

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
Denver, Colorado**

**FINANCIAL STATEMENTS  
June 30, 2007 and 2006**

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**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
FINANCIAL AUDIT**  
June 30, 2007

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**Members of the Legislative Audit Committee:**

This report contains the results of the financial audit of the College Savings Program Funds 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 13, 2007

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## **REPORT SUMMARY**

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### **COLLEGEINVEST COLLEGE SAVINGS PROGRAM FUNDS FINANCIAL AUDIT FISCAL YEAR ENDED JUNE 30, 2007**

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#### **Purpose and Scope**

The Office of the State Auditor, State of Colorado, engaged Clifton Gunderson LLP to conduct the financial audit of CollegeInvest College Savings Program Funds 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 College Savings Program Funds' 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 College Savings Program Funds' 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 in internal controls relating to the reconciliation of participant's contributions, distributions and total plan assets to the general ledgers of CollegeInvest in both the Scholars Choice and Direct Portfolio Funds. This finding is presented as Finding #1 in the Findings and Recommendations section of this report.

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

There was a significant deficiency in internal controls relating to deviations from the Scholar's Choice investment policy. The finding is presented as Finding #3 in the Findings and Recommendations section of the report.

There were no findings or 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 College Savings Plan Funds (the Funds) 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 audit 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 Funds' financial position and results of operations.

***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.*** There were no significant accounting estimates of financial data which would be particularly sensitive and require substantial judgments by management.

***Audit Adjustments.*** We noted no adjustments during our audit. However, as a result of our Finding #1, management identified one adjustment of \$48,655,178 to reduce participant contributions and distributions due to an overstatement caused by double counting broker-to-broker transactions.

***Other Information in Documents Containing Audited Financial Statements.*** In connection with the Funds' 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 Funds' 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 COLLEGE SAVINGS PROGRAM FUNDS  
RECOMMENDATION LOCATOR  
FISCAL YEAR ENDED JUNE 30, 2007**

<u>Rec. No.</u>	<u>Page No.</u>	<u>Recommendation Summary</u>	<u>Entity's Response</u>	<u>Implementation Date</u>
1	9	CollegeInvest should require Legg Mason to reconcile detailed participant information to trial balances on a monthly basis.	Partially agree	December 31, 2007
2	11	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
3	12	CollegeInvest should formally accept deviations from the investment policy during Finance and Investment Committee meetings.	Agree	March 31, 2008



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**DESCRIPTION OF THE  
COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS**

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**Organization**

The Colorado General Assembly pursuant to Colorado Revised Statutes 23-3.1-2 01, et seq. and 23-3.1-3 01, 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 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 students 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 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 College Savings Program Funds were established to provide families with an opportunity to save for future college education expenses. The Funds provide an opportunity to invest on a tax-favored basis toward the “qualified higher education expenses” of a designated beneficiary (the Student) associated with attending an institution of higher education. These institutions include most community colleges, public and private four-year colleges, universities, graduate and post-graduate programs, and certain proprietary and vocational schools throughout the United States. “Qualified higher education expenses” include tuition, fees, books, supplies, and equipment required for the enrollment or attendance of a student at an eligible institution of higher education plus, subject to certain limitations, room and board expenses for a student attending such an institution on at least a half time basis.

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 College Savings Program Funds. As a result, payments from the College Savings Program Funds 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 each College Savings Program Fund, but not from the other assets of CollegeInvest.

**Scholars Choice Fund**

The Scholars Choice Fund was established in October 1999. The Scholars Choice Fund had more than 123,000 active accounts and \$2.5 billion in net assets as of June 30, 2007. Officials at CollegeInvest oversee the Fund but contract with a private financial service firm, Coser Bridge Advisors, LLC (CBA) to manage the Fund.

Scholars Choice accounts can be opened any time during the year. At the time an account is established, the purchaser must select from eight investment options. Investors are allowed to change their investment within the Fund once every twelve months. Below are the eight investment options.

- **Age-Based Option** – Contributions are invested in a series of up to seven portfolios over time. As the beneficiary gets older and closer to college age, the fund manager automatically moves investments from higher risk portfolios to lower risk portfolios.
- **Balanced 50/50 Option** – Contributions are invested in a portfolio with a median degree of risk, with 50% invested in stocks and 50% invested in bonds.
- **Years-to-Enrollment Option** – Contributions are invested in a series of up to five portfolios depending on the time to account for maturity, similar to the age based option, but with a more limited, lower risk, range of portfolios.
- **All Equity Option** – Contributions are invested in equity mutual funds that are shifted to bond and money market funds throughout the life of the account. This option carries the highest potential for risk and return through its focus on the equity markets.
- **All Fixed Income Option** – Contributions are invested in bond funds throughout the life of the account. This option seeks stable returns on fixed income investments.
- **Equity 80% Option** – Contributions are invested 80% in equity mutual funds while maintaining 20% in one portfolio with exposure to more stable returns of fixed income investments throughout the life of the account.
- **Fixed Income 80% Option** – Contributions are invested 80% in more stable returns of fixed income investments while maintaining 20% in one portfolio with exposure to the long-term capital appreciation potential of equity mutual funds.
- **Cash Reserve Option** - Contributions are invested in the Western Asset money market mutual fund. The investment objective of the Cash Reserve Option is to seek maximum current income and preservation of capital.

## Direct Portfolio Fund

The Direct Portfolio Fund was established in October 2004. The Direct Portfolio Fund contains only participant accounts that are opened directly (without an investment advisor). Scholars Choice participant accounts that were opened directly were transferred to the Direct Portfolio Fund unless the participant elected to remain with the Scholars Choice Fund.

The Direct Portfolio Fund had more than 33,000 active accounts and \$710 million in net assets as of June 30, 2007. Officials at CollegeInvest oversee the Direct Portfolio Fund but contract with two private financial service firms, Upromise Investments, Inc. and The Vanguard Group, to manage the Fund.

Direct Portfolio accounts can be opened at any time of the year. At the time the account is established, the purchaser must select from eleven investment options. Investors are allowed to change their investment within the Fund once every twelve months. Below are the eleven investment options.

**Age-Based Options** – Contributions are invested in a series of portfolios over time based on the age of the beneficiary. As the beneficiary gets older and closer to college age, the fund manager automatically moves investments from higher risk portfolios to lower risk portfolios. The purchaser can select from three age-based options according to the risks they want to assume. The options are Conservative, Moderate, or Aggressive.

**Blended Portfolios and Individual Portfolios Options** – Contributions can be invested in one of eight portfolio options where they will remain unless the participant changes the investment option. The portfolios are each invested according to a static asset allocation which does not change over time. The eight blended portfolio options are listed below.

- **Aggressive Growth Portfolio Option** – Contributions are invested in a portfolio with a high degree of risk and most potential for capital appreciation. The portfolio is invested 100% in stock market index funds.
- **Growth Portfolio Option** – Contributions are invested in a portfolio that seeks to provide capital appreciation and low to moderate current income. The portfolio is invested 65% in stock market index funds and 35% in bond index funds.
- **Moderate Growth Portfolio Option** – Contributions are invested in a portfolio that seeks to provide capital appreciation and current income. The portfolio is invested 50% in stock market index funds and 50% in bond funds.
- **Conservative Growth Portfolio Option** – Contributions are invested in a portfolio that seeks to provide current income and low to moderate capital appreciation. The portfolio is invested 35% in stock market index funds and 65% in bond funds.
- **Income Portfolio Option** – Contributions are invested in a portfolio that seeks current income. The portfolio is invested 75% in bond funds and 25% in a money market fund.

- **Stock Index Option** – Contributions are invested 100% in the Vanguard Total Stock Market Index Fund that seeks to track the performance of a benchmark index that measures the investment return of the overall stock market.
- **Bond Index Option** – Contributions are invested 100% in the Vanguard Total Bond Market Index Fund that seeks to track the performance of a broad, market-weighted bond index.
- **Money Market Option** – Contributions are invested 100% in the Vanguard Prime Money Market Fund that seeks to provide preservation of principal and current income.

### **Stable Value Plus Fund**

The Stable Value Plus Fund (Fund) began accepting contributions in February 2003. The Stable Value Plus Fund had more than 2,600 active accounts and \$24 million in net assets as of June 30, 2007. CollegeInvest is the trustee and the administrator of the Fund and MetLife is the manager of the Fund.

The Stable Value Plus Fund was designed to provide participants a fixed rate of return, determined on an annual basis, net of an administrative fee calculated on the average daily net assets of the Fund. The current annual rate of return is 4.10% and the current administrative fee is .75%. Therefore, the net rate of return is currently 3.35%. Investments in the Fund are guaranteed solely by MetLife.

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## FINDINGS AND RECOMMENDATIONS

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### **Finding #1: Reconciliation of Participants Information to Trial Balance**

Adequate safeguarding of assets requires strong internal controls such as regular reconciliations of account balances between two separate entities where both are responsible for recordkeeping. In the Scholar's Choice Fund, Legg Mason accounts for all participant contributions, distributions, and total plan assets and also transmits trial balance reports to CollegeInvest on a monthly basis which CollegeInvest uses to adjust its internal records. The trial balance report summarizes the detail of contributions and distributions and also aggregates the total portfolio activity including earnings, fees, and total plan assets. According to Legg Mason, it does not regularly reconcile the detail of the participant contributions, distributions, and total plan assets to the trial balances that it transmits to CollegeInvest, but rather performs the reconciliation on an annual basis. CollegeInvest's contract with Legg Mason requires that:

The Contractor [Legg Mason] shall keep adequate records of the Account Balance with respect to each Account, and compile, prepare and deliver to the Authority [CollegeInvest] and Account Owners on a timely basis the financial information, reports and statements required...

The contract also states that Legg Mason "...shall prepare and deliver to the Authority, within ten (10) calendar days immediately following the end of each calendar month, reports in a form satisfactory to the Authority..." This includes any information that CollegeInvest reasonably requests.

During our tests of controls in the Scholars Choice Fund, we attempted to reconcile the participant details reported to us directly by Legg Mason to the trial balances of CollegeInvest. During this process, we noted that there were significant differences between amounts reported to us by Legg Mason as participant contributions, distributions, and total plan assets and amounts recorded by CollegeInvest on its general ledger and financial statements. As a result of our initial discussion of these differences with CollegeInvest, management identified an adjustment of \$48,655,178 to reduce participant contributions and distributions due to an overstatement caused by double counting broker-to-broker transactions. Without performing a full reconciliation between participant contributions, distributions, and total plan assets and the trial balance on a regular basis there is a more than likely chance that misstatements may occur that are more than inconsequential without being detected on a timely basis. In turn, these errors could affect participants' earnings. CollegeInvest has a fiduciary duty to ensure participant activity is recorded accurately and that errors are detected and addressed in a timely manner.

*Recommendation #1:*

CollegeInvest should ensure that Legg Mason complies with the contract by requiring that Legg Mason keep adequate records on the detailed amount of participant contributions, distributions, and total plan assets. This would include CollegeInvest requiring that Legg Mason provide verification that the monthly trial balances have been reconciled to account activity on a timely basis.

