# CollegeInvest College Savings Program Funds

**Financial Statements and Independent Auditors' Reports**

**Financial Audit**

**Years Ended June 30, 2012 and 2011**

**Compliance Audit**

**Year Ended June 30, 2012**

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***Crystal Dorsey***
**Legislative Audit Manager**

***BKD, LLP***
**Contractor Auditors**

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BKD LLP
CPAs & Advisors

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

November 16, 2012

**Members of the Legislative Audit Committee:**

We have completed the financial statement audit of CollegeInvest College Savings Program Funds as of and for the year ended June 30, 2012. Our audit was conducted 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. We did not audit the financial statements of the CollegeInvest College Savings Program Funds as of and for the year ended June 30, 2011 as those financial statements were audited by other auditors.

We were engaged to conduct our audit pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct or cause to be conducted audits of all departments, institutions and agencies of state government. The reports which we have issued as a result of this engagement are set forth in the table of contents which follows.

BKD, LLP

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# CollegeInvest
# College Savings Program Funds
## June 30, 2012

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## REPORT SUMMARY

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## Purposes and Scope

The Office of the State Auditor, State of Colorado, engaged BKD, LLP to conduct the financial and compliance audit of CollegeInvest (a division of the Department of Higher Education, State of Colorado) College Savings Program Funds as of and for the fiscal year ended June 30, 2012. BKD, LLP performed the 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 financial audit of CollegeInvest College Savings Program Funds for the fiscal year ended June 30, 2011 was conducted by other auditors.

The purposes and scope of our audit were to (i) express opinions on each fiduciary fund of CollegeInvest College Savings Program Funds as of and for the fiscal year ended June 30, 2012 and (ii) issue a report on CollegeInvest College Savings Program Funds' internal control over financial reporting and on compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters based on our audit of the financial statements performed in accordance with *Government Auditing Standards* for the year ended June 30, 2012.

## Audit Opinions and Reports

We expressed unqualified opinions on each fiduciary fund of CollegeInvest College Savings Program Funds as of and for the fiscal year ended June 30, 2012.

## Summary of Key Findings and Recommendations

There were no findings for the fiscal year ended June 30, 2012.

## Summary of Progress in Implementing Prior Year Audit Recommendations

There were no findings for the fiscal year ended June 30, 2011.

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# CollegeInvest
# College Savings Program Funds
### Fiscal Year Ended June 30, 2012

## DESCRIPTION OF COLLEGEINVEST COLLEGE SAVINGS PROGRAM FUNDS

## Organization

The Colorado General Assembly pursuant to Colorado Revised Statutes 23-3.1-201, et seq. and 23-3.1-301, et seq. established a student obligation bond program (Student Loan Program Funds which consist of the Borrower Benefit Fund and Bond Funds), a post-secondary education expense program (Prepaid Tuition Fund), an Internal Revenue Code Section 529 college savings program (Scholars Choice Fund, Direct Portfolio Fund, Smart Choice College Savings Funds, and Stable Value Plus Fund), a scholarship trust program (CollegeInvest Early Achievers Scholarship Fund), a nursing teacher loan forgiveness program (Nursing Teacher Loan Forgiveness Fund), a Job Retraining Fund, and a Financial Need Scholarship 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 with the consent of 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 College Savings Program Funds consist of five funds with various options to meet the savings needs of participants. The individual funds and available options are described throughout these financial statements and in greater detail in the notes to the financial statements.

## DESCRIPTION OF COLLEGEINVEST COLLEGE SAVINGS PROGRAM FUNDS (continued)

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.

BKD LLP
CPAs & Advisors

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

# Independent Auditors' Report on Financial Statements and Supplementary Information

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of each fiduciary fund of CollegeInvest (a division of the Department of Higher Education, State of Colorado) College Savings Program Funds as of and for the year ended June 30, 2012, which collectively comprise CollegeInvest College Savings Program Funds' basic financial statements 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 audit. The financial statements of CollegeInvest (a division of the Department of Higher Education, State of Colorado) College Savings Program Funds as of and for the year ended June 30, 2011, were audited by other auditors whose report dated December 8, 2011, expressed unqualified opinions on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 net assets and changes in net assets 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, 2012 and 2011, and the changes in its financial position, or, where applicable, its cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the 2012 financial statements referred to above present fairly, in all material respects, the net assets of each fiduciary fund of CollegeInvest College Savings Program Funds, as of June 30, 2012 and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Members of the Legislative Audit Committee:

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2012 on our consideration of CollegeInvest College Savings Program Funds' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CollegeInvest College Savings Program Funds' basic financial statements. The accompanying supplementary information – combining schedules for the Scholars Choice Fund, Direct Portfolio Fund and Smart Choice Fund, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

November 16, 2012

# CollegeInvest
# College Savings Program Funds
## Management's Discussion and Analysis
## (Unaudited)
## June 30, 2012 and 2011

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, 2012 and 2011 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 and the Prepaid Tuition Fund. The Scholars Choice, Direct Portfolio, Stable Value Plus and Smart Choice 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, the Statement of Changes in Fiduciary Net Assets, and the Footnotes.

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, additions to and deductions from net assets 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. The Smart Choice Fund began operations and accepting contributions in October 2009.

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

***Scholars Choice Fund***:

On October 22, 2004, CollegeInvest entered into an agreement with ClearBridge Advisors, LLC (formerly known as CAM North America, LLC) (CBA) and Legg Mason Investor Services, LLC (LMIS) to manage the advisor sold accounts of the Scholars Choice Fund (SCF). Both CBA and LMIS are wholly-owned subsidiaries of Legg Mason, Inc. CBA performed investment advisory functions and LMIS performs administrative duties and record keeping for the SCF. Effective September 15, 2008, investment advisory services with respect to the SCF have been performed by Legg Mason Global Asset Allocation, LLC (LMGAA), which is also a wholly-owned subsidiary of Legg Mason, Inc. The agreement is for management of the advisor sold accounts only and expires on December 31, 2022, subject to possible extension.

CollegeInvest acts as trustee to the SCF, and LMGAA 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. The SCF offers nine investment options in which participants may invest. Each investment option is comprised of one or more of the 13 portfolios within the SCF. The investment return for the 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 record keeping duties to the Direct Portfolio Fund (DPF). Effective December 1, 2009, this contract was amended to reduce the investment and services fees from an annual percentage rate of 0.65% to 0.42%. The amended contract expires on December 31, 2014.

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.

