30, 2007 were $1.8 million, compared to actual expenses of $2.0 million. The actual contract and benefit expense was over by approximately $200,000, primarily due to timing of certain actuarial assumptions. The actual contract and benefit expense for the fiscal year ended June 30, 2007 is determined using actuarial cash flows while the budget is determined based on a variety of cash inflow and outflow assumptions using historical data.

The Executive Director and the Board exercise oversight responsibilities, including budgetary and financial oversight.

Basis of Accounting:

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and standards of the Governmental Accounting Standards Board (GASB). The Fund has applied pronouncements issued on or before November 30, 1989 by the Financial Accounting Standards Board, the Accounting Principles Board, and the Committee on Accounting Procedure, except for pronouncements that conflict with or contradict those of the GASB.

The accrual basis of accounting is utilized by the Fund. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period they are incurred.

1. Organization and Summary of Significant Accounting Policies (continued):

Operating Revenues and Expenses:

The Fund distinguishes between operating revenues and expenses and nonoperating items in the Statements of Revenues, Expenses and Changes in Fund Net Assets. Operating revenues and expenses generally result from providing services in connection with the Fund's purpose of providing a college savings vehicle to its customers. Operating revenues consist of investment income and fees collected from contract holders. Operating expenses include the cost of payments for tuition, cancellations and rollovers of contracts and for service and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

Cash and Cash Equivalents:

The Fund considers all cash, demand deposit accounts, and State Treasurer's cash pool to be cash equivalents.

Investments:

Investments are carried at fair value, which are primarily determined based on quoted market prices at June 30, 2007 and 2006.

Advance Payment Contract Receivables:

Advance payment contract receivables are recorded at the contract base price. Contract income represents a 7.0% charge for paying over time on all installment contracts (an approximate effective rate of 6.78%).

Compensated Absences:

Compensated absences, known as general leave, includes vacation pay and are included in accounts payable and accrued expenses. Compensated absences are based on an employee's length of service and are earned ratably during the term of employment. Vested and accumulated general leave that is expected to be liquidated by employees of the Fund is accrued and charged against current operations.

Due to Student Loan Program Funds:

The Borrower Benefit Fund within the Student Loan Program Funds of CollegeInvest advances the Fund monies for operating expenses. Advances for operating expenses are repaid quarterly without interest.

1. Organization and Summary of Significant Accounting Policies (continued):

Contracts and Benefits Payable/Expense:

Contracts and benefits payable represent the actuarially determined net present value of education expenses that will be paid in future years to students when they attend the college or university of their choice. The contracts and benefits payable is adjusted and reflected as contracts and benefits expense for the effects of future tuition increases and contract cancellations in accordance with contract terms as amended.

Revenue Recognition:

Advance payment contracts are recorded gross with the cash or receivable offset by contracts and benefits payable with no effect on net income.

Expense Limitation:

The annual administrative expenses of the Fund (excluding contracts and benefits expense and amortization of software costs) is limited by the Colorado Revised Statutes 23-3.1-206.7(5)(e)(I) to 1% of the contract price. For the fiscal years ended June 30, 2007 and 2006, the Fund was in compliance with this requirement.

Use of Estimates:

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 assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ significantly from these estimates.

Reclassifications:

Certain amounts in the June 30, 2006 financial statements have been reclassified to conform to the current year's presentation.

2. Cash Deposits and Investments:

Cash Deposits:

All cash deposits are held by a bank as agent for the Fund or the State Treasurer. Receipts on installment contracts are deposited to demand deposit accounts daily.

2. Cash Deposits and Investments (continued):

Cash Deposits (continued):

CollegeInvest deposits cash with the Colorado State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. CollegeInvest reports its share of the treasurer's unrealized gains/losses based on its participation in the State Treasurer's pool. All of the Capital Treasurer's investments are reported at fair value, which is determined based on quoted market prices at June 30, 2007 and 2006. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the pool. The unrealized gain included in "Investment Income" reflects only the change in fair value during the current fiscal year. Additional information on the treasurer's pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report.

Cash deposits as of June 30 are as follows:

	2007	2006
	(dollar amounts expressed in thousands)	
State Treasurer's Cash Pool	**$ 1,958**	$ 1,290
Demand Deposit Accounts	**4**	3
Total cash deposits	**$ 1,962**	$ 1,293

Custodial Credit Risk – Cash Deposits:

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Fund will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Monies in the demand deposit accounts are insured by federal depository insurance for the first $100,000. Deposits in excess of the $100,000 limit are collateralized subject to the provisions of the State's Public Deposit Protection Act (PDPA) for monies held within the State.