*CollegeInvest's Response*

Partially Agree. Legg Mason utilizes the following vendors for recordkeeping and custodial services for the Scholars Choice College Savings Plan (Plan):

1. State Street Bank (SSTB) serves as the custodian for the securities of the underlying funds of the Plan and prepares the trial balances for the Plan. SSTB performs a daily share reconciliation that insures that total participant shares in the recordkeeping systems agree to outstanding shares in the Plan's accounting records. SSTB obtains a SAS70 annually.
2. Smith Barney and Boston Financial Data Services (BFDS) maintain the individual accounts on a daily basis. Smith Barney maintains the accounts for Smith Barney brokers and BFDS maintains the accounts for Citigroup affiliates and third-party brokers. Both entities obtain SAS70 reports annually.
3. Legg Mason Fund Services and Legg Mason Global Funds Administration performs recordkeeping for the Plan and utilizes its 529 Operations Department to perform oversight for the various contractors utilized for recordkeeping, accounting and custodial services.

CollegeInvest agrees that a periodic reconciliation should be performed. However, CollegeInvest feels that the share reconciliation that is performed by SSTB is sufficient. CollegeInvest will implement a quarterly review of the share reconciliation that is performed by State Street Bank. Any material discrepancies will be investigated. Additionally, as part of the annual audit process, CollegeInvest will insure that all reconciling items are documented and any other variances are immaterial. As of June 30, 2007, all reconciling items are documented.

Almost all of the reconciling items as of June 30, 2007, were due to broker to broker transfers. As noted above, CollegeInvest identified a reclassification to reduce participant contributions and redemptions caused by broker to broker transactions. Broker to broker transfers occur when a broker transfers from the Smith Barney platform to the BFDS platform, or vice versa. The process to transfer from one platform to the other is accomplished in the recordkeeping system as a redemption from the current platform and a contribution to the new platform. This process ensures all shares and assets remain invested at all times and the participant's account is never out of the market. Going forward, these transactions will be reclassified and netted in the trial balance so that contributions and redemptions are not overstated. Participant accounts were not affected by broker-to-broker transfers or by this reclassification.

CollegeInvest understands that the current process of daily share reconciliation is the industry norm for financial products including mutual funds and 401Ks. Further, CollegeInvest believes that the daily share reconciliation performed by SSTB is sufficient because the following additional controls are in place for participant accounts:

1. Participants receive written notification of all cash transactions posted to their account. This includes contributions, redemptions and exchanges. The only exclusion is for periodic automated contribution and redemptions via ACH. Notifications are sent to participants the following day.
2. Participants receive written address change notification.
3. Participants receive a written quarterly account statement.
4. Participants may have 24 hour a day online account access, if desired.
5. A statistical sample of all transactions is selected daily by Boston Financial Data Services and is reviewed for quality control.
6. A statistical sample of all quarterly account statements is selected by Legg Mason Fund Services and Smith Barney and is verified against the transactions for the corresponding quarter.
7. Clifton Gunderson selects a sample of contributions and redemptions as part of its annual audit process. There were no exceptions in the audit sample.

#### *Auditor's Addendum*

Without requiring Legg Mason to provide verification of a regular reconciliation between the monthly trial balances, the basis for CollegeInvest's monthly adjustments to its internal records, and the account activity, CollegeInvest cannot ensure that misstatements will be detected on a timely basis. This affects the accuracy of reporting participant account activity and could impact participants' earnings.

#### **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, includes 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. As a mitigating control, neither of these individuals receive the bank statement or prepare or review the bank reconciliations. However, the ability to access assets and record entries in the financial systems represents a lack of segregation of duties that should be addressed.

*Recommendation #2:*

CollegeInvest should improve its internal controls over cash and other assets by expanding its internal control procedures to include adequate segregation of duties related to 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.

**Finding #3: Compliance with Investment Policy**

The Board of Directors has adopted a policy that defines certain parameters within which the Scholar's Choice Funds investment managers may invest participant's contributions. Investments that are noncompliant with the stated policy may produce results that are inconsistent with the Board's intentions.

The ongoing monitoring of the performance of the financial institution selected as the Fund's administrator has been delegated to the Finance and Investment Committee (the Committee). During our audit, we noted that certain investments in the Scholars Choice Fund do not comply with the stated policy adopted by the Board. Legg Mason, the Fund's administrator, created a Letter of Understanding with CollegeInvest to address this issue. On a quarterly basis, Legg Mason provides information on these investments outside of the policy to CollegeInvest. According to CollegeInvest management, the Committee reviews these reports, and if the variances are immaterial to the fund, the Committee would not recommend changes but would continue to monitor the differences. During our review of the minutes of the Committee, we did



not note any mention of approval by the Committee of deviations from the Board's investment policy. Lack of such documentation gives the appearance that the policy is not being actively enforced by the Committee.

*Recommendation #3:*

We recommend that CollegeInvest formally accept deviations that are not considered threats to the intent of the Board or the spirit in which the policy was created through discussion and documentation of those discussions in the minutes of the Committee.

*CollegeInvest's Response*

Agree. CollegeInvest established a Letter of Understanding with Legg Mason to address variances from the Investment Policy Statement. CollegeInvest continues to monitor all variances and documents discussion and resolution of material deviations from the Investment Policy Statement in the minutes of the Finance and Investment Committee. In addition, CollegeInvest will reaffirm with the Board how it would like to resolve immaterial variances by no later than March 31, 2008.

## Independent Auditor's Report

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of each major fiduciary fund of CollegeInvest, (a division of the Department of Higher Education, State of Colorado) College Savings Program Funds, as of and for the years ending June 30, 2007 and 2006 which collectively comprise the basic financial statements of the CollegeInvest College Savings Program Funds, as listed in the table of contents. These financial statements are the responsibility of CollegeInvest College Savings Program Funds' management. Our responsibility is to express opinions 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 opinions.

As discussed in Note 1 – Organization and Summary of Significant Accounting Policies, the financial statements of the CollegeInvest College Savings Program Funds are intended to present the financial position and results of operations for only that portion of the financial reporting entity, State of Colorado, that is attributable to the transactions of CollegeInvest, College Savings Program Funds. 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 net assets of each major fiduciary fund of CollegeInvest's College Savings Program Funds, as of June 30, 2007 and 2006, and the changes in net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2007 on our consideration of CollegeInvest's College Savings Program Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 16 to 21 is not a required part of the basic financial statements but is supplementary 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.

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

*Clifton Henderson LLP*

Greenwood Village, Colorado  
December 13, 2007

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007 AND 2006**

This section of the College Savings Program Funds' (Funds) financial statements is a discussion and analysis of the financial performance of the Funds for the years ended June 30, 2007 and 2006 prepared by management. The Funds are Internal Revenue Code (IRC) Section 529 college savings plans administered by CollegeInvest. CollegeInvest, a division of the Department of Higher Education of the State of Colorado, administers the Funds, the Student Loan Program Funds, the Prepaid Tuition Fund, the CollegeInvest Early Achievers Scholarship Fund (formerly the College in Colorado Scholarship Trust), and the Nursing Teacher Loan Forgiveness Fund. The Scholars Choice, Direct Portfolio, and Stable Value Plus Funds are plans within the Section 529 college savings program of CollegeInvest (Program). The Funds are presented as fiduciary funds (specifically, private purpose trust funds) in the State of Colorado Comprehensive Annual Financial Report. Management is responsible for the financial statements, footnotes, and this discussion. The management's discussion and analysis should be read in conjunction with the Funds' 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 the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets.

The Statement of Fiduciary Net Assets presents information on all of the Funds' 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 Funds are improving or deteriorating.

The Statement of Changes in Fiduciary Net Assets presents information that reflects how the Funds' 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.

**Analysis of Financial Activities:**

The Executive Director of the Department of Higher Education of the State of Colorado (Executive Director) and CollegeInvest's Board of Directors approve the annual budget and the investment policies of the Funds. The Scholars Choice Fund began operations and accepting participant contributions in October 1999. The Stable Value Plus Fund began accepting participant contributions in February 2003. The Direct Portfolio Fund began operations in October 2004. Therefore, the accompanying management's discussion and analysis includes activities for the Direct Portfolio Fund for the nine month period ended June 30, 2005.

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2007 AND 2006**

**Analysis of Financial Activities (continued):**

***Scholars Choice Fund:***

On October 22, 2004, CollegeInvest entered into an agreement with Citigroup Global Markets Inc., (CGM) to manage the advisor sold accounts of the Scholars Choice Fund (SCF). This agreement was contingent on the transfer of certain accounts to the Direct Portfolio Fund described below. CGM was a subsidiary of Citigroup Inc. Effective December 1, 2005, Citigroup Inc. completed the sale of substantially all of its worldwide asset management business to Legg Mason, Inc. (Legg Mason). As part of the transaction, the agreement has been transferred by CGM to ClearBridge Advisors, LLC (formerly known as CAM North America, LLC) (CBA), and Legg Mason Investor Services, LLC (LMIS), each of which is a wholly-owned subsidiary of Legg Mason. CBA performs investment advisory functions and LMIS performs administrative duties and recordkeeping for SCF. The agreement expires on December 31, 2009 with the right to extend the agreement for two additional two-year periods. On October 22, 2004, CollegeInvest signed an agreement with Upromise Investments, Inc. and The Vanguard Group to manage the direct sold accounts. The direct sold accounts of the SCF were transferred to the Direct Portfolio Fund (DPF) on October 22, 2004. See further description under the DPF heading below.

CollegeInvest acts as trustee to the SCF, and CBA holds the assets of the SCF in a segregated custody account. Assets of the SCF are held "in trust" for the exclusive benefit of account owners and beneficiaries. SCF offers eight investment options in which participants may invest. Each investment option is comprised of one or more of the ten portfolios within SCF. The investment return for SCF is based on the market performance of underlying investments. These investment options are designed to help meet diverse investment goals of investors.

***Direct Portfolio Fund:***

On October 22, 2004, CollegeInvest entered into an agreement with Upromise Investments, Inc. and The Vanguard Group, Inc. (Managers) to provide administrative and recordkeeping duties to the DPF. The agreement with the Managers is for direct sold accounts and expires on December 31, 2009 with the right to extend the agreement for two additional two-year periods.

CollegeInvest acts as trustee to the DPF, and the Managers hold the assets of the DPF in a segregated custody account. Assets of the DPF are held "in trust" for the exclusive benefit of account owners and beneficiaries. The investment return for DPF is based on the market performance of investments. DPF offers eleven investment options, including three age-based options and eight blended and individual portfolios, in which participants may invest. Each investment option is comprised of one or more of the eight portfolios within DPF. These investment options are designed to help meet diverse investment goals of investors.

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2007 AND 2006**

**Analysis of Financial Activities (continued):**

***Stable Value Plus Fund:***

CollegeInvest entered into a funding agreement as of June 2003 (MetLife Agreement) with MetLife Insurance Company of Connecticut (MetLife), a wholly-owned subsidiary of MetLife, Inc., to provide a guarantee on the principal and earnings of the Stable Value Plus Fund (SVP). The SVP offers an investment return based on an interest rate that is reset annually by MetLife each January 1.