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

***Stable Value Plus Fund:***

CollegeInvest administers the Stable Value Plus Fund. CollegeInvest entered into a funding agreement in January 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. The agreement expires on December 31, 2017, with the option to extend two additional one year periods.

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 2.01%, which is the current minimum annual rate of 3.00% less the maximum CollegeInvest administrative fee of 0.99%. The rate, net of CollegeInvest's administrative fee, has been as follows:

| Date | Rate |
|---|---|
| January 1 – August 31, 2010 | 3.00% |
| September 1 – December 31, 2010 | 3.10% |
| January 1 –December 31, 2011 | 2.90% |
| January 1 – June 30, 2012 | 3.04% |

***Smart Choice Fund:***

On October 21, 2009, CollegeInvest entered into an agreement with FirstBank Holding Company (FirstBank), a Colorado banking company, to begin offering a new college savings option called the Smart Choice College Savings Plan (SCCS). CollegeInvest acts as trustee for the Plan and FirstBank provides administrative and record keeping duties. The Plan is being offered to provide an additional tax-advantaged savings vehicle for participants to utilize in saving for post-secondary education by providing the benefits of a 529 plan along with the stability and security of an FDIC insured bank. The initial product offerings through the SCCS are a One-Year Time Savings Plan and a Money Market Savings Plan. The agreement expires September 30, 2019, with an option to extend for up to two additional 2-year periods.

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

***Smart Choice Fund (continued):***

The interest rate paid on amounts deposited into the money market savings account and the one-year time saving account will be established by FirstBank. However, the rates for each type of account must not be less than 0.10% of the interest rate publicly offered directly by FirstBank on similar money market and savings accounts. The rates are variable and are published daily by FirstBank on their website. The interest rate will be calculated, and may be adjusted if needed, every Wednesday and on the first day of each month and is net of all administrative and other charges of FirstBank. The average interest rate paid during fiscal years 2012 and 2011 was .40% and .26%, respectively.

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

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

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| | (dollar amounts expressed in thousands) | | |
| Cash and investments | **$ 4,329,502** | $ 4,067,114 | $ 3,302,129 |
| Receivables and other | **11,902** | 11,661 | 14,709 |
| Total fiduciary assets | **4,341,404** | 4,078,775 | 3,316,838 |
| Total liabilities | **12,078** | 11,991 | 15,104 |
| Total fiduciary net assets, held in trust | **$ 4,329,326** | $ 4,066,784 | $ 3,301,734 |

Combined cash and investments of the Program increased by $262.4 million, or 6.5%, from June 30, 2011 to June 30, 2012 due primarily to net contributions (participant contributions less benefits paid to participants and withdrawals) of $151.0 million and investment earnings and fees of $133.8 million which were offset by administrative expenses of $22.7 million. Combined cash and investments of the Program increased by $765.0 million, or 23.2%, from June 30, 2010 to June 30, 2011, due primarily to net contributions of $170.0 million and investment earnings and fees of $614.7 million which were offset by administrative expenses of $20.0 million.

Receivables consist primarily of receivables for fund shares sold, receivables for investments sold, dividends and interest receivable and due from Student Loan Program Funds. Receivables increased by $241,000 in 2012 and decreased by $3.0 million in 2011. The fluctuation in both years is primarily due to the amount of receivables for fund shares sold and receivables for investments sold in the SCF. The year-to-year changes are a reflection of investment decisions made by the participants and the corresponding action taken by the plan manager to process the required transactions.

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

Liabilities consist of amounts payable for investments purchased, amounts payable for fund shares repurchased, service and investment fees payable, deferred revenue, and due to participants. Total liabilities increased by $87,000 in 2012 and decreased by $3.1 million in 2011. The fluctuation in both years is primarily due to the amount of the payables for investments purchased and the amounts payable for fund shares repurchased in the SCF. The year-to-year changes are a reflection of investment decisions made by the participants and the corresponding action taken by the plan manager to process the required transactions. In the fiscal year ended June 30, 2011, $1.3 million of the decrease is due to a reduction in CollegeInvest's administrative fee. For the period from September 1, 2010 to August 31, 2011, CollegeInvest reduced its administrative fees from 0.10% to zero for the SCF and DPF and from 0.75% to 0.65% for the SVP in order to reduce the reserve of fees collected greater than actual expenses. Effective September 1, 2011, CollegeInvest reinstated the fee at 0.06% for the SCF and DPF and increased the fee to 0.71% for the SVP.

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| | (dollar amounts expressed in thousands) | | |
| Net investment earnings | **$ 133,053** | $ 614,024 | $ 379,987 |
| Participant contributions | **551,687** | 539,437 | 481,648 |
| Fees | **712** | 684 | 705 |
| Total additions | **685,452** | 1,154,145 | 862,340 |
| Benefits paid to participants and withdrawals | **400,638** | 369,112 | 335,039 |
| Administrative, marketing and service fee expense | **22,658** | 21,274 | 20,415 |
| Total deductions | **423,296** | 390,386 | 355,454 |
| Change in fiduciary net assets before transfers | **262,156** | 763,759 | 506,886 |
| Transfers and change in due to participants | **386** | 1,291 | (883) |
| Change in net assets | **262,542** | 765,050 | 506,003 |
| Fiduciary net assets, beginning of year | **4,066,784** | 3,301,734 | 2,795,731 |
| Fiduciary net assets, end of year | **$ 4,329,326** | $ 4,066,784 | $ 3,301,734 |

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

Net investment earnings is comprised of dividends, interest earnings, net realized and unrealized gains and losses from security transactions less investment fees. Net realized and unrealized gains and losses on security transactions were $36.3 million, $533.3 million, and $297.8 million for the years ended June 30, 2012, 2011, and 2010, respectively. Increases and decreases in net realized and unrealized gains and losses on security transactions reflect market conditions during each corresponding year. Interest and dividend earnings was $98.3 million, $82.4 million, and $83.9 million, for the years ended June 30, 2012, 2011, and 2010, respectively. Interest and dividend earnings primarily reflect overall economic conditions and the investment holdings during each year. The Program participant contributions, net of withdrawals, decreased by $19.3 million to $151.0 million for the year ended June 30, 2012 and by $23.7 million to $170.3 million for the year ended June 30, 2011.