The carrying amount and bank balance of demand deposit accounts was $4,000 and $4,000 as of June 30, 2007 and $3,000 and $3,000 as of June 30, 2006. All amounts were fully insured by the FDIC and therefore, the Fund did not have any custodial credit risk on its cash deposits as of June 30, 2007 and 2006.

Investment Authority and Policy:

Under the Colorado Revised Statutes 23-3.1-216, the State of Colorado Treasury has responsibility for the investment of the Fund's monies, based on the direction of CollegeInvest's Board of Directors.

2. Cash Deposits and Investments (continued):

Investment Authority and Policy (continued):

The Fund's goal is to have cash available for future distributions, cancellations, and expenses. The primary investment objective for the Fund's investable assets is to match bond maturities and bond coupon payments to expected net cash outflows. The table below identifies the investment types that are authorized for the Fund:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Certificates of Deposit	12 months	[B]	[B]
Commercial Paper	9 months	None	[A]
Corporate Debt	None	None	[A]
Repurchase Agreements [C]	None	None	[A]
Banker's Acceptances	None	None	[A]
Money Market Funds	N/A	None	[A]

[A] No more than 10% of the total amount of the fixed-income portion shall be committed to the securities of any one issuer at the time of purchase, with the exception of securities issued or guaranteed by the full faith and credit of the United States or AAA rated securities issued by governmental agencies as to which there is no limit.

[B] No more than 5% of the assets of the short-term investment account shall be committed to certificates of deposit from one institution.

[C] Repurchase agreements must be secured by U.S. Treasury Obligations or U.S. Agency Securities.

Custodial Credit Risk – Investments:

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Fund will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Fund's securities are held by the counterparty in the Fund's name and therefore, custodial credit risk is minimal.

Interest Rate Risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Fund manages exposure to interest rate risk is by purchasing a combination of shorter term and longer

2. Cash Deposits and Investments (continued):

Interest Rate Risk (continued):

term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The Fund monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The Fund has no specific limitations with respect to this metric. Additionally, the Fund intends to hold its fixed income investments to maturity. The Fund had $4.6 million of corporate bonds subject to call options for both years on December 31, 2007 and 2006.

	2007		2006	
Investment Type	**Fair Value**	**Weighted Average Maturity (in years)**	Fair Value	Weighted Average Maturity (in years)
	(dollar amounts expressed in thousands)			
U.S. Agency Securities	**$ 4,956**	**10.8**	$ 4,641	11.9
Corporate Debt	**26,916**	**4.7**	28,371	5.4
Money Market Mutual Funds	**33**	**N/A**	32	N/A
	$ 31,905		$ 33,044	

Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Fund's investment policy and the actual ratings for each investment type:

As of June 30, 2007:

		Standard & Poor's Rating as of Year End						
Investment Type	Minimum Rating	AAA	AA+	AA	AA-	A+	A	NR
		(dollar amounts expressed in thousands)						
U.S. Agency Securities	AAA	$4,956	-	-	-	-	-	-
Corporate Debt	[*]	-	$797	$3,804	$15,750	$ 5,128	$1,437	-
Money Market Mutual Funds	N/A	-	-	-	-	-	-	$ 33

2. Cash Deposits and Investments (continued):

Credit Risk (continued):

As of June 30, 2006:

Investment Type	Minimum Rating	Standard & Poor's Rating as of Year End AAA	AA+	AA	AA-	A+	A	NR
		(dollar amounts expressed in thousands)						
U.S. Agency Securities	AAA	$4,641	-	-	-	-	-	-
Corporate Debt	[*]	-	-	-	$ 4,547	$21,482	$1,397	$ 945
Money Market Mutual Funds	N/A	-	-	-	-	-	-	$ 32

As of June 30, 2007:

Investment Type	Minimum Rating	Moody's Rating as of Year End Aaa	Aa1	Aa2	Aa3	A1	A3	NR
		(dollar amounts expressed in thousands)						
U.S. Agency Securities	Aaa	4,956	-	-	-	-	-	-
Corporate Debt	[*]	-	$ 2,232	$10,181	$11,793	$1,273	$1,437	-
Money Market Mutual Funds	N/A	-	-	-	-	-	-	$ 33