Under the MetLife Agreement, MetLife has agreed that the annual interest rate calculated each year will not be less than the greater of (i) the Colorado minimum nonforfeiture interest rate for annuity contracts (currently 3.00%), or (ii) 2.00%. The current minimum investment return on accounts in the SVP could be as low as 2.25%, which is the current minimum annual rate of 3.00% less the current CollegeInvest administrative fee of .75%. For the calendar year ending December 31, 2004 Metlife agreed to pay an annual rate of 5.0%. The rate was 4.05% for the calendar years ending December 31, 2005 and 2006. The rate was 4.10% from January 1, 2007 through June 30, 2007. For the period from inception through October 31, 2004 CollegeInvest charged an administrative fee of .99%. As of November 1, 2004 CollegeInvest reduced its administrative fee to .75%. Therefore, the annual net rate was 3.06% from January 1, 2004 through October 31, 2004, 3.30% from November 1, 2004 through December 31, 2006 and 3.35% from January 1, 2007 through June 30, 2007.

**Comparison of Current Year Results to Prior Year:**

*Condensed Statements of Fiduciary Net Assets as of June 30:*

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(dollar amounts expressed in thousands)		
Cash and investments	\$ 3,255,440	\$ 2,460,882	\$ 1,977,896
Receivables and other	<u>11,761</u>	<u>10,915</u>	<u>4,996</u>
Total fiduciary assets	<u>3,267,201</u>	2,471,797	1,982,892
Total liabilities	<u>9,073</u>	<u>7,632</u>	<u>4,639</u>
Total fiduciary net assets, held in trust	<u>\$ 3,258,128</u>	<u>\$ 2,464,165</u>	<u>\$ 1,978,253</u>

**COLLEGEINVEST**  
**COLLEGE SAVINGS PROGRAM FUNDS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**JUNE 30, 2007 AND 2006**

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

Combined cash and investments of the Program increased by \$794.6 million, or 32%, from June 30, 2006 to June 30, 2007. Cash and investments increased by \$483.0 million, or 24%, from June 30, 2005 to June 30, 2006. The increase in cash and investments for both years was primarily a combination of net participant contributions and investment income. Net participant contributions were \$429.6 million, \$378.6 million, and \$373.5 million during the years ended June 30, 2007, 2006, and 2005, respectively. Net investment income was \$384.6 million, \$123.4 million, and \$80.5 million during the years ended June 30, 2007, 2006, and 2005, respectively.

Receivables consist primarily of contributions received but not invested, and dividends and interest receivable. Receivables from contributions received but not invested are a result of differences between the trade date and settlement date of contributions.

Liabilities consist of amounts payable for investments purchased, service and investment fees payable, deferred revenue, due to participants, and due to Student Loan Program Funds. Total liabilities increased by \$1.4 million from June 30, 2006 to June 30, 2007. Total liabilities increased by \$3.0 million from June 30, 2005 to June 30, 2006. The fluctuation in both years is primarily due to the amount of the payables for investments purchased in the SCF. These amounts correlate to the timing of contributions, withdrawals, and portfolio exchanges within the SCF on June 30<sup>th</sup> of each year.

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(dollar amounts expressed in thousands)		
Net investment income	\$ <b>384,584</b>	\$ 123,438	\$ 80,509
Participant contributions	<b>665,281</b>	538,798	483,913
Fee income	<b>619</b>	546	540
Total additions	<u><b>1,050,484</b></u>	<u>662,782</u>	<u>564,962</u>
Benefits paid to participants and withdrawals	<b>235,700</b>	160,236	110,417
Administrative, marketing expenses and service fees	<b>19,905</b>	16,241	12,642
Total deductions	<u><b>255,605</b></u>	<u>176,477</u>	<u>123,059</u>
Net change in fiduciary net assets before transfers	<b>794,879</b>	486,305	441,903
Transfers and change in amounts due to participants	<b>(916)</b>	(393)	(111)
Fiduciary net assets, beginning of year	<u><b>2,464,165</b></u>	<u>1,978,253</u>	<u>1,536,461</u>
Fiduciary net assets, end of year	<u><b>\$ 3,258,128</b></u>	<u>\$ 2,464,165</u>	<u>\$ 1,978,253</u>

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2007 AND 2006**

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

Net investment income is comprised of dividends, interest income, and net realized and unrealized gains from security transactions. Net realized and unrealized gains on security transactions were \$279.6 million, \$33.5 million and \$34.1 million for the years ended June 30, 2007, 2006, and 2005, respectively. The net realized and unrealized gains on security transactions during 2005 declined by \$86.1 million from 2004. Net realized and unrealized gains on security transactions during 2006 remained stable and decreased by only \$600,000 from 2005. Net realized and unrealized gains on security transactions during 2007 increased by \$246.1 million from 2006 due to market conditions. Investment income was \$106.5 million, \$91.3 million, and \$48.1 million for the years ended June 30, 2007, 2006, and 2005, respectively. The increase in investment income is primarily a result of an increase in net assets of the Program.

The Program participant contributions, net of withdrawals, increased by \$51.0 million to \$429.6 million for the year ended June 30, 2007 as compared to \$378.6 million for the year ended June 30, 2006. Net participant contributions increased by \$5.1 million for the year ended June 30, 2006 as compared to the year ended June 30, 2005.

*Participant contributions and benefits paid to participants and withdrawals were as follows:*

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(dollar amounts expressed in thousands)		
Participant contributions:			
Scholars Choice Fund	\$ 458,772	\$ 385,268	\$ 387,534
Direct Portfolio Fund	197,991	146,766	89,625
Stable Value Plus Fund	8,518	6,764	6,754
Total participant contributions	<u>\$ 665,281</u>	<u>\$ 538,798</u>	<u>\$ 483,913</u>
Benefits paid to participants and withdrawals:			
Scholars Choice Fund	\$ 186,444	\$ 130,525	\$ 97,886
Direct Portfolio Fund	40,582	23,498	9,109
Stable Value Plus Fund	8,674	6,213	3,422
Total benefits paid to participants and withdrawals	<u>\$ 235,700</u>	<u>\$ 160,236</u>	<u>\$ 110,417</u>

Participant contributions were 23.2%, 24.2% and 27.6% of average net assets for the years ended June 30, 2007, 2006, and 2005, respectively. Benefits paid to participants and withdrawals were 8.2%, 7.2% and 6.3% of average net assets for the years ended June 30, 2007, 2006, and 2005, respectively.



**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2007 AND 2006**

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

Fee income is primarily comprised of funds received from Legg Mason and the Managers for marketing and promotion of the Funds. CollegeInvest received \$278,000 and \$341,000 in fee income from Legg Mason and the Managers, respectively, for the year ended June 30, 2007. The fee income received from Legg Mason and the Managers for the year ended June 30, 2006 was \$380,000 and \$166,000, respectively, and the fee income received from Legg Mason and the Managers was \$383,000 and \$155,000, respectively, for the year ended June 30, 2005.

Administrative and service fees are charged to participants as a percentage of net assets based on the investment option chosen. These charges were approximately 0.7% of average net assets for the years ended June 30, 2007, 2006, and 2005.

**Economic Factors:**

Performance of individual participant accounts and individual portfolios within the Program is dependent on risk factors associated with market-based investments. Amounts contributed to the Program by participants may be more or less than the amounts needed by beneficiaries to attend a particular institution of higher education and do not guarantee acceptance into any institution of higher education. Participants are responsible for selecting portfolios in accordance with their risk tolerance. The Program does not guarantee return of principal or a certain investment rate of return on investments. Under the MetLife Agreement, MetLife guarantees return of principal and a certain investment rate of return for the SVP.

**Requests for Information:**

This report is designed to provide a general overview of the Funds' 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**  
**COLLEGE SAVINGS PROGRAM FUNDS**  
**STATEMENTS OF FIDUCIARY NET ASSETS**  
**JUNE 30, 2007 AND 2006**  
(Dollar amounts expressed in thousands)

	2007				2006			
	Scholars Choice Fund	Direct Portfolio Fund	Stable Value Plus Fund	Total Private Purpose Trust Funds	Scholars Choice Fund	Direct Portfolio Fund	Stable Value Plus Fund	Total Private Purpose Trust Funds
<b>Fiduciary assets:</b>								
Cash and cash equivalents	\$ 2,845	\$ -	\$ 43	\$ 2,888	\$ 3,712	\$ -	\$ 3	\$ 3,715
Investments, at fair value	2,519,309	709,693	23,550	3,252,552	1,957,527	476,696	22,944	2,457,167
Receivable for portfolio units sold	4,589	-	-	4,589	4,300	-	-	4,300
Interest receivable	4,301	1,150	-	5,451	4,827	768	-	5,595
Due from plan managers	207	58	38	303	159	39	39	237
Due from (to) Student Loan Program Funds	1,410	45	(37)	1,418	432	377	(26)	783
<b>Total fiduciary assets</b>	<b>2,532,661</b>	<b>710,946</b>	<b>23,594</b>	<b>3,267,201</b>	<b>1,970,957</b>	<b>477,880</b>	<b>22,960</b>	<b>2,471,797</b>
<b>Liabilities:</b>								
Accounts payable	39	16	1	56	32	18	12	62
Payable for investments purchased	5,418	-	49	5,467	5,180	-	23	5,203
Service and investment fees payable	1,495	390	-	1,885	1,151	259	-	1,410
Deferred revenue	164	87	-	251	61	398	-	459
Due to participants	1,414	-	-	1,414	498	-	-	498
<b>Total liabilities</b>	<b>8,530</b>	<b>493</b>	<b>50</b>	<b>9,073</b>	<b>6,922</b>	<b>675</b>	<b>35</b>	<b>7,632</b>
<b>Total fiduciary net assets, held in trust</b>	<b>\$ 2,524,131</b>	<b>\$ 710,453</b>	<b>\$ 23,544</b>	<b>\$ 3,258,128</b>	<b>\$ 1,964,035</b>	<b>\$ 477,205</b>	<b>\$ 22,925</b>	<b>\$ 2,464,165</b>

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

**COLLEGEINVEST**  
**COLLEGE SAVINGS PROGRAM FUNDS**  
**STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**  
(Dollar amounts expressed in thousands)