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

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| | (dollar amounts expressed in thousands) | | |
| Participant contributions: | | | |
| Scholars Choice Fund | **$ 284,787** | $ 288,725 | $ 270,775 |
| Direct Portfolio Fund | **231,476** | 223,152 | 191,547 |
| Stable Value Plus Fund | **18,381** | 15,820 | 15,247 |
| Smart Choice Fund | **17,043** | 11,740 | 4,079 |
| Total participant contributions | **551,687** | 539,437 | 481,648 |
| Benefits paid to participants and withdrawals: | | | |
| Scholars Choice Fund | **271,222** | 254,494 | 242,992 |
| Direct Portfolio Fund | **106,887** | 97,518 | 79,339 |
| Stable Value Plus Fund | **12,417** | 11,776 | 11,931 |
| Smart Choice Fund | **10,112** | 5,324 | 777 |
| Total benefits paid to participants and withdrawals | **400,638** | 369,112 | 335,039 |
| Net participant contributions | **$ 151,049** | $ 170,325 | $ 146,609 |

Participant contributions were 13.1%, 14.6%, and 15.8% of average net assets for the years ended June 30, 2012, 2011, and 2010, respectively. Benefits paid to participants and withdrawals were 9.5%, 10.0%, and 11.0% of average net assets for the years ended June 30, 2012, 2011, and 2010, respectively.

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

Fees are primarily comprised of funds received from Legg Mason and the Managers for marketing and promotion of the Funds. CollegeInvest received $372,000 and $326,000 in fees from Legg Mason and the Managers, respectively, for the year ended June 30, 2012. CollegeInvest received $200,000 and $478,000 in fees from Legg Mason and the Managers, respectively, for the year ended June 30, 2011.

Administrative and service fees are charged to participants as a percentage of net assets based on the investment option chosen. These charges were approximately 0.5%, 0.6%, and 0.7% of average net assets for the years ended June 30, 2012, 2011, and 2010 respectively.

**Economic Factors:**

- Performance of individual participant accounts and individual portfolios within the Program is dependent on risk factors associated with market-based investments. Fair market valuation of participant accounts may fluctuate based on market performance.

- 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 and FirstBank Agreements, the return of principal and certain investment rates of return are guaranteed for the SVP and the SCCS, respectively.

**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: Wendy Hause, Controller, CollegeInvest, 1560 Broadway, Suite 1700, Denver, CO 80202.

# CollegeInvest
# College Savings Program Funds
## Statements of Fiduciary Net Assets
## June 30, 2012 and 2011
## (Dollar amounts expressed in thousands)

| | 2012 | | | | | 2011 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Scholars Choice Fund** | **Direct Portfolio Fund** | **Stable Value Plus Fund** | **Smart Choice Fund** | **Total Private-Purpose Trust Funds** | Scholars Choice Fund | Direct Portfolio Fund | Stable Value Plus Fund | Smart Choice Fund | Total Private-Purpose Trust Funds |
| **Fiduciary assets:** | | | | | | | | | | |
| Cash and cash equivalents | **$ -** | **$ -** | **$ 190** | **$ 16,852** | **$ 17,042** | $ 6 | $ - | $ 26 | $ 9,836 | $ 9,868 |
| Investments, at fair value | **2,771,732** | **1,495,082** | **45,646** | **-** | **4,312,460** | 2,693,910 | 1,324,638 | 38,698 | - | 4,057,246 |
| Receivable for portfolio units sold and investments sold | **5,972** | **-** | **-** | **-** | **5,972** | 5,645 | - | - | - | 5,645 |
| Interest receivable | **10** | **1,108** | **-** | **-** | **1,118** | - | 1,190 | - | - | 1,190 |
| Due from plan managers | **134** | **72** | **76** | **1** | **283** | - | - | 60 | - | 60 |
| Due from (to) Student Loan Program Funds | **3,916** | **630** | **(17)** | **-** | **4,529** | 4,262 | 556 | (51) | (1) | 4,766 |
| **Total fiduciary assets** | **2,781,764** | **1,496,892** | **45,895** | **16,853** | **4,341,404** | 2,703,823 | 1,326,384 | 38,733 | 9,835 | 4,078,775 |
| **Liabilities:** | | | | | | | | | | |
| Accounts payable | **53** | **26** | **1** | **1** | **81** | 103 | 54 | 2 | - | 159 |
| Payable for portfolio units repurchased and investments purchased | **5,312** | **-** | **191** | **-** | **5,503** | 5,405 | - | 175 | - | 5,580 |
| Service and investment fees payable | **1,313** | **508** | **-** | **-** | **1,821** | 1,209 | 387 | - | - | 1,596 |
| Deferred revenue | **1,463** | **676** | **-** | **-** | **2,139** | 1,235 | 502 | - | - | 1,737 |
| Due to participants | **2,534** | **-** | **-** | **-** | **2,534** | 2,919 | - | - | - | 2,919 |
| **Total liabilities** | **10,675** | **1,210** | **192** | **1** | **12,078** | 10,871 | 943 | 177 | - | 11,991 |
| **Total fiduciary net assets, held in trust** | **$ 2,771,089** | **$ 1,495,682** | **$ 45,703** | **$ 16,852** | **$ 4,329,326** | $ 2,692,952 | $ 1,325,441 | $ 38,556 | $ 9,835 | $ 4,066,784 |

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

# CollegeInvest
# College Savings Program Funds
## Statements of Changes in Fiduciary Net Assets
## Years Ended June 30, 2012 and 2011
## (Dollar amounts expressed in thousands)