As of June 30, 2006:

Investment Type	Minimum Rating	Moody's Rating as of Year End Aaa	Aa1	Aa2	Aa3	A1	A3	NR
		(dollar amounts expressed in thousands)						
U.S. Agency Securities	Aaa	$4,641	-	-	-	-	-	-
Corporate Debt	[*]	-	$ 785	$ 7,125	$16,864	$1,255	$1,397	$ 945
Money Market Mutual Funds	N/A	-	-	-	-	-	-	$ 32

[*] The Fund's investment policy provides for a minimum rating of at least AA by at least one of the major rating agencies upon acquisition for each specific issue. Any investment downgrades will be evaluated and appropriate action taken, as necessary. The investment policy prohibits investments which cause more than 10% of the fixed income portion to be invested in securities with a less than investment grade rating, or investments which cause the fixed income portion to have an overall quality which is less than A as rated by Moody's or Standard & Poor's.

Concentrations of Credit Risk:

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The investment policy of the Fund contains limitations on the amount that can be

2. Cash Deposits and Investments (continued):

Concentrations of Credit Risk (continued):

invested in any one issuer, as noted above. Investments in any one issuer that represent 5% or more of total the Fund investments as of June 30, 2007 and 2006 are as follows:

Issuer	Investment Type	**2007** **Fair Value**	2006 Fair Value
		(dollar amounts expressed in thousands)	
FNMA	U.S. Agency Securities	**$4,681**	$4,383
Goldman Sachs	Corporate Debt	**$3,364**	$3,315
Morgan Stanley	Corporate Debt	**$3,323**	$3,327
Merrill Lynch & Co.	Corporate Debt	**$3,302**	$3,256
JP Morgan Chase	Corporate Debt	**$2,597**	$2,537
Citigroup	Corporate Debt	**$2,250**	$2,213
Wells Fargo	Corporate Debt	**$2,083**	$2,045
Nationsbank	Corporate Debt	**$1,720**	-
Bank of America	Corporate Debt	**$3,155**	$3,129
AIG/International Lease Finance	Corporate Debt	**-**	$2,200

3. Advance Payment Contract Receivables:

Until August 1, 2002, purchasers entered into advance payment contracts for a number of tuition units. The Fund values and pays out tuition units based on future average tuition (as defined in the contract terms) to the designated student when he or she attends an eligible college of his or her choice. The contracts were purchased with a one-time lump sum payment, a monthly payment plan, or a combination plan. The monthly payment plan allowed the purchaser to determine the monthly payment amount and the number of payments the purchaser wished to make. The combination plan allowed the purchaser to begin paying with a lump sum payment and his or her first monthly payment, followed by subsequent monthly payments. Monthly payment plans are generally for full term (from the contract date until at least three months before the scheduled payout date), five years, or ten years. The full term monthly payment plan has a preset number of months based on the payout year. The full term monthly payment plans range from 10 months remaining for payout year 2008 to 154 months remaining for payout year 2020. Contracts for monthly payment plans generally provide for payment of a contract base price and a charge for paying over time (at an approximate effective rate of 6.78%). Advance payment contract receivables are $2.7 million and $3.6 million as of June 30, 2007 and 2006, respectively. The Fund expects to collect approximately $616,000 in contract receivables during the fiscal year ended June 30, 2008. The remaining $2.0 million is expected to be collected from July 1, 2008 through June 30, 2020.

4. Contracts and Benefits Payable:

The following table presents total contracts and benefits payable of the Fund, including the obligation related to advance payment contract receivables, measured at the actuarial net present value (APV) of the future contracts and benefits expense. The valuation method reflects the present value of estimated contracts and benefits expenses that will be paid in future years and is adjusted for the effects of projected tuition increases and cancellations of certain contracts. Net assets represent assets available to meet the Fund's contracts and benefits payable obligations.

As of June 30:		**2007**		2006
	(dollar amounts expressed in thousands)			
APV of Future Contracts and Benefits Payable	**$**	**38,748**	$	40,590
Total Assets Available for Future Contracts and Benefits are as follows:				
Cash deposits	**$**	**1,962**	$	1,293
Investments		**31,905**		33,044
Advance payment contract receivables		**2,694**		3,633
Interest receivable		**409**		427
Less:				
Accounts payable and accrued expenses		**(29)**		(33)
Due to Student Loan Program Funds		**(58)**		(52)
Total Assets Available for Future Contracts and Benefits Payable	**$**	**36,883**	$	38,312
Excess (Deficit) Assets	**$**	**(1,865)**	$	(2,278)
Total Assets Available as a Percentage of Contracts and Benefits Payable		**95%**		94%

The following assumptions developed by management were used in the actuarial analysis as of June 30, 2007 and 2006. These assumptions are based on historical data both for the State and national trends.