	2007				2006			
	Scholars Choice Fund	Direct Portfolio Fund	Stable Value Plus Fund	Total Private Purpose Trust Funds	Scholars Choice Fund	Direct Portfolio Fund	Stable Value Plus Fund	Total Private Purpose Trust Funds
<b>Additions:</b>								
Gross earnings on investments:								
Interest and dividends	\$ 86,474	\$ 19,147	\$ 928	\$ 106,549	\$ 77,376	\$ 12,998	\$ 889	\$ 91,263
Net realized and unrealized gains from securities transactions	<u>218,425</u>	<u>61,133</u>	<u>-</u>	<u>279,558</u>	23,292	10,162	-	33,454
	<u>304,899</u>	<u>80,280</u>	<u>928</u>	<u>386,107</u>	100,668	23,160	889	124,717
Less investment fees	<u>(1,051)</u>	<u>(472)</u>	<u>-</u>	<u>(1,523)</u>	(954)	(325)	-	(1,279)
Net investment income	<u>303,848</u>	<u>79,808</u>	<u>928</u>	<u>384,584</u>	99,714	22,835	889	123,438
Participant contributions	458,772	197,991	8,518	665,281	385,268	146,766	6,764	538,798
Fee income	<u>278</u>	<u>341</u>	<u>-</u>	<u>619</u>	380	166	-	546
<b>Total additions</b>	<u><u>762,898</u></u>	<u><u>278,140</u></u>	<u><u>9,446</u></u>	<u><u>1,050,484</u></u>	485,362	169,767	7,653	662,782
<b>Deductions:</b>								
Benefits paid to participants and withdrawals	186,444	40,582	8,674	235,700	130,525	23,498	6,213	160,236
Service fees	13,837	3,378	-	17,215	11,383	2,321	-	13,704
Administrative fees	2,243	591	153	2,987	1,823	407	154	2,384
Marketing expenses	278	341	-	619	380	166	-	546
Excess (reduced) operating expenses	<u>(1,170)</u>	<u>146</u>	<u>108</u>	<u>(916)</u>	(724)	272	59	(393)
<b>Total deductions</b>	<u>201,632</u>	<u>45,038</u>	<u>8,935</u>	<u>255,605</u>	143,387	26,664	6,426	176,477
<b>Net change in fiduciary net assets before transfers</b>	<u>561,266</u>	<u>233,102</u>	<u>511</u>	<u>794,879</u>	341,975	143,103	1,227	486,305
<b>Intraplan administrative fee transfers</b>	(254)	146	108	-	(331)	272	59	-
<b>Change in due to participants</b>	(916)	-	-	(916)	(393)	-	-	(393)
<b>Fiduciary net assets, beginning of year</b>	<u>1,964,035</u>	<u>477,205</u>	<u>22,925</u>	<u>2,464,165</u>	1,622,784	333,830	21,639	1,978,253
<b>Fiduciary net assets, end of year</b>	<u><u>\$ 2,524,131</u></u>	<u><u>\$ 710,453</u></u>	<u><u>\$ 23,544</u></u>	<u><u>\$ 3,258,128</u></u>	<u><u>\$ 1,964,035</u></u>	<u><u>\$ 477,205</u></u>	<u><u>\$ 22,925</u></u>	<u><u>\$ 2,464,165</u></u>

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

**COLLEGEINVEST**  
**COLLEGE SAVINGS PROGRAM FUNDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

**1. Organization and Summary of Significant Accounting Policies:**

Pursuant to Colorado Revised Statutes 23-3.1-2 01, et seq., and 23-3.1-3 01, 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 has responsibility for oversight and management 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 Section 529 post secondary education expense program (Prepaid Tuition Fund), a scholarship trust program (CollegeInvest Early Achievers Scholarship, formerly College in Colorado Scholarship Trust), a loan forgiveness program (Nursing Teacher Loan Forgiveness), and a Section 529 college savings program (Program). The Program includes the Scholars Choice Fund (SCF), Direct Portfolio Fund (DPF), and Stable Value Plus Fund (SVP) (Funds), all of 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 Funds are accounted for under accounting principles generally accepted in the United States of America as a private-purpose trust. 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 activity under Section 20, Article X of the Colorado Constitution.

The Colorado Constitution and other State laws prohibit the State from providing its full faith and credit to obligations of entities such as the Funds. As a result, payments from the Funds are not guaranteed in any way by the State, and shall not be considered to have created a debt or obligation of the State. Such payments are limited obligations, payable from participants' individual accounts in the Funds, but not from the other assets of CollegeInvest, or the State. Similarly, investments in the Funds are not insured by the Federal Deposit Insurance Corporation, or any other State or federal government agency. Investments in SCF and DPF are not deposits or other obligations of Legg Mason, Inc., Upromise Investments, Inc., The Vanguard Group, Inc. or any depository institution or affiliate of Upromise Investments, Inc. or The Vanguard Group, Inc. Investments in SVP are an obligation of MetLife.

**Reporting Entity:**

The Program was authorized in the 1999 legislative session and as a result, the Funds were established to provide families with additional opportunities to save for future college educational expenses. The Funds account for the operations and activities of the Section 529 savings program as private-purpose trusts, where both principal and earnings on principal may be spent for the trust's intended purpose. Participant contributions and the earnings thereon are invested to assist in meeting the obligations for future higher education expenses of a named student. The payment of general and administrative expenses and other activities of the Funds necessary to fulfill their purposes are recorded within the Funds. There are no other funds of CollegeInvest combined in the accompanying financial statements. Thus, the accompanying

**COLLEGEINVEST**  
**COLLEGE SAVINGS PROGRAM FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007 AND 2006**

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

**Reporting Entity (continued):**

statements are not intended to present the financial position, results of operations, or cash flows of CollegeInvest as a whole in conformity with accounting principles generally accepted in the United States of America.

Each fund in the Program was established as a Section 529 plan under the Internal Revenue Code (IRC). The Funds offer certain federal and State tax advantages to investors. The primary tax advantage to participants in the Funds is the ability to exclude from federal taxable income the earnings on any withdrawals that are used for qualified higher education expenses, as that term is defined in Section 529 of the IRC. If a participant is subject to Colorado income tax, earnings on qualified withdrawals are excluded from State taxable income. In addition, individuals, estates, and trusts subject to Colorado income tax generally are entitled to a deduction to the extent of their Colorado taxable income for the year for contributions made to a State sponsored Section 529 plan, subject to recapture in subsequent years in which nonqualified withdrawals are made. Note that an otherwise nontaxable rollover to another Section 529 program that is not associated with the State will trigger recapture of the Colorado income tax deduction described above in the year of the rollover.

***Scholars Choice Fund***

The Scholars Choice Fund (SCF) began operations in October 1999. SCF offers eight investment options in which participants may invest. Each investment option is comprised of one or more of the ten active portfolios as of June 30, 2007. The accompanying financial statements report on the combined portfolios.

On September 8, 2006 the Board approved a change to the investment strategy of the three Multiple Discipline Portfolio (MDP) Options (MDP – All Cap Growth and Value, MDP – Global All Cap Growth and Value, and MDP – Balanced All Cap Growth and Value) in accordance with the standards set forth in the Colorado Revised Statutes Sections 15-1-304 and 15-1.1-102. The MDP accounts were transferred to the All Equity Option and Balanced 50/50 Option as the MDPs no longer matched CollegeInvest's investment objectives.

As the trustee for SCF, on September 17, 1999, CollegeInvest entered into an agreement with Citigroup Global Markets Inc. (CGM), a subsidiary of Citigroup Inc. to manage both the advisor sold and direct accounts of SCF. CGM managed SCF through its Smith Barney Asset Management division, which is part of Citigroup Asset Management (CAM), the asset management unit of Citigroup Inc. The agreement with CGM was terminated on October 22, 2004. A new agreement was entered into with CGM on October 22, 2004, contingent on the transfer of certain assets to the Direct Portfolio Fund. This new agreement is for management of the advisor sold accounts only. The agreement expires on December 31, 2009. CollegeInvest has the right to extend the agreement for two additional two-year periods. Effective December 1, 2005, Citigroup Inc. completed the sale

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007 AND 2006**

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

**Reporting Entity (continued):**

*Scholars Choice Fund (continued)*

of substantially all of its worldwide asset management business to Legg Mason, Inc. (Legg Mason). As part of the transaction, the agreement has been transferred by CGM to ClearBridge Advisors, LLC (formerly known as CAM North America, LLC) (CBA) and Legg Mason Investor Services, LLC (LMIS), each of which is a wholly-owned subsidiary of Legg Mason. CBA performs investment advisory functions and LMIS performs administrative and recordkeeping for SCF.

The investment return for SCF is based on the market performance of investments. Investment options are selected by CollegeInvest based on recommendations from CBA.

Participants in the SCF may invest in one or more of the following options:

- **Age-Based Portfolios:** Contributions are invested in one of seven portfolios according to the age of the student. As the student gets older and closer to college years, the investment shifts from equity funds to bond and money market funds as follows:

<u>Student's Age</u>	<u>Portfolio #</u>	<u>Equity Funds</u>	<u>Fixed Income</u>	<u>Money Market Funds</u>
0-3 years	1	80%	20%	0%
4-6 years	2	70%	30%	0%
7-9 years	3	60%	40%	0%
10-12 years	4	50%	50%	0%
13-15 years	5	40%	50%	10%
16-18 years	6	20%	55%	25%
19+ years	7	10%	60%	30%

- **Balanced 50/50 Portfolio:** Contributions are invested 50% in equity mutual funds and 50% in bond funds throughout the life of the investment (Portfolio #4).
- **Years to Enrollment Portfolios:** Contributions are invested in a series of portfolios that shift from equity mutual funds to bond and money market funds as the student approaches college years. These portfolios are identical to Portfolios 3 through 7 in the Age-based Portfolios.

<u>Years to Enrollment</u>	<u>Portfolio #</u>	<u>Equity Funds</u>	<u>Fixed Income</u>	<u>Money Market Funds</u>
10-12 years	3	60%	40%	0%
7-9 years	4	50%	50%	0%
4-6 years	5	40%	50%	10%
1-3 years	6	20%	55%	25%
Less than 1 year	7	10%	60%	30%

**COLLEGEINVEST**  
**COLLEGE SAVINGS PROGRAM FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007 AND 2006**

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

**Reporting Entity (continued):**

*Scholars Choice Fund (continued)*

- All Equity Portfolio: Contributions are invested in equity mutual funds throughout the life of the account.
- All Fixed Income Portfolio: Contributions are invested in bond funds throughout the life of the account.
- Equity 80% Option: Contributions are invested 80% in equity mutual funds and 20% in fixed income investments (Portfolio #1). The investment objective of this option is to seek long-term capital appreciation through investments in equity mutual funds while maintaining 20% exposure to the relatively more stable returns of fixed income investments through investment in fixed income mutual funds.
- Fixed Income 80% Option: Contributions are invested 80% in fixed income investments and 20% in equity mutual funds (Portfolio #6). The investment objective of this option is to seek the relatively more stable returns of a fixed income investment through investments in fixed income mutual funds while maintaining 20% exposure to the long-term capital appreciation potential of investments in equity mutual funds.
- Cash Reserve Option: Contributions are invested in the Western Asset money market mutual fund. The investment objective of the Cash Reserve Option is to seek maximum current income and preservation of capital.

*Direct Portfolio Fund*

The Direct Portfolio Fund (DPF) began operations in October 2004. DPF offers eleven investment options, including three age-based options and eight blended and individual portfolios, in which participants may invest. Each investment option is comprised of one or more of eight active portfolios within DPF as of June 30, 2007.

As the trustee for DPF, CollegeInvest entered into an agreement with Upromise Investments, Inc. and The Vanguard Group, Inc. (Managers) to manage the DPF. The agreement with the Managers expires on December 31, 2009. CollegeInvest has the right to extend the term for two additional two-year periods. The investment return for DPF is based on the market performance of investments. Investment options are selected by CollegeInvest based on recommendations from the Managers.