| | 2012 | | | | | 2011 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Scholars Choice Fund** | **Direct Portfolio Fund** | **Stable Value Plus Fund** | **Smart Choice Fund** | **Total Private-Purpose Trust Funds** | Scholars Choice Fund | Direct Portfolio Fund | Stable Value Plus Fund | Smart Choice Fund | Total Private-Purpose Trust Funds |
| **Additions:** | | | | | | | | | | |
| Gross earnings on investments: | | | | | | | | | | |
| Interest and dividends | **$ 60,177** | **$ 36,587** | **$ 1,463** | **$ 86** | **$ 98,313** | $ 51,441 | $ 29,659 | $ 1,260 | $ 74 | $ 82,434 |
| Net realized and unrealized gains (losses) from securities transactions | **20,904** | **15,368** | **-** | **-** | **36,272** | 371,878 | 161,379 | - | - | 533,257 |
| | **81,081** | **51,955** | **1,463** | **86** | **134,585** | 423,319 | 191,038 | 1,260 | 74 | 615,691 |
| Less investment fees | **(954)** | **(578)** | **-** | **-** | **(1,532)** | (943) | (724) | - | - | (1,667) |
| Net investment earnings | **80,127** | **51,377** | **1,463** | **86** | **133,053** | 422,376 | 190,314 | 1,260 | 74 | 614,024 |
| Participant contributions | **284,787** | **231,476** | **18,381** | **17,043** | **551,687** | 288,725 | 223,152 | 15,820 | 11,740 | 539,437 |
| Fees | **372** | **326** | **1** | **13** | **712** | 200 | 478 | - | 6 | 684 |
| **Total additions** | **365,286** | **283,179** | **19,845** | **17,142** | **685,452** | 711,301 | 413,944 | 17,080 | 11,820 | 1,154,145 |
| **Deductions:** | | | | | | | | | | |
| Benefits paid to participants and withdrawals | **271,222** | **106,887** | **12,417** | **10,112** | **400,638** | 254,494 | 97,518 | 11,776 | 5,324 | 369,112 |
| Service fees | **14,239** | **5,033** | **-** | **-** | **19,272** | 14,315 | 4,183 | - | - | 18,498 |
| Administrative fees | **1,316** | **692** | **281** | **13** | **2,302** | 393 | 178 | 230 | 6 | 807 |
| Marketing expenses | **372** | **326** | **-** | **-** | **698** | 200 | 478 | - | - | 678 |
| Excess (reduced) operating expenses | **(89)** | **462** | **1** | **12** | **386** | 545 | 665 | 52 | 29 | 1,291 |
| **Total deductions** | **287,060** | **113,400** | **12,699** | **10,137** | **423,296** | 269,947 | 103,022 | 12,058 | 5,359 | 390,386 |
| **Change in fiduciary net assets before transfers** | **78,226** | **169,779** | **7,146** | **7,005** | **262,156** | 441,354 | 310,922 | 5,022 | 6,461 | 763,759 |
| **Intraplan administrative fee transfers** | **(475)** | **462** | **1** | **12** | **-** | (746) | 665 | 52 | 29 | - |
| **Change in due to participants** | **386** | **-** | **-** | **-** | **386** | 1,291 | - | - | - | 1,291 |
| **Change in fiduciary net assets** | **78,137** | **170,241** | **7,147** | **7,017** | **262,542** | 441,899 | 311,587 | 5,074 | 6,490 | 765,050 |
| **Fiduciary net assets, beginning of year** | **2,692,952** | **1,325,441** | **38,556** | **9,835** | **4,066,784** | 2,251,053 | 1,013,854 | 33,482 | 3,345 | 3,301,734 |
| **Fiduciary net assets, end of year** | **$ 2,771,089** | **$ 1,495,682** | **$ 45,703** | **$ 16,852** | **$ 4,329,326** | $ 2,692,952 | $ 1,325,441 | $ 38,556 | $ 9,835 | $ 4,066,784 |

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

# CollegeInvest
# College Savings Program Funds
## Notes To Financial Statements
## June 30, 2012 and 2011

### 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 Advisory Board of Directors (Board) designated by the Governor with the consent of the State Senate to serve four-year terms.

The Colorado General Assembly established a Section 529 college savings program (Program). The Program includes the Scholars Choice Fund (SCF), Direct Portfolio Fund (DPF), Stable Value Plus Fund (SVP), and Smart Choice Fund (SCCS) (Funds), all of which are administered by CollegeInvest. CollegeInvest also administers the Student Loan Program Funds, which consists of the Borrower Benefit Fund, the Bond Funds, the CollegeInvest Early Achievers Scholarship Fund the Nursing Loan Forgiveness Fund, the Financial Need Scholarship Fund, and the Job Retraining Fund, and a Section 529 post-secondary education expense program (Prepaid Tuition Fund). 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 all Funds are not insured by the Federal Deposit Insurance Corporation (FDIC), or any other State or federal government agency, except for SCCS which is insured by the FDIC, subject to the applicable limit. 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

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

**Reporting Entity (continued):**

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 statements are not intended to present the financial position, changes in financial position, or cash flows of CollegeInvest as a whole in conformity with accounting principles generally accepted in the United States of America. Additionally, the financial statements of the CollegeInvest College Savings Program Funds are intended to present the net assets and changes in net assets 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, 2012 and 2011, and the changes in its financial position, or, where applicable, its cash flows, for the years then ended, 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 nine investment options in which participants may invest. Each investment option is comprised of one or more of the thirteen active portfolios as of June 30, 2012. The accompanying financial statements report on the combined portfolios.

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

**Reporting Entity (continued):**

***Scholars Choice Fund (continued):***

On October 22, 2004, CollegeInvest entered into an agreement with ClearBridge Advisors, LLC (formerly known as CAM North America, LLC) (CBA) and Legg Mason Investor Services, LLC (LMIS) to manage the advisor sold accounts of the Scholars Choice Fund (SCF). Both CBA and LMIS are wholly-owned subsidiaries of Legg Mason, Inc. CBA performed investment advisory functions and LMIS performs administrative duties and recordkeeping for SCF. Effective September 15, 2008, investment advisory services with respect to SCF have been performed by Legg Mason Global Asset Allocation, LLC (LMGAA), which is also a wholly-owned subsidiary of Legg Mason, Inc. The agreement is for management of the advisor sold accounts only and expires on December 31, 2022, subject to possible extension.

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

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

- Age-Based Option: 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:

| Student's Age | Portfolio # | Equity Funds | Bond Fixed Income | Money Market Funds |
|---|---|---|---|---|
| 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 | 0% | 50% | 50% |

- Balanced 50/50 Option: Contributions are invested 50% in equity mutual funds and 50% in bond funds throughout the life of the investment (Portfolio #4).

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

**Reporting Entity (continued):**

***Scholars Choice Fund (continued):***

- Years-to-Enrollment Option: 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.

| Years to Enrollment | Portfolio # | Equity Funds | Bond Fixed Income | Money Market Funds |
|---|---|---|---|---|
| 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 | 0% | 50% | 50% |

- All Equity Option: Contributions are invested in equity mutual funds throughout the life of the account.

- All Fixed Income Option: 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 and money market fund 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.

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

**Reporting Entity (continued):**

***Scholars Choice Fund (continued):***

- Zero Coupon Bond Option: Contributions are invested in U.S. Treasury zero-coupon bonds with specific target maturity dates (Zero-Coupon Bond Portfolios). The investment objective of this option is to provide investors who hold their units until the selected Zero-Coupon Bond Portfolio's maturity date with an investment experience that is comparable, before taking into account fees and expenses, to that of a direct investment in a zero-coupon U.S. Treasury bond with the same term to maturity.

- Cash Reserve Option: Contributions are invested in the Western Asset Money Market 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 11 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, 2012.