Investment rates — The investment yield assumption is based on estimates of the yields that will be available on the investment portfolio and cash. For both fiscal years ended June 30, 2007 and 2006, the investment yield assumption was 4.5%. For the fiscal years ended June 30, 2007 and 2006, the actual annualized yield on investments was 3.2% and (4.2%), respectively. The actual annualized yield on advance payment contract receivables was 6.78% for both years.

Tuition increases — Tuition increases are based on the current best estimate of future tuition increases for Colorado public four-year colleges and universities in existence at such time plus the State community colleges. For the fiscal year ended June 30, 2007, the tuition increases assumption is 5.5% for three years and 5.25% thereafter. For the fiscal year ended June 30, 2006, the tuition increases assumption is 5.5% per year for four years and 5.25% thereafter. For the fiscal years ended June 30, 2007 and 2006, the actual

4. Contracts and Benefits Payable (continued):

	average tuition increased by 9.3% and 10.3%, respectively. Average tuition as computed under the contract terms increased 5.5% in both the fiscal years ended June 30, 2007 and 2006.
Cancellations	Cancellations occur when a participant rolls funds into another type of plan or ceases to make installment payments on an outstanding contract. Contract cancellations are estimated to be 1.75% per year. Installment cancellations are estimated to be 5.12% per year.

The following schedule of the estimated distribution of contracts and benefits payments does not convey the same information as the actuarial net present value of future contracts and benefits presented on the previous page. The actuarial net present value represents management's estimate of assets required today so that all participants will be paid in the future. The following schedule of the estimated distribution of contracts and benefits payments shows future benefits payments using an expected long-term annualized rate of tuition growth of 5.5% per annum for the first three years and 5.25% thereafter**.** The schedule assumes that contracts that have reached their matriculation will be distributed 45% in the first year, 20% in the second year, 15% in the third year and 10% in both the fourth and fifth year.

	Total (dollar amounts expressed in thousands)
2008	$ 4,403
2009	4,225
2010	4,097
2011	4,308
2012	3,955
2013-2017	18,384
2018-2022	7,495
2023-2026	309
Total Estimated Contracts and Benefits Distributions	$ 47,176

5. Retirement Plan:

Plan Description:

Most of CollegeInvest's employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The state

5. Retirement Plan (continued):

Plan Description (continued):

plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting www.copera.org.

Non-higher education employees hired by the state after January 1, 2006, are allowed 60 days 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, 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. Based on the 2006 legislation, higher education employees hired on or after January 1, 2008, have the additional option of participating in the state's defined contribution plan or PERA's defined contribution plan, which are discussed below, as well as the plans available to other employees in their institution.

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.

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.

5. Retirement Plan (continued):

Plan Description (continued):

- 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 percent of the employer contributions for this population.)

Members disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, their eligible children under the age of 18 (23 if a full time student) or their spouse may be entitled to a single payment or monthly benefit payments. If there is no eligible child or spouse then financially dependent parents, beneficiaries, or the member's estate, may be entitled to a survivor's benefit.

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.

5. Retirement Plan (continued):

Funding Policy (continued):

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, 2006, to December 31, 2006, the state contributed 10.65 percent (13.35 percent for state troopers and 14.16 percent for the Judicial Branch) of the employee's salary. From January 1, 2007, through June 30, 2007, the state contributed 11.15% (13.85 percent for state troopers and 14.66 percent for the Judicial Branch).

During all of Fiscal Year 2006-07, 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, 2005, the division of PERA in which the state participates 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 percent of salary beginning January 1, 2006, an additional .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, legislations passed in the 2006 session required, that future agreements to purchase service credit be sufficient to fund the related actuarial liability.

CollegeInvest's contributions to the Defined Benefit Plan and the Health Care Trust Fund for the fiscal years ending June 30, 2007, 2006 and 2005 were $5,000, $4,000 and $5,000, respectively. These contributions met the contribution requirement for each year.