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007 AND 2006**

**1. Organization and Summary of Significant Accounting Policies:**

**Reporting Entity (continued):**

*Direct Portfolio Fund (continued)*

Participants may invest in one or more of the following eleven options:

- **Age-Based Options:** Contributions are invested in one of three portfolios according to the age of the beneficiary. Money invested in the Age-Based Options is automatically transferred over time to successive Portfolios with asset allocations that change from equity funds to fixed income and money market funds as the beneficiary approaches college age. Within the Age-Based Options, participants may invest according to risk tolerance in either a conservative, moderate, or aggressive range of asset allocations as follows:

<b>Beneficiary's Age</b>	<b>Conservative</b>	<b>Moderate</b>	<b>Aggressive</b>
Newborn through 5	Moderate Growth Portfolio 50% stock funds 50% bond funds	Growth Portfolio 65% stock funds 35% bond funds	Aggressive Growth Portfolio 100% stock funds
6 through 10	Conservative Growth Portfolio 35% stock funds 65% bond funds	Moderate Growth Portfolio 50% stock funds 50% bond funds	Growth Portfolio 65% stock funds 35% bond funds
11 through 15	Income Portfolio 75% bond funds 25% money market funds	Conservative Growth Portfolio 35% stock funds 65% bond funds	Moderate Growth Portfolio 50% stock funds 50% bond funds
16 through 18	Income Portfolio 75% bond funds 25% money market funds	Income Portfolio 75% bond funds 25% money market funds	Conservative Growth Portfolio 35% stock funds 65% bond funds
19 or older	Money Market Portfolio 100% money market funds	Income Portfolio 75% bond funds 25% money market funds	Income Portfolio 75% bond funds 25% money market funds

- **Blended Portfolios and Individual Portfolios:** Contributions are invested in one of eight options. In these options, assets will be allocated to the Portfolio for the life of the investment unless the account owner directs a change in investment option. The Blended Portfolios and the Individual Portfolios are each invested according to a static asset allocation which does not change over time. Within the Blended Portfolios participants may invest according to risk tolerance in either an aggressive, growth, moderate growth, conservative growth, or income focused range of asset allocations as follows:



**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007 AND 2006**

**1. Organization and Summary of Significant Accounting Policies:**

**Reporting Entity (continued):**

*Direct Portfolio Fund (continued)*

<b>Underlying Fund</b>	<b>Aggressive Growth Portfolio</b>	<b>Growth Portfolio</b>	<b>Moderate Growth Portfolio</b>	<b>Conservative Growth Portfolio</b>	<b>Income Portfolio</b>
Vanguard® Total Stock Market Index Fund	85%	55%	45%	35%	0%
Vanguard® Total International Stock Index Fund	15%	10%	5%	0%	0%
<b>Total Stock Funds</b>	<b>100%</b>	<b>65%</b>	<b>50%</b>	<b>35%</b>	<b>0%</b>
Vanguard® Total Bond Market Index Fund	0%	35%	50%	65%	50%
Vanguard® Inflation-Protected Securities Fund	0%	0%	0%	0%	25%
<b>Total Bond Funds</b>	<b>0%</b>	<b>35%</b>	<b>50%</b>	<b>65%</b>	<b>75%</b>
Vanguard® Prime Money Market Fund	0%	0%	0%	0%	25%
<b>Total Money Market Funds</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>25%</b>
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Within the Individual Portfolios participants may invest as follows:

- Stock Index Portfolio invests 100% in Vanguard Total Stock Market Index Fund and seeks to track the performance of a benchmark index that measures the investment return of the overall stock market.
- Bond Index Portfolio invests 100% in Vanguard Total Bond Market Index Fund and seeks to track the performance of a broad, market-weighted bond index.
- Money Market Portfolio invests 100% in Vanguard Prime Money Market Fund and seeks to provide preservation of principal and current income.

*Stable Value Plus Fund*

The Stable Value Plus Fund (SVP) began operations in February 2003. In January 2003, CollegeInvest entered into an agreement with MetLife (the MetLife Agreement) to provide a net rate of return to investors. Under the MetLife Agreement, the rate of return is reset annually each January 1. MetLife has agreed that the annual interest rate calculated each year will not be less than the greater of (i) the Colorado minimum nonforfeiture interest rate for annuity

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007 AND 2006**

**1. Organization and Summary of Significant Accounting Policies:**

**Reporting Entity (continued):**

*Stable Value Plus Fund (continued)*

contracts (currently 3.00%), or (ii) 2.00%. The current minimum investment return on accounts in the fund could be as low as 2.25%, which is the current minimum annual rate of 3.00% less the CollegeInvest administrative fee of .75%.

MetLife agreed to pay an annual rate of 4.05% for the calendar years ended December 31, 2006 and 2005. MetLife increased the annual rate to 4.10% effective January 1, 2007. As of November 1, 2004 CollegeInvest reduced its administrative fee to .75% from .99%. Therefore, the annual net rate was 3.30% from November 1, 2004 through December 31, 2006. The annual net rate was 3.35% from January 1, 2007 through June 30, 2007.

CollegeInvest may discontinue the MetLife Agreement at any time. In the event of such discontinuance, CollegeInvest shall direct the investment of SVP assets to alternate investments as permitted by the MetLife Agreement and the investment policy of SVP. There is no assurance that CollegeInvest will be able to obtain such alternate investment or maintain the current investment return for any such alternate investment.

In CollegeInvest DPF, the Income Portfolio and the Money Market Portfolio (whether a stand-alone option or part of an age-based option) have each been determined by MetLife to be a Colorado Competing Fixed Interest Fund. In CollegeInvest SCF, the Cash Reserve Option has been determined by MetLife to be a Colorado Competing Fixed Interest Fund. The MetLife Agreement provides that participants are not permitted to transfer amounts from their Account in SVP directly to a Colorado Competing Fixed Interest Fund if not satisfied with the investment for a particular calendar year or if the Funding Agreement is discontinued. In addition, participants are not permitted to transfer amounts from an account which is invested in a Colorado Competing Fixed Interest Fund directly to their existing SVP Account or to establish a new Account in SVP.

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

**COLLEGEINVEST**  
**COLLEGE SAVINGS PROGRAM FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007 AND 2006**

**1. Organization and Summary of Significant Accounting Policies:**

**Investments and Revenue Recognition:**

CBA has responsibility for investing the assets of each of the SCF's portfolios and the Managers have responsibility for investing the assets of the DPF's portfolios in equity mutual funds, fixed income mutual funds, money market funds, and other investments (Underlying Funds) in accordance with CollegeInvest's Investment Policy Statements, and the Portfolio selected for investment by the participant.

CollegeInvest has responsibility for transferring the assets of the participants of the SVP to MetLife in accordance with the MetLife Agreement. Investments in the Underlying Fund are purchased weekly and are valued at the closing net asset value per share on the date of transfer to MetLife. Interest income is credited to participant accounts daily. Distributions from the SVP are valued on the date immediately preceding the date that a payment is made by CollegeInvest in satisfaction of a withdrawal request.

Security transactions for SCF and DPF are accounted for on a trade-date basis. This may result in receivables and payables for transactions at year end. Investments in the Underlying Funds are valued at the closing net asset value per share of each Underlying Fund on the day of valuation. Income distributions and short-term capital gain distributions from the Underlying Funds are recorded on the ex-dividend date as investment income and interest income is recorded on an accrual basis. Long-term capital gains, if any, from the Underlying Funds are recorded on the ex-dividend date as realized gains. Gains or losses on the sale of the Underlying Funds are calculated by using the specific identification method.

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

**Participant Contributions:**

The aggregate balance limit for the Funds and all other Colorado Section 529 plans (including the Prepaid Tuition Fund, which is also offered by CollegeInvest) for a particular beneficiary from all sources, excluding income, is \$280,000. The balance limit is set by CollegeInvest based on Internal Revenue Service (IRS) guidelines and is subject to change. In particular, if the IRS adopts final regulations, it may require or permit a maximum balance limit that differs from the \$280,000 limit. No additional contributions may be made to an account if the balance limit is reached; however, the account may continue to grow beyond this limit through earnings.

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007 AND 2006**

**1. Organization and Summary of Significant Accounting Policies:**

**Withdrawals:**

A qualified withdrawal is a withdrawal made to pay qualified higher education expenses of the beneficiary. The earnings on qualified withdrawals are not subject to Federal income tax. All withdrawals other than for this purpose are considered non-qualified withdrawals. Non-qualified withdrawals are subject to Federal income tax plus 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 beneficiary; (ii) made on account of a scholarship received by the beneficiary, 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 plan on behalf of a beneficiary or for a different beneficiary who is a family member of the original student. A non-qualified withdrawal may also be subject to recapture in the event a deduction has been taken from Colorado taxable income.

**Investment, Service and Administrative Fees:**

***Scholars Choice Fund***

CollegeInvest entered into a service agreement (CAM Agreement) with CAM, on October 22, 2004, pursuant to which CAM is responsible for providing administrative, record keeping, marketing, and investment management services to SCF. Effective December 1, 2005, Citigroup Inc. completed the sale of substantially all of its worldwide asset management business to Legg Mason and the CAM Agreement has been transferred to CBA. The CAM Agreement states that CBA will receive investment and service fees at an annual percentage rate of average daily net assets.

This rate will vary with the Unit Class the account owner chooses. During the years ended June 30, 2007 and 2006, the investment fees paid by SCF were \$1.1 million and \$1.0 million, respectively, under the CAM Agreement. In addition, according to the CAM Agreement, each participant bears certain ongoing service fees that will vary with the Unit Classes the participant chooses. These direct service fees provide for the costs associated with distribution, servicing, and administration of the Unit Classes. Such direct service fees reduce the value of the participant's account as incurred. Such fees are payable to CBA monthly, solely from the assets of SCF. SCF paid service fees of \$13.8 million and \$11.4 million for the years ended June 30, 2007 and 2006, respectively.

The CAM Agreement states that CollegeInvest will receive an administrative fee at an annual rate of up to 0.10% of average daily net assets. These fees represent charges to SCF for actual administrative costs of CollegeInvest. Such fees are payable to CollegeInvest monthly, solely from the assets of the SCF. SCF paid administrative fees of \$2.2 million and \$1.8 million for the years ended June 30, 2007 and 2006, respectively.

**COLLEGEINVEST**  
**COLLEGE SAVINGS PROGRAM FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007 AND 2006**

**1. Organization and Summary of Significant Accounting Policies:**

**Investment, Service and Administrative Fees (continued):**

***Direct Portfolio Fund***

CollegeInvest entered into a service agreement (Service Agreement) with the Managers, pursuant to which the Managers are responsible for providing administrative, record keeping, marketing, and investment management services to the DPF. The Service Agreement states that the Managers will receive investment and service fees at an annual percentage rate of .65% of average daily net assets. During the year ended June 30, 2007, DPF paid investment fees of \$472,000 and service fees of \$3.4 million. During the year ended June 30, 2006, DPF paid investment fees of \$325,000 and service fees of \$2.3 million. Such direct investment and service fees reduce the value of the participant's account as incurred. Such fees are payable to the Managers monthly, solely from the assets of DPF.