As the trustee for DPF, CollegeInvest entered into an agreement (DPF Service Agreement) with Upromise Investments, Inc. and The Vanguard Group, Inc. (Managers) to manage the DPF. This contract expires on December 31, 2014. 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.

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

**Reporting Entity (continued):**

***Direct Portfolio Fund (continued):***

Participants may invest in one or more of the following 11 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:

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

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

**Reporting Entity (continued):**

***Direct Portfolio Fund (continued):***

- 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:

| Underlying Fund | Aggressive Growth Portfolio | Growth Portfolio | Moderate Growth Portfolio | Conservative Growth Portfolio | Income Portfolio |
|---|---|---|---|---|---|
| Vanguard® Institutional Total Stock Market Index Fund | 80% | 60% | 40% | 20% | 0% |
| Vanguard® Total International Stock Index Fund | 20% | 15% | 10% | 5% | 0% |
| **Total Stock Funds** | **100%** | **75%** | **50%** | **25%** | **0%** |
| Vanguard® Total Bond Market II Index Fund | 0% | 25% | 50% | 75% | 50% |
| Vanguard® Inflation-Protected Securities Fund | 0% | 0% | 0% | 0% | 25% |
| **Total Bond Funds** | **0%** | **25%** | **50%** | **75%** | **75%** |
| Vanguard® Prime Money Market Fund | 0% | 0% | 0% | 0% | 25% |
| **Total Money Market Funds** | **0%** | **0%** | **0%** | **0%** | **25%** |
| **TOTAL** | **100%** | **100%** | **100%** | **100%** | **100%** |

Within the Individual Portfolios participants may invest as follows:

- Stock Index Portfolio: Contributions are invested 100% in Vanguard Institutional 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: Contributions are invested 100% in Vanguard Total Bond Market Index Fund and seeks to track the performance of a broad, market-weighted bond index.

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

**Reporting Entity (continued):**

- Money Market Portfolio: Contributions are invested 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 guarantee on the principal and earnings of the Stable Value Plus Fund. Under the MetLife Agreement, the rate of return is reset annually each January 1. The MetLife Agreement was renegotiated during fiscal year 2012 and now expires on December 31, 2017, with the option to extend two additional one year periods. 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 fund could be as low as 2.01%, which is the current minimum annual rate of 3.00% less the maximum CollegeInvest administrative fee of .99%.

MetLife agreed to pay an annual rate of 3.75% from July 1 to December 31, 2010, 3.55% from January 1 to December 31, 2011, and 3.75% from January 1 through June 30, 2012. The rate, net of CollegeInvest's administrative fee, was 3.00% from July 1 through August 31, 2010, 3.10% from September 1 through December 31, 2010, 2.9% from January 1 through December 31, 2011, and 3.04% from January 1 through June 30, 2012.

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.

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

**Reporting Entity (continued):**

***Stable Value Plus Fund (continued):***

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 MetLife 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.

***Smart Choice Fund***

On October 21, 2009, CollegeInvest entered into an agreement with FirstBank Holding Company (FirstBank), a Colorado banking company, to begin offering a new college savings option called the Smart Choice College Savings Plan (SCCS). CollegeInvest acts as trustee for the Plan and FirstBank provides administrative and recordkeeping duties. The Plan is being offered to provide an additional tax-advantaged savings vehicle for participants to utilize in saving for post-secondary education by providing the benefits of a 529 plan along with the stability and security of an FDIC insured bank. The initial product offerings through the SCCS are a One-Year Time Savings option and a Money Market Savings option. The agreement expires September 30, 2019, with an option to extend for up to two additional 2-year periods.

The interest rate paid on amounts deposited into the money market savings account and the one-year time saving account will be established by FirstBank. However, the rates for each type of account must not be less than 0.10% of the interest rate publicly offered directly by FirstBank on similar money market and savings accounts. The rates are variable and are published daily by FirstBank on their website. The interest rate will be calculated, and may be adjusted if needed, every Wednesday and on the first day of each month and is net of all administrative and other charges of FirstBank.

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

**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. Additions to net assets are recognized in the accounting period in which they are earned and deductions from net assets are recognized in the period they are incurred.

**Cash and Cash Equivalents:**

The Fund considers all cash and demand deposit accounts to be cash equivalents.

**Investments and Net Asset Additions/Deductions:**

Legg Mason Global Asset Allocation, LLC (LMGAA) 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 Funds are purchased weekly and are valued at the closing net asset value per share on the date of transfer to MetLife. Interest earnings 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.

All contributions received from participants of the SCCS will be made to a Plan account and, at the direction of the account owner, will be deposited in a One-Year Time Savings Account or a Money Market Savings Account with FirstBank through its individually chartered banks.

Security transactions for the SCF and the 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.

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

### Investments and Net Asset Additions/Deductions (continued):

Income distributions and short-term capital gain distributions from the Underlying Funds are recorded on the ex-dividend date as investment and interest earnings are 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, 2012 and 2011.

### Due from (to) Student Loan Program Funds/Deferred Revenue:

CollegeInvest utilizes the Borrower Benefit Fund (within the Student Loan Program Funds of CollegeInvest) for payment of general and administrative expenses and other activities necessary to fulfill the purposes of the various funds, including the College Savings Program Funds. Expenses paid from the Borrower Benefit Fund related to the Funds are allocated to and reimbursed by the Funds. Marketing and scholarship commitments received from LMIS and the Managers in excess of actual expenses are held in the Borrower Benefit Fund and recorded as deferred revenue in the SCF and DPF. Total deferred revenue recorded in these funds was $2,139,000 and $1,737,000 for the years ended June 30, 2012 and 2011, respectively.

### Fee Limitation/Due to Participants:

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, 2012 and 2011, $2.5 million and $2.9 million in fees were accumulated in reserve that were greater than actual expenses, respectively. As of June 30, 2012 the $2.5 million reserve is restricted for future expenses of CollegeInvest in its capacity as administrator of the Program. In order to reduce this reserve, CollegeInvest reduced fees to $0 from September 1, 2010 to August 31, 2011. Fees were increased to six basis points at September 1, 2011. Prior to September 1, 2010, fees were ten basis points. It is CollegeInvest's intent to maintain this reserve, at approximately six to eight months of estimated expenses.