6. Voluntary Tax-deferred Retirement Plans:

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

7. Other Postretirement Benefits and Life Insurance:

Health Care Program

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. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. Effective July 1, 2000, the maximum monthly subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not 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 less than 20 years.

The Health Care Trust Fund is maintained by an employer's contribution as discussed above in Note 5.

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured medical benefit plans, and another carrier for prescription benefits, and with several health maintenance organizations providing services within Colorado. As of December 31, 2006, there were 42,433 enrollees in the plan.

Life Insurance Program

During Fiscal Year 2007, PERA provided its members access to a group decreasing term life insurance plan offered by UnumProvident in which 41,101 members participated. Active members may join the Unum Provident Plan and continue coverage into retirement. Premiums are collected by monthly payroll deductions or other means. In addition, PERA maintained coverage for 12,790 members under closed group plans underwritten by Anthem Life, Prudential, and New York Life.

8. Risk Management:

Self Insurance

The State of Colorado currently self-insures its agencies, officials, and employees for the risks of losses to which they are exposed. That includes general liability, motor vehicle liability, and worker's compensation. The State Risk Management Fund is a restricted General Fund used for claims adjustment, investigation, defense, and authorization for the settlement and payment of claims or judgements against the State except for employee medical claims. Property claims are not self-insured; rather the State has purchased insurance.

8. Risk Management (continued):

Self Insurance (continued)

Colorado employers are liable for occupational injuries and diseases of their employees. Benefits are prescribed by the Worker's Compensation Act of Colorado for medical expenses and loss of wages resulting from job-related disabilities. The State utilizes the services of Pinnacol Assurance (formerly Colorado Compensation Insurance Authority), a related party, to administer its plan. The State reimburses Pinnacol Assurance for the current cost of claims paid and related administrative expenses.

CollegeInvest participates in the Risk Management Fund. State agency premiums are based on an assessment of risk exposure and historical experience. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

The limits of liability for which the State accepts responsibility pursuant to the Colorado Governmental Immunity Act, section 24-10-101 are as follows:

Liability	Limits of Liability
General & Automobile	Each person $150,000 Each occurrence $600,000

There were no significant reductions or changes in insurance coverage from the prior year. Settled claims did not exceed insurance coverage in any of the past three fiscal years.

Furniture and Equipment

The State of Colorado carries a $15,000 deductible replacement policy on all state owned furniture and equipment. For each loss incurred, CollegeInvest is responsible for the first $1,000 of the deductible and the State of Colorado is responsible for the next $14,000 of the deductible. Any loss in excess of $15,000 is covered by the insurance carrier up to replacement cost.

9. Net Assets:

Restricted net assets includes net assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

9. Net Assets (continued):

The Fund had a deficiency in restricted net assets of $1.9 million and $2.3 million as of June 30, 2007 and 2006, respectively. The deficiency is primarily due to the Fund adjusting its fixed income investments to fair market value and recording unrealized gains and losses based on this adjustment. The Fund expects to hold its fixed income investments to maturity and therefore, does not anticipate realizing investment losses.

Net assets are restricted for the purpose of meeting future payments for higher education expenses as stipulated by the Colorado Revised Statutes 23-3.1-206.7(5)(a) and as agreed to in the advance payment contracts.

10. Economic Dependency on Market Fluctuations:

The Fund had an operating gain for the year ended June 30, 2007 and an operating loss for the year ended June 30, 2006. The Borrower Benefit Fund within the Student Loan Program Funds transferred $1.6 million to the Fund during the year ended June 30, 2005 to provide the Fund with sufficient assets to implement a revised investment strategy. The Borrower Benefit Fund has no obligation to provide additional transfers in the future. A bond laddering strategy was implemented with the goal of matching bond maturities and coupon payments to expected net cash outflows. The bond portfolio will be evaluated on an annual basis and rebalanced, if necessary. The intent of the Fund is to hold the investments to maturity which should reduce the Fund's economic dependency on market fluctuations.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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

Members of the Legislative Audit Committee:

We have audited the basic financial statements of CollegeInvest (a division of the Department of Higher Education, State of Colorado) Prepaid Tuition Fund as of and for the years ending June 30, 2007 and 2006, and have issued our report thereon dated December 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered CollegeInvest'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 entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity'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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 combination of control deficiencies, that adversely affects the entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting (Findings 1 and 2).

A material weakness is a significant deficiency, or 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 entity's internal control.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Greenwood Village, Colorado
December 10, 2007

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 Number 1891A