The Service Agreement states that CollegeInvest will receive an administrative fee at an annual rate of up to 0.10% of average daily net assets. These fees represent charges to DPF for actual administrative costs of CollegeInvest. Such fees are payable to CollegeInvest monthly, solely from the assets of DPF. DPF paid administrative fees of \$591,000 and \$407,000 for the years ended June 30, 2007 and 2006, respectively.

***Stable Value Plus Fund***

Contributions are invested by deposit under the Agreement between CollegeInvest and MetLife. Deposits made under the Agreement become commingled with the general account of MetLife. MetLife is obligated to repay the amounts deposited under the Agreement and an investment return as described above. The annual interest rate calculated each year under the Agreement is net of all administrative and other charges of MetLife.

The Agreement states that CollegeInvest will receive an administrative fee at an annual rate of up to 0.75% of the average daily net assets of the Fund. Such fees are payable to CollegeInvest solely from Account owners and cannot exceed actual expenses of administering the Fund as defined by Statute. SVP paid administrative fees on behalf of its participants of \$153,000 and \$154,000 for the years ended June 30, 2007 and 2006, respectively, which was less than actual expenses incurred for the Fund by CollegeInvest.

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007 AND 2006**

**1. Organization and Summary of Significant Accounting Policies:**

**Investment, Service and Administrative Fees (continued):**

**Fee Limitation:**

To the extent that administrative fees collected from participants exceed the expenses of the Program, CollegeInvest shall 1) determine if such revenues are required to fund subsequent year expenses of the Program; 2) determine if such fees are required to fund prior years' unfunded expenses of the Program; or 3) reduce future fees of the plan participants for the following year.

As of June 30, 2007, approximately \$1.4 million in fees were collected from participants in excess of actual expenses and is restricted for future expenses of CollegeInvest in its capacity as administrator of the Program. As of June 30, 2006, approximately \$498,000 in fees were collected from participants in excess of actual expenses. During the fiscal year ended June 30, 2007, approximately \$900,000 of excess fees were collected.

**Reclassifications:**

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

**2. Cash, Cash Equivalents and Investments:**

**Cash and Cash Equivalents:**

As contributions are received from participants, the Managers hold the cash in the respective Fund until such time as it may be invested in the underlying funds of the chosen investment portfolios. With respect to the SCF and DPF, depending upon the timing of the cash receipts, there could be up to two days delay between actual receipt of cash and the investment made on behalf of the participant. Cash and cash equivalents are held in trust by the Funds' Managers as of June 30, 2007 and 2006. With respect to SVP, contributions will be invested with MetLife within 30 days of receipt by CollegeInvest. Interest earned on contributions prior to investment with MetLife will accrue to CollegeInvest and will be used to defray administrative expenses. SVP had deposits that were not yet transferred to MetLife of \$49,000 and \$23,000 as of June 30, 2007 and 2006, respectively.

All cash deposits of the Stable Value Plus Funds are held by a bank. Payments and cash receipts are deposited to demand deposit accounts daily. Collected balances are transferred daily into money market funds.

All cash deposits of the SCF and DPF are held by a custodian on behalf of the Managers until it is invested in the Underlying Funds.

**COLLEGEINVEST**  
**COLLEGE SAVINGS PROGRAM FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2006 AND 2005**

**2. Cash, Cash Equivalents and Investments (continued):**

**Cash and Cash Equivalents (continued):**

*Cash deposits as of June 30 are as follows:*

	<b>2007</b>	2006
	(dollar amounts expressed in thousands)	
Demand deposit accounts	\$ 43	\$ 3
Money market accounts	<b>2,845</b>	3,712
Total cash deposits	<b>\$ 2,888</b>	\$ 3,715

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, CollegeInvest 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. Monies held by the trustee are collateralized with U.S. Treasury Obligations.

**Investments:**

*Investments for each plan as of June 30 are as follows:*

	Fair Value	
	<b>2007</b>	2006
	(dollar amounts expressed in thousands)	
Scholars Choice Fund	\$ 2,519,309	\$ 1,957,527
Direct Portfolio Fund	<b>709,693</b>	476,696
Stable Value Plus Fund	<b>23,550</b>	22,944
Total investments	<b>\$ 3,252,552</b>	\$ 2,457,167

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007 AND 2006**

**2. Cash, Cash Equivalents and Investments (continued):**

**Investment Authority and Policy:**

*Scholars Choice Fund and Direct Portfolio Fund*

The Board approves the investment policies for both the SCF and DPF. Investments of assets in the Scholars Choice College Savings Trust and Direct Portfolio College Savings Trust and the underlying portfolios are selected and managed in accordance with the standards set forth in the Colorado Revised Statutes Sections 15-1-304 and 15-1.1-102. Consistent with these standards, the Board, or its designated committee, will determine from time to time suitable investment parameters for the Scholars Choice College Savings Trust and the Direct Portfolio College Savings Trust, which seek to control risk through portfolio diversification. Generally, investments include money market funds, and bond and equity mutual funds. Each mutual fund in which an underlying portfolio is invested shall comply with the investment policy's permitted investment guidelines.

The table below identifies the significant investment types that are authorized for the Scholars Choice and Direct Portfolio Funds:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer [A]
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	None
General or Revenue Obligations	None	None	None
Repurchase Agreements [C]	None	None	None
Investment Agreements	None	None	None
Banker's Acceptances	None	None	None
Domestic Equity Securities	N/A	[D]	[D]
Foreign Equity Securities	N/A	[E]	[E]
Money Market Funds	N/A	None	None
Demand Deposits	N/A	None	None



**COLLEGEINVEST**  
**COLLEGE SAVINGS PROGRAM FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007 AND 2006**

**2. Cash, Cash Equivalents and Investments (continued):**

**Investment Authority and Policy (continued):**

*Scholars Choice Fund and Direct Portfolio Fund (continued)*

- [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.
- [D] No more than 5% of the total amount of the underlying portfolio in the securities of any one issuer; no more than 5% of the outstanding shares of any single corporation; and no more than 25% of the total amount of the underlying portfolio in any one industry.
- [E] No more than 5% of the total amount of the underlying portfolio in the securities of any one issuer; no more than 5% of the outstanding shares of any single corporation; investment in any one country shall be no more than a) 25% of the total amount of the underlying portfolio or, b) the country weight in the EAFE benchmark plus 10% and a minimum of eight countries should be represented in the underlying portfolio.

*Stable Value Plus Fund*

The Board approves the investment policy for the SVP. Generally, investments include any funding agreement, guaranteed interest contract, guaranteed investment contract, annuity contract, repurchase agreement, or other similar investments which are issued by an insurance company or other investment provider with financial strength ratings in any one of the three highest rating categories by two or more nationally recognized rating agencies which regularly rate the ability of such investment providers to pay claims. The SVP may terminate any agreement with an existing investment provider should two or more of the nationally recognized rating agencies reduce their rating of the provider to a category that is below the lowest "A" rating. As of June 30, 2007, the MetLife Insurance Company of Connecticut's rating met the requirements of the investment policy.

**COLLEGEINVEST**  
**COLLEGE SAVINGS PROGRAM FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007 AND 2006**

**2. Cash, Cash Equivalents and Investments (continued):**

**Investment Authority and Policy (continued):**

*The Fund's investments, at fair value, as of June 30 are as follows:*

	Fair Value	
	2007	2006
	(dollar amounts expressed in thousands)	
Western Core Plus Bond Fund	\$ 518,270	\$ -
Legg Mason Value Trust Fund	466,097	-
Vanguard Total Stock Market Index Fund	382,869	255,216
John Hancock Classic Value Fund	371,993	-
Legg Mason Partners Large Cap Growth Fund (f/k/a Smith Barney Large Cap Growth Fund)	306,954	443,361
Vanguard Total Bond Market Index Fund	234,598	165,513
Legg Mason Partners Short-Term Investment Grade Bond Fund (f/k/a Smith Barney Short-Term Investment Grade Bond Fund)	200,712	180,177
Legg Mason International Equity Trust Fund	196,386	-
Western Asset Money Market Fund	118,551	-
Pennsylvania Mutual Fund	98,475	-
Legg Mason Partners Small Cap Growth Fund	97,963	-
Legg Mason Partners Global High Yield Bond Fund	78,414	-
Legg Mason Partners Aggressive Growth Fund	65,494	-
Vanguard Total International Stock Index Fund	44,355	28,488
Vanguard Prime Money Market Fund	33,732	17,929
Investment Agreement – MetLife	23,509	22,900
Vanguard Inflation-Protected Securities Fund	14,139	9,550
JP Morgan Prime Money Market Fund	41	44
Salomon Brothers Investors Value Fund	-	442,552
BlackRock Government Income Fund	-	241,457
Legg Mason Partners Investment Grade Bond Fund (f/k/a Smith Barney Investment Grade Bond Fund)	-	167,759
AFG EuroPacific Growth Fund	-	146,491
Smith Barney Cash Portfolio Fund	-	82,116
Legg Mason Partners Small Cap Value Fund (f/k/a Smith Barney Small Cap Value Fund)	-	72,219
Salomon Brothers Small Cap Growth Fund	-	71,163
MDF Global All Cap Growth and Value Fund	-	45,188
Salomon Brothers High Yield Bond Fund	-	41,424
MDF All Cap Growth and Value Fund	-	13,394
MDF Balanced All Cap Growth and Value Fund	-	10,226
	<u>\$ 3,252,552</u>	<u>\$ 2,457,167</u>

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007 AND 2006**

**2. Cash, Cash Equivalents and Investments (continued):**

**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. CollegeInvest provides participants investment opportunities in various portfolios that are constructed from a range of mutual funds that it has selected. CollegeInvest does not actively manage interest rate risk except through its mutual fund selection process. CBA and the Managers of the Funds report interest rate risk evaluation of the fixed income mutual funds in the various portfolios based on the duration and weighted average maturity methods:

	<u>2007</u>	<u>2006</u>
	Weighted Average <u>Duration</u> <u>Maturity</u>	Weighted Average <u>Duration</u> <u>Maturity</u>
BlackRock Government Income Fund	N/A	5.1 years
Legg Mason Partners Global High Yield Bond	4.2 years	N/A
Legg Mason Partners Investment Grade Bond Fund	N/A	8.6 years
Legg Mason Partners Short-Term Investment Grade Bond Fund (f/k/a Smith Barney Short-Term Investment Grade Bond Fund)	2.6 years	2.0 years
Salomon Brothers High Yield Bond Fund	N/A	4.2 years
Vanguard Total Bond Market Index Fund	4.5 years	N/A
Vanguard Inflation-Protected Securities Fund	6.3 years	6.2 years
Western Core Plus Fund	5.1 years	N/A

**Credit Risk:**

Generally, credit risk is the risk that an issuer or other counterparty to 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. Investment options in SCF and DPF attempt to diversify risk by offering multiple portfolio options with a range of credit risk characteristics. Investments of the Underlying Portfolios shall be selected and managed in accordance with the standards set forth in Section 15-1-304, C.R.S. That is, (a) with the care which men of prudence, discretion and intelligence exercise in the management of the property of another, not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income as well as the probable safety of capital, and (b) for the sole benefit of the beneficiary. Investment decisions shall be made in accordance with the prudent

**COLLEGEINVEST**  
**COLLEGE SAVINGS PROGRAM FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2007 AND 2006**

**2. Cash, Cash Equivalents and Investments (continued):**

**Credit Risk (continued):**

investor rule set forth in Section 15-1.1-102, C.R.S. Consistent with the above, the Committee will determine, from time to time, suitable investment parameters for the Scholars Choice College Savings Trust and the Direct Portfolio Trust which seeks to control risk through portfolio diversification. Additionally, CollegeInvest's investment policy states that all mutual fund assets are subject to the provisions of the Investment Company Act of 1940. As of June 30, 2007 and 2006, investments in the SCF and DPF portfolios and the Funding Agreement were unrated.