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

### 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.

### 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 (SCF Service Agreement) with ClearBridge Advisors, LLC, (formerly known as CAM North America, LLC) (CBA) and Legg Mason Investor Services, LLC (LMIS), on October 22, 2004, pursuant to which CBA and LMIS were responsible for providing administrative, record keeping, marketing, and investment management services to SCF. Both CBA and LMIS are wholly-owned subsidiaries of Legg Mason, Inc. Effective September 15, 2008, the agreement was transferred to Legg Mason Global Asset Allocation, LLC (LMGAA), which is also a wholly-owned subsidiary of Legg Mason, Inc. The SCF Service Agreement states that LMGAA will receive investment and service fees at an annual percentage rate of average daily net assets. The rate structures can be found in the Plan Disclosure Statement for the Scholars Choice Fund.

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

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

***Scholars Choice Fund (continued):***

This rate will vary with the Unit Class the account owner chooses. During the years ended June 30, 2012 and 2011, the investment fees paid by SCF were $954,000 and $943,000, respectively, under the SCF Service Agreement. In addition, according to the SCF Service 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 LMGAA monthly, solely from the assets of SCF. SCF paid service fees of $14.2 million and $14.3 million for the years ended June 30, 2012 and 2011, respectively.

The SCF 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 SCF for actual administrative costs of CollegeInvest. Such fees are payable to CollegeInvest monthly, solely from the assets of the SCF. For the period from September 1, 2010 to August 31, 2011, CollegeInvest waived this administrative fee. Effective September 1, 2011, the fee was reinstated at 0.06% of average daily net assets. SCF paid administrative fees of $1.3 million and $393,000 for the years ended June 30, 2012 and 2011, respectively.

***Direct Portfolio Fund:***

CollegeInvest entered into a service agreement (DPF Service Agreement) with Upromise Investments and The Vanguard Group, Inc. (Managers), pursuant to which the Managers are responsible for providing administrative, record keeping, marketing, and investment management services to the DPF. As of December 1, 2009, the DPF Service Agreement reduced the investment and services fees from an annual percentage rate of .65% to .42% of average daily net assets. During the year ended June 30, 2012, DPF paid investment fees of $578,000 and service fees of $5.0 million. During the year ended June 30, 2011, DPF paid investment fees of $724,000 and service fees of $4.2 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.

# CollegeInvest
# College Savings Program Funds
## Notes To Financial Statements
## June 30, 2012 and 2011

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

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

***Direct Portfolio Fund (continued):***

Under the DPF Service Agreement, CollegeInvest receives 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. For the period from September 1, 2010 to August 31, 2011, CollegeInvest waived this administrative fee. Effective September 1, 2011, the fee was reinstated at 0.06% of average daily net assets. DPF paid administrative fees of $692,000 and $178,000 for the years ended June 30, 2012 and 2011, respectively.

***Stable Value Plus Fund:***

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

The MetLife Agreement states that CollegeInvest will receive an administrative fee at an annual rate of up to 0.99% 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. For the period from July 1, 2010 through August 31, 2010, the fee was 0.75% from September 1, 2010 through August 31, 2011, the fee was 0.65%, and from September 1, 2011 through June 30, 2012, the fee was 0.71%. SVP paid administrative fees on behalf of its participants of $281,000 and $230,000 for the years ended June 30, 2012 and 2011, respectively.

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

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

***Smart Choice Fund***

All monies received as contributions to the accounts under the service agreement (SCCS Service Agreement) between CollegeInvest and FirstBank Holding Company (FirstBank) shall be deposited by FirstBank into the Trust Account and invested according to the respective Investment Option or Options, as directed by the account Owner. The SCCS Service Agreement requires FirstBank to repay the amounts deposited along with any interest earned on their deposit. The interest rate will be calculated, and may be adjusted if needed, every Wednesday and on the first day of each month and is net of all administrative and other charges of FirstBank.

Under the SCCS Service Agreement, CollegeInvest receives an administrative fee at an annual rate of up to 0.10% of average daily net assets. These fees represent charges to SCCS for actual administrative costs of CollegeInvest. Such fees are payable to CollegeInvest monthly, solely from the assets of SCCS. SCCS paid administrative fees on behalf of its participants of $13,000 and $6,000 for the years ended June 30, 2012 and 2011, respectively.

## 2. Cash, Cash Equivalents and Investments:

### Cash and Cash Equivalents:

As contributions are received from participants, the cash is held 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, 2012 and 2011. 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 offset administrative expenses. SVP had deposits that were not yet transferred to MetLife of $191,000 and $175,000 as of June 30, 2012 and 2011, respectively.

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

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

All cash deposits of the SVP Funds are held by a bank. Payments and cash receipts are deposited to a demand deposit account daily. All cash deposits of the SCF and DPF are held by a custodian on behalf of the manager of each Fund until it is invested in the Underlying Funds. All cash deposits of the SCCS Funds are held by FirstBank.

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

| | **2012** | 2011 |
|---|---|---|
| | (dollar amounts expressed in thousands) | |
| Demand deposit accounts | **$ 190** | $ 26 |
| Money market accounts | **16,852** | 9,842 |
| Total cash deposits | **$ 17,042** | $ 9,868 |

**Custodial Credit Risk - Cash Deposits:**

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 SVP demand deposit accounts are insured by federal depository insurance for the first $250,000. Deposits in excess of the $250,000 limit are collateralized subject to the provisions of the State's Public Deposit Protection Act (PDPA) for monies held within the State. Monies held in the SCF and DPF are uncollateralized. Individual accounts in the SCCS that are greater than $250,000 are uncollateralized. As of June 30, 2012 and 2011, there were no uncollateralized amounts in the SCCS.

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

**Investments:**

*Investments, at fair value, for each fund as of June 30 are as follows:*

| | | **2012** | | 2011 |
|---|---|---|---|---|
| | | (dollar amounts expressed in thousands) | | |
| Scholars Choice Fund | **$** | **2,771,732** | $ | 2,693,910 |
| Direct Portfolio Fund | | **1,495,082** | | 1,324,638 |
| Stable Value Plus Fund | | **45,646** | | 38,698 |
| Total investments | **$** | **4,312,460** | $ | 4,057,246 |

**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 SCF and DPF 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 SCF and the DPF, 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.

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

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

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

The table below identifies the significant investment types that are authorized for the SCF and DPF:

| 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 |
| Cash Management Accounts | N/A | None | None |

[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.

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

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

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

[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, 2012, the MetLife Insurance Company of Connecticut's rating met the requirements of the investment policy.

***Smart Choice Fund:***

The Board, with the approval of the Executive Director of the Department, has the responsibility to select a financial institution to manage the Plan assets. The SCCS will offer a number of investment options in interest-bearing accounts provided by FirstBank that reflect a conservative and safe risk tolerance for participants saving for post-secondary education. Generally, investments may include a regular savings account, a time savings account, a money market account, a time deposit account or a premier time account. Monies in these accounts are insured by the FDIC for the first $250,000.

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

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

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

| | | 2012 | | 2011 |
|---|---|---|---|---|
| | (dollar amounts expressed in thousands) | | | |
| Vanguard Institutional Total Stock Market Index Fund | $ | **657,476** | $ | 609,212 |
| Western Asset Core Plus Bond Portfolio | | **520,782** | | 616,136 |
| Vanguard Total Bond Market II Index Fund | | **501,595** | | 428,227 |
| Legg Mason BW Diversified Large Cap Value Fund | | **321,573** | | 138,407 |
| Legg Mason ClearBridge Aggressive Growth Fund | | **318,232** | | 141,697 |
| Western Asset Institutional Liquid Reserves | | **284,938** | | 260,069 |
| Legg Mason Western Asset Short-Term Bond Fund | | **266,688** | | 293,424 |
| Thornburg International Value Fund | | **247,552** | | 261,567 |
| Legg Mason ClearBridge Appreciation Fund | | **215,598** | | 209,149 |
| Legg Mason Batterymarch U.S. Large Cap Equity Trust | | **211,493** | | 354,092 |
| Legg Mason Capital Management Value Trust, Inc. | | **-** | | 203,513 |
| Western Asset Inflation Indexed Plus Bond Fund | | **167,714** | | - |
| Vanguard Total International Stock Index Fund | | **137,106** | | 126,042 |
| Vanguard Prime Money Market Fund | | **111,802** | | 93,886 |
| Western Asset Global High Yield Bond Fund | | **85,110** | | 81,412 |
| Legg Mason ClearBridge Small Cap Growth Fund | | **65,968** | | 66,811 |
| Royce Pennsylvania Mutual Fund | | **61,165** | | 64,357 |
| Vanguard Inflation-Protected Securities Fund | | **49,770** | | 39,244 |
| Investment Agreement – MetLife | | **45,646** | | 38,698 |
| Vanguard Total Bond Market Index Fund | | **36,988** | | 27,835 |
| U.S. Treasury Strip Coupon, 0% due 05/15/25 | | **2,016** | | 1,250 |
| U.S. Treasury Strip Coupon, 0% due 05/15/15 | | **1,641** | | 1,111 |
| Legg Mason Repurchase Agreement | | **899** | | 742 |
| U.S. Treasury Strip Coupon, 0% due 05/15/20 | | **363** | | 173 |
| Vanguard Cash Management Trust | | **345** | | 192 |
| | $ | **4,312,460** | $ | 4,057,246 |

### 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. LMGAA 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 method.

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **Duration** | **Weighted Average Maturity** | Duration | Weighted Average Maturity |
| Western Asset Core Plus Bond Portfolio | **4.8 years** | | 4.8 years | |
| Vanguard Total Bond Market II Index Fund | **5.1 years** | | 5.2 years | |
| Legg Mason Western Asset Short-Term Bond Fund | **1.7 years** | | 1.7 years | |
| Western Asset Institutional Liquid Reserves | | **60 days** | | 57 days |
| Western Asset Global High Yield Bond | **3.9 years** | | 4.4 years | |
| Vanguard Inflation-Protected Securities Fund | **8.6 years** | | 8.1 years | |
| Vanguard Institutional Total Bond Market Index Fund | **5.1 years** | | 5.2 years | |
| U.S. Treasury Strip Coupon, 0% due 05/15/15 | **2.8 years** | | 3.8 years | |
| U.S. Treasury Strip Coupon, 0% due 05/15/20 | **7.8 years** | | 8.8 years | |
| U.S. Treasury Strip Coupon, 0% due 05/15/25 | **12.8 years** | | 13.8 years | |

### 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 investor rule set forth in Section 15-1.1-102, C.R.S. Consistent with the above, the Committee

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

**Credit Risk (continued):**

will determine, from time to time, suitable investment parameters for the SCF and DPF 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, 2012 and 2011, investments in the SCF, DPF, and SCCS portfolios and the Funding Agreement were unrated. The zero coupon treasury strips are explicitly guaranteed by the U.S. Government and are not subject to credit risk disclosures.

**Units:**

The beneficial interests of each participant and beneficiary in the net assets of all portfolios except SCCS 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 LMGAA 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 30 days of receipt by CollegeInvest.

Withdrawals from SCF or DPF result in the redemption of units, based on the unit value next determined following LMGAA'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.

### 3. State of Wyoming 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 and interest in the CollegeInvest 529 Plans to State of Wyoming residents. Under the agreement, The Wyoming Trust reimbursed CollegeInvest $20,000 for start-up expenses and up to $40,000 annually for marketing expenses. The agreement expired on September 4, 2011 and was not extended.

### 4. Retirement Plans:

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

Non-higher education employees hired by the State after January 1, 2006 are allowed 60 days to elect to participate in a defined contribution retirement plan administered by the state Deferred Compensation Committee rather than becoming a member of PERA. If that election is not made, the employee becomes a member of PERA, and the member is allowed 60 days from commencing employment to elect to participate in a defined contribution plan administered by PERA rather than the defined benefit plan.

Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan, or the institution's optional retirement plan. Currently, higher education employees, except for community college employees, are required to participate in their institution's optional plan, if available, unless they are active or inactive members of PERA with at least one year of service credit. In that case they may elect either PERA or their institution's optional plan. Community college employees hired after January 1, 2010, are required to become members of PERA and must elect either PERA's defined benefit or defined contribution plan within 60 days, unless they had been a PERA member within the prior 12 months. In that case, they are required to remain in the PERA plan in which they participated previously.

**4. Retirement Plans (continued):**

**Plan Description (continued):**

PERA members electing the PERA 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 rules in effect for those hired on or after January l, 2007, as discussed below. Employer contributions to both defined contribution plans are the same amount 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 any years of service.

- Hired between January 1, 2007 and December 31, 2010 – 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. For members with less than five years of service credit as of January 1, 2011 age and service requirements increase to those required for members hired between January 1, 2007 and December 31, 2010.

- Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, or age 65 with 5 years of service.

- Hired on or after January 1, 2017 – any age with 35 years of service, age 58 with 30 years of service, or age 65 with 5 years of service.

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

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

**4. Retirement Plans (continued):**

**Plan Description (continued):**

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

- Hired between January 1, 2011 and December 31, 2016 – age 58 and age plus years of service equals 88 or more.