**3. Units:**

The beneficial interests of each participant and beneficiary in the net assets of the portfolios are represented by units. Contributions to and redemptions from the portfolios are subject to terms and limitations defined in the participation agreement between the participant and the respective plan. Contributions to SCF and DPF (other than by electronic funds transfers) will purchase units in a portfolio at the net asset value per unit for that portfolio calculated no later than the business day following the day payment is received by CBA or the Managers. Contributions by electronic funds transfers will purchase units at the unit value calculated on the day of transfer or, in certain cases, on the day that the monies become available. Contributions to SVP, including contributions received by electronic transfer, will purchase units at the net asset value calculated on the business day immediately preceding the date the contributions are invested with MetLife. Contributions are required to be invested with MetLife within thirty days of receipt by CollegeInvest.

Withdrawals from SCF or DPF result in the redemption of units, based on the unit value next determined following CBA's or the Manager's receipt of the withdrawal request. Unit values for each portfolio are determined daily. There are no distributions of net investment gains or net investment income to the portfolios' participants or beneficiaries. Withdrawals from SVP result in the redemption of units, based on the unit value determined on the date immediately preceding the date that a payment is made by CollegeInvest in satisfaction of a withdrawal request. Unit values for the Fund are determined daily. There are no distributions of net investment gains or net investment income to the participants or beneficiaries.

**4. Agreement**

CollegeInvest entered into an Intergovernmental Agreement for marketing services with the State of Wyoming and the Wyoming Family College Savings Program Trust (Wyoming Trust) on June 14, 2006 to market and promote sales of interest in the CollegeInvest 529 Plans to State of Wyoming residents. The agreement term is for five years and may be extended for an additional five year term by CollegeInvest. Under the agreement, The Wyoming Trust will reimburse CollegeInvest \$20,000 for start up expenses and up to \$40,000 annually for marketing expenses.

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007 AND 2006**

**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 an actuarial assessment and legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting [www.copera.org](http://www.copera.org).

Non-higher education employees hired by the state after January 1, 2006, are allowed 60 days to elect to participate in 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.

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007 AND 2006**

**5. Retirement Plan (continued):**

**Plan Description (continued):**

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

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

State troopers and judges comprise a small percentage of plan members but have higher contribution rates, and state troopers are eligible for retirement benefits at different ages and years of service.

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

Retiree benefits are increased annually based on their original hire date as follows:

- Hired before July 1, 2005 – 3.5 percent, compounded annually.
- Hired between July 1, 2005 and December 31, 2006 – the lesser of 3 percent or the actual increase in the national Consumer Price Index.
- Hired on or after January 1, 2007 – the lesser of 3 percent or the actual increase in the national Consumer Price Index, limited to a 10 percent reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 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.

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007 AND 2006**

**5. Retirement Plan (continued):**

**Funding Policy:**

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

Most employees contribute 8.0 percent (10.0 percent for state troopers) of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 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 on behalf of the Funds to the three programs described above for the years ended June 30, 2007, 2006 and 2005 were \$68,000, \$57,000 and \$46,000, respectively. These contributions met the contribution requirement for each year.

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007 AND 2006**

**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 4.

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured medical 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.



**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007 AND 2006**

**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.

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:

<u>Liability</u>	<u>Limits of Liability</u>
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.

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007 AND 2006**

**9. Net Assets:**

All of the Funds' fiduciary net assets of \$3.258 billion and \$2.464 billion as of June 30, 2007 and 2006, respectively, are net assets held in trust on behalf of investors in the Funds.

**10. Intraplan Administrative Fee Transfers:**

CollegeInvest receives an administration fee at an annual rate of up to .75% of the average daily net assets in each Fund. These fees are deducted monthly from each Fund and are used by CollegeInvest for the payment of administrative expenses incurred by CollegeInvest in connection with the operation of the Program in accordance with and as permitted by applicable law. SCF transferred \$146,000 and \$272,000 to DPF for the payment of expenses in excess of fees collected during fiscal years ending June 30, 2007 and 2006, respectively. Additionally, SCF transferred \$108,000 and \$59,000 to SVP for the payment of expenses in excess of fees collected during fiscal years ending June 30, 2007 and 2006, respectively.

**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 financial statements of each major fiduciary fund of CollegeInvest, College Savings Program Funds as of and for the year ended June 30, 2007, and have issued our report thereon dated December 13, 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, College Savings Program Funds' 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 recommendations to be significant deficiencies in internal control over financial reporting (Findings 1, 2 and 3).

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 none of the significant deficiencies described are material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether CollegeInvest, College Savings Program Funds' 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 Legislative Audit Committee and management and is not intended to be and should not be used by anyone other than these specified parties.

*Clifton Anderson LLP*

Greenwood Village, Colorado  
December 13, 2007

**SUPPLEMENTARY INFORMATION**

**CollegeInvest**  
**Scholars Choice Fund**  
**Supplementary Schedule - Combining Schedule of Fiduciary Net Assets**  
**June 30, 2007**  
(Dollar amounts expressed in thousands)

	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	Portfolio 5	Portfolio 6	Portfolio 7	Fixed Income	Equity	All Cap Growth and Value	Global All Cap Growth and Value	Balanced All Cap Growth and Value	Cash Reserve Option	Total
<b>Fiduciary assets:</b>														
Cash and cash equivalents	\$ 569	\$ 157	\$ 163	\$ 893	\$ 215	\$ 170	\$ (15)	\$ (16)	\$ 580	\$ -	\$ -	\$ -	\$ 129	\$ 2,845
Investments, at fair value	257,317	256,058	252,165	511,143	259,885	213,843	78,288	25,991	649,499	-	-	-	15,120	2,519,309
Receivable for portfolio units sold	361	767	780	987	563	204	182	93	650	-	-	-	2	4,589
Interest receivable	289	384	492	1,172	700	724	292	121	67	-	-	-	60	4,301
Due from plan managers	21	21	21	42	21	18	6	2	54	-	-	-	1	207
Due from Student Loan Program Funds	144	143	141	287	146	119	44	14	363	-	-	-	9	1,410
<b>Total fiduciary assets</b>	<b>258,701</b>	<b>257,530</b>	<b>253,762</b>	<b>514,524</b>	<b>261,530</b>	<b>215,078</b>	<b>78,798</b>	<b>26,205</b>	<b>651,213</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,321</b>	<b>2,532,661</b>
<b>Liabilities:</b>														
Accounts payable	4	4	4	8	4	3	1	-	11	-	-	-	-	39
Payable for investments purchased	442	649	592	1,096	720	643	466	110	635	-	-	-	65	5,418
Service and investment fees payable	140	150	145	310	156	133	48	16	380	-	-	-	17	1,495
Deferred revenue	17	16	16	33	17	14	5	2	43	-	-	-	1	164
Due to participants	143	145	140	287	146	120	45	15	363	-	-	-	10	1,414
<b>Total liabilities</b>	<b>746</b>	<b>964</b>	<b>897</b>	<b>1,734</b>	<b>1,043</b>	<b>913</b>	<b>565</b>	<b>143</b>	<b>1,433</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>93</b>	<b>8,530</b>
<b>Total fiduciary net assets, held in trust</b>	<b>\$ 257,955</b>	<b>\$ 256,566</b>	<b>\$ 252,865</b>	<b>\$ 512,790</b>	<b>\$ 260,487</b>	<b>\$ 214,165</b>	<b>\$ 78,232</b>	<b>\$ 26,062</b>	<b>\$ 649,781</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 15,228</b>	<b>\$ 2,524,131</b>
Units outstanding	<u>16,843,247</u>	<u>16,798,085</u>	<u>17,092,922</u>	<u>34,417,561</u>	<u>18,809,709</u>	<u>16,350,566</u>	<u>6,048,193</u>	<u>1,962,845</u>	<u>50,790,479</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,230,133</u>	<u>194,343,740</u>
Unit value	\$ <u>15.32</u>	\$ <u>15.27</u>	\$ <u>14.79</u>	\$ <u>14.90</u>	\$ <u>13.85</u>	\$ <u>13.10</u>	\$ <u>12.93</u>	\$ <u>13.29</u>	\$ <u>12.79</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1.00</u>	\$ <u>12.99</u>

See accompanying independent auditor's report

**CollegeInvest**  
**Scholars Choice Fund**  
**Supplementary Schedule - Combining Schedule of Changes in Fiduciary Net Assets**  
**For the fiscal year ended June 30, 2007**  
(Dollar amounts expressed in thousands)