- Hired on or after January 1, 2017 – age 60 and age plus years of service equals 90.

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 increase between period used in calculating HAS.

Retiree benefits are increased annually in July after one year of retirement based on the member's original hire date as follows:

- Hired before July 1, 2007 – the lesser of 2 percent or the average of the monthly Consumer Price Index increases.

- Hired on or after January 1, 2007 – the lesser of 2 percent or the actual increase in the national Consumer Price Index, limited to a 10 percent reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)

**4. Retirement Plans (continued):**

**Plan Description (continued):**

- The upper limits on benefits increase by one-quarter percentage point each year when the funded ratio of PERA equals or exceeds 103 percent and declines by one-quarter percentage point when the funded ratio drops below 90 percent after having exceeded 103 percent. The funded ratio increase does not apply for three years when a negative return on investment occurs.

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

**Funding Policy:**

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

Most employees contribute 8.0 percent (10.0 percent for State troopers) of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. Effective July 1, 2011 Senate Bill 11-076 extended the requirement for members in the State and Judicial Divisions to pay 2.5 percent additional member contributions through June 30, 2012. Employer contributions for members in these two divisions will be reduced by 2.5 percent.

From July 1, 2011 to December 31, 2011, the State contributed 12.25 percent (14.95 percent for State troopers and 14.86 percent for the Judicial Branch) of the employee's salary. From January 1, 2012 through June 30, 2012, the State contributed 13.15 percent (15.85 percent for State troopers and 14.86 percent for the Judicial Branch). During all of fiscal year 2011-12, 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, 2011, the division of PERA in which the State participates has a funded ratio of 57.7 percent and a 56 year amortization period based on current contribution rates. The funded ratio on the market value of assets is slightly lower at 57.6 percent.

**4. Retirement Plans (continued):**

**Funding Policy (continued):**

In the 2004 and 2010 legislative sessions, 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 for calendar years 2006 and 2007, with subsequent year increases of 0.4 percent of salary through 2017, to a maximum of 5 percent (except for the Judicial Division whose AED contribution was frozen at the 2010 level).

In the 2006 and 2010 legislative sessions, 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, for calendar years 2008 through 2017, to a maximum of 5 percent (except for the Judicial Division whose SAED contribution was frozen at the 2010 level). The SAED will be deducted from the amount otherwise available to increase State employees' salaries.

At a 103 percent funding ration, both the AED and the SAED will be reduced by one-half percentage point, and for subsequent declines to below 90 percent funded both the AED and SAED will be increased by one-half percentage point. For the Judicial Division, if the funding ratio reaches 90 percent and subsequently declines, the AED and SAED will be increased by one-half percentage point.

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

The Fund's contributions to PERA and/or the State defined contribution plan for the fiscal years ending June 30, 2012, 2011, and 2010 were $138,000, $100,000, and $102,000, respectively. These contributions met the contribution requirement for each year.

**5. Other Retirement Plans:**

**Defined Contribution Plan:**

The PERA Defined Contribution Retirement Plan was established January 1, 2006, as an alternative to the defined benefit plan. All employees, with the exception of certain higher education employees, have the option of participating in the plan. At July 1, 2009, the State's administrative functions for the defined contribution plan were transferred to PERA. New member contributions to the plan vest from 50 percent to 100 percent evenly over 5 years. Participants in the plan are required to contribute 8 percent (10 percent for state troopers) of their salary. For Fiscal Years 2009-10 and 2010-11 the legislature temporarily increased the required contribution rate to 10.5 percent (12.5 percent for State Troopers). At December 31, 2011, the plan had 4,029 participants.

**Deferred Compensation Plan:**

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2010, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution with a temporarily increase to 10.5 percent for Fiscal Years 2010-11 and 2011-12) to a maximum of $16,500. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional $5,500 contribution in 2010, for total contributions of $22,000. Contributions and earnings are tax deferred. At December 31, 2011, the plan had 17,821 participants.

PERA also 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 403(b) or 401(a) plans.

**6. Other Postemployment Benefits:**

**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. The plan is a cost-sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for health care coverage. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its Comprehensive Annual Financial Report, which may be obtained by writing PERA at P.O. Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting http://www.copera.org.

After the PERA subsidy, the benefit recipient pays the balance of the premium through an automatic deduction from the monthly retirement benefit. Monthly premium costs for participants depend on the health care plan selected, the PERA subsidy amount, Medicare eligibility, and the number of persons covered. Effective July 1, 2000, the maximum monthly subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; and \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5 percent for each year less than 20 years.

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed above in Note 5. Beginning July 1, 2004, State agencies/institutions are required to contribute 1.02 percent of gross covered wages to the Health Care Trust Fund. The Fund contributed \$11,000, \$8,000, and \$9,000 as required by statute in Fiscal Years 2011-12, 2010-11, and 2009-10, respectively. In each year the amount contributed was 100 percent of the required contribution.

The Health Care Trust Fund offers two general types of plans: fully-insured plans offered through health care organizations and self-insured plans administered for PERA by third party vendors. As of December 31, 2011, there were 50,217 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2011, the Health Care Trust Fund had an unfunded actuarial accrued liability of \$1.43 billion, a funded ratio of 16.5 percent, and a 49-year amortization period.

**7. 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 judgments 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 et seq., C.R.S., are as follows:

| Liability | Limits of Liability |
|---|---|
| General and Automobile | Each person $150,000<br>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.

### 7. Risk Management (continued):

### 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 $5,000 of the deductible and the State of Colorado is responsible for the next $10,000 of the deductible. Any loss in excess of $15,000 is covered by the insurance carrier up to replacement cost.

### 8. Net Assets:

All of the Funds' fiduciary net assets of $4.3 billion and $4.1 billion as of June 30, 2012 and 2011, respectively, are net assets held in trust on behalf of investors in the Funds.

### 9. Intraplan Administrative Fee Transfers:

CollegeInvest receives an administrative fee at an annual rate of up to 0.99% of the average daily net assets of SVP, and up to 0.10% of the average daily net assets of SCF, DPF, and SCCS. 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. From July 1, 2010 through August 31, 2010, the fee was 0.75% of the average daily net assets of SVP. Effective September 1, 2010, CollegeInvest reduced the SVP fee to 0.65% of the average daily net assets of SVP and reduced the SCF and DPF fee to zero for a period of one year. Effective September 1, 2011 and through June 30, 2012, the fee for SVP was 0.71% and 0.06% for SCF and DPF. SCF transferred $462,000 and $665,000 to DPF for the payment of expenses in