	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	Portfolio 5	Portfolio 6	Portfolio 7	Fixed Income	Equity	All Cap Growth and Value	Global All Cap Growth and Value	Balanced All Cap Growth and Value	Cash Reserve Option	Total
<b>Additions:</b>														
Gross earnings on investments:														
Dividends	\$ 8,580	\$ 9,109	\$ 9,887	\$ 20,293	\$ 10,503	\$ 8,558	\$ 2,963	\$ 1,578	\$ 14,884	\$ 0	\$ 3	\$ 85	\$ 31	\$ 86,474
Net realized and unrealized loss from security transactions	27,658	25,561	20,850	36,622	14,358	5,734	967	71	84,898	304	1,263	139	-	218,425
	36,238	34,670	30,737	56,915	24,861	14,292	3,930	1,649	99,782	304	1,266	224	31	304,899
Less investment fees	(51)	(101)	(159)	(307)	(109)	(79)	(35)	(11)	(187)	(0)	(2)	(1)	(9)	(1,051)
Net investment income	36,187	34,569	30,578	56,608	24,752	14,213	3,895	1,638	99,595	304	1,264	223	22	303,848
Participant contributions	93,014	44,569	42,993	81,430	41,797	28,390	10,633	4,589	96,596	840	2,451	1,017	10,453	458,772
Fee income	28	28	28	56	29	24	7	3	72	-	-	-	3	278
<b>Total additions</b>	<b>129,229</b>	<b>79,166</b>	<b>73,599</b>	<b>138,094</b>	<b>66,578</b>	<b>42,627</b>	<b>14,535</b>	<b>6,230</b>	<b>196,263</b>	<b>1,144</b>	<b>3,715</b>	<b>1,240</b>	<b>10,478</b>	<b>762,898</b>
<b>Deductions:</b>														
Benefits paid to participants and withdrawals	10,824	11,881	11,781	40,061	12,882	22,354	25,035	6,030	39,337	358	682	313	4,906	186,444
Service fees	1,279	1,431	1,358	2,960	1,468	1,221	418	174	3,440	15	49	12	12	13,837
Administrative fees	224	233	223	469	231	186	64	25	561	3	9	2	13	2,243
Marketing expenses	28	28	28	56	27	24	9	3	72	-	-	-	3	278
Reduced operating expenses	(120)	(119)	(117)	(238)	(121)	(99)	(36)	(12)	(301)	-	-	-	(7)	(1,170)
<b>Total deductions</b>	<b>12,235</b>	<b>13,454</b>	<b>13,273</b>	<b>43,308</b>	<b>14,487</b>	<b>23,686</b>	<b>25,490</b>	<b>6,220</b>	<b>43,109</b>	<b>376</b>	<b>740</b>	<b>327</b>	<b>4,927</b>	<b>201,632</b>
Portfolio exchanges, net	(53,580)	(13,769)	(4,522)	6,591	6,859	34,519	35,548	506	57,329	(14,155)	(48,300)	(11,174)	4,148	-
Net change in fiduciary net assets before transfers	63,414	51,943	55,804	101,377	58,950	53,460	24,593	516	210,483	(13,387)	(45,325)	(10,261)	9,699	561,266
Administrative fee transfer	(26)	(26)	(25)	(52)	(25)	(22)	(8)	(3)	(65)	-	-	-	(2)	(254)
Change in due to participants	(94)	(93)	(92)	(186)	(94)	(78)	(28)	(9)	(236)	-	-	-	(6)	(916)
Fiduciary net assets, beginning of year	194,661	204,742	197,178	411,651	201,656	160,805	53,675	25,558	439,599	13,387	45,325	10,261	5,537	1,964,035
Fiduciary net assets, end of year	\$ 257,955	\$ 256,566	\$ 252,865	\$ 512,790	\$ 260,487	\$ 214,165	\$ 78,232	\$ 26,062	\$ 649,781	\$ -	\$ -	\$ -	\$ 15,228	\$ 2,524,131

See accompanying independent auditor's report

**CollegeInvest  
Scholars Choice Fund  
Supplementary Schedule - Combining Schedule of Investments  
June 30, 2007**

(Dollar amounts expressed in thousands)

	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	Portfolio 5	Portfolio 6	Portfolio 7	Fixed Income	Equity	All Cap Growth & Value	Global All Cap Growth & Value	Balanced All Cap Growth & Value	Cash Reserve Option	Total
Underlying funds:														
Western Asset Core Plus Bond Portfolio Fund	\$ 39,226	\$ 62,918	\$ 88,210	\$ 174,999	\$ 76,611	\$ 52,890	\$ -	\$ 23,416	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 518,270
Legg Mason Value Trust Fund	50,507	50,665	39,653	82,372	31,198	16,864	3,126	-	191,712	-	-	-	-	466,097
John Hancock Classic Value Fund	38,322	38,827	30,408	62,893	23,920	12,905	2,300	-	162,418	-	-	-	-	371,993
Legg Mason Partners Large Cap Growth Fund	38,398	38,742	30,314	62,644	23,849	12,897	2,302	-	97,808	-	-	-	-	306,954
Legg Mason Partners Short-term Investment Grade Bond Fund	-	-	-	50,453	38,848	64,396	47,015	-	-	-	-	-	-	200,712
Legg Mason International Equity Trust Fund	39,123	26,091	25,556	26,368	13,348	-	-	-	65,900	-	-	-	-	196,386
Legg Mason Partners Small Cap Growth Fund	19,367	13,078	12,745	13,161	6,670	-	-	-	32,942	-	-	-	-	97,963
Western Asset Money Market Fund	-	-	-	-	25,995	53,891	23,545	-	-	-	-	-	15,120	118,551
Pennsylvania Mutual Fund	19,445	13,087	12,780	13,265	6,673	-	-	-	33,225	-	-	-	-	98,475
Legg Mason Partners Global High Yield Bond Fund	12,929	12,650	12,499	24,988	12,773	-	-	2,575	-	-	-	-	-	78,414
Legg Mason Partners Aggressive Growth Fund	-	-	-	-	-	-	-	-	65,494	-	-	-	-	65,494
Total investments, at fair value	\$ 257,317	\$ 256,058	\$ 252,165	\$ 511,143	\$ 259,885	\$ 213,843	\$ 78,288	\$ 25,991	\$ 649,499	\$ -	\$ -	\$ -	\$ 15,120	\$ 2,519,309

See accompanying independent auditor's report.



**CollegeInvest**  
**Direct Portfolio Fund**  
**Supplementary Schedule - Combining Schedule of Fiduciary Net Assets**  
**June 30, 2007**  
(Dollar amounts expressed in thousands)

	Aggressive Growth	Growth	Moderate Growth	Conservative Growth	Income	Stock Index	Bond Index	Money Market	Total
Fiduciary assets:									
Investments, at fair value	\$ 136,550	\$ 149,333	\$ 170,674	\$ 84,227	\$ 56,270	\$ 79,794	\$ 13,434	\$ 19,411	\$ 709,693
Dividends and interest receivable	-	226	370	235	181	-	57	81	1,150
Due from plan managers	11	12	14	7	5	7	1	1	58
Due from Student Loan Program Funds	9	10	10	5	4	5	1	1	45
Total fiduciary assets	<u>136,570</u>	<u>149,581</u>	<u>171,068</u>	<u>84,474</u>	<u>56,460</u>	<u>79,806</u>	<u>13,493</u>	<u>19,494</u>	<u>710,946</u>
Liabilities:									
Accounts payable	3	3	5	2	1	2	-	-	16
Service and investment fees payable	73	81	95	47	31	46	7	10	390
Deferred revenue	16	18	23	10	7	10	2	1	87
Total liabilities	<u>92</u>	<u>102</u>	<u>123</u>	<u>59</u>	<u>39</u>	<u>58</u>	<u>9</u>	<u>11</u>	<u>493</u>
Total fiduciary net assets, held in trust	<u>\$ 136,478</u>	<u>\$ 149,479</u>	<u>\$ 170,945</u>	<u>\$ 84,415</u>	<u>\$ 56,421</u>	<u>\$ 79,748</u>	<u>\$ 13,484</u>	<u>\$ 19,483</u>	<u>\$ 710,453</u>
Units outstanding	<u>9,461,287</u>	<u>11,215,838</u>	<u>13,582,901</u>	<u>7,112,802</u>	<u>5,290,057</u>	<u>5,510,481</u>	<u>1,271,461</u>	<u>1,778,422</u>	<u>55,223,249</u>
Unit value	<u>\$ 14.42</u>	<u>\$ 13.33</u>	<u>\$ 12.59</u>	<u>\$ 11.87</u>	<u>\$ 10.67</u>	<u>\$ 14.47</u>	<u>\$ 10.61</u>	<u>\$ 10.96</u>	<u>\$ 12.87</u>

**CollegeInvest**  
**Direct Portfolio Fund**  
**Supplementary Schedule - Combining Schedule of Changes in Fiduciary Net Assets**  
**For the fiscal year ended June 30, 2007**  
(Dollar amounts expressed in thousands)

	Aggressive Growth	Growth	Moderate Growth	Conservative Growth	Income	Stock Index	Bond Index	Money Market	Total
<b>Additions:</b>									
Gross earnings on investments:									
Dividends	\$ 2,001	\$ 3,933	\$ 5,217	\$ 2,931	\$ 2,450	\$ 1,271	\$ 635	\$ 709	\$ 19,147
Net realized and unrealized loss from securities transactions	17,437	14,834	13,083	4,462	(200)	11,449	68	-	61,133
	19,438	18,767	18,300	7,393	2,250	12,720	703	709	80,280
Less investment fees	(98)	(112)	(114)	(49)	(36)	(42)	(9)	(12)	(472)
Net investment income	19,340	18,655	18,186	7,344	2,214	12,678	694	697	79,808
Participant contributions	49,882	44,819	34,270	18,653	14,129	14,872	4,166	17,200	197,991
Fee income	66	72	82	41	27	38	6	9	341
<b>Total additions</b>	<b>69,288</b>	<b>63,546</b>	<b>52,538</b>	<b>26,038</b>	<b>16,370</b>	<b>27,588</b>	<b>4,866</b>	<b>17,906</b>	<b>278,140</b>
<b>Deductions:</b>									
Benefits paid to participants and withdrawals	2,666	3,455	7,317	2,669	9,472	3,099	2,502	9,402	40,582
Service fees	563	720	845	427	266	411	71	75	3,378
Administrative fees	103	123	154	75	47	66	11	12	591
Marketing expenses	66	72	82	41	27	38	6	9	341
Excess operating expenses	39	31	24	12	12	16	3	9	146
<b>Total deductions</b>	<b>3,437</b>	<b>4,401</b>	<b>8,422</b>	<b>3,224</b>	<b>9,824</b>	<b>3,630</b>	<b>2,593</b>	<b>9,507</b>	<b>45,038</b>
Portfolio exchanges, net	(67)	(16,334)	3,902	1,429	11,906	(3,495)	(462)	3,121	-
Net change in fiduciary net assets before transfers	65,784	42,811	48,018	24,243	18,452	20,463	1,811	11,520	233,102
Intraplan administrative fee transfer	39	31	24	12	12	16	3	9	146
Fiduciary net assets, beginning of year	70,655	106,637	122,903	60,160	37,957	59,269	11,670	7,954	477,205
Fiduciary net assets, end of year	136,478	149,479	170,945	84,415	56,421	79,748	13,484	19,483	710,453

**CollegeInvest**  
**Direct Portfolio Fund**  
**Supplementary Schedule - Combining Schedule of Investments**  
**June 30, 2007**  
(Dollar amounts expressed in thousands)

	Aggressive Growth	Growth	Moderate Growth	Conservative Growth	Income	Stock Index	Bond Index	Money Market	Total
Underlying funds:									
Vanguard Total Stock Market Index Fund	\$ 115,716	\$ 81,638	\$ 76,338	\$ 29,410	\$ -	\$ 79,767	\$ -	\$ -	\$ 382,869
Vanguard Total Bond Market Index Fund	-	52,565	85,689	54,801	28,109	-	13,434	-	234,598
Vanguard Total International Stock Index Fund	20,632	15,076	8,647	-	-	-	-	-	44,355
Vanguard Prime Money Market Fund	202	54	-	16	14,022	27	-	19,411	33,732
Vanguard Inflation-Protected Securities Fund	-	-	-	-	14,139	-	-	-	14,139
Total investments, at fair value	<u>\$ 136,550</u>	<u>\$ 149,333</u>	<u>\$ 170,674</u>	<u>\$ 84,227</u>	<u>\$ 56,270</u>	<u>\$ 79,794</u>	<u>\$ 13,434</u>	<u>\$ 19,411</u>	<u>\$ 709,693</u>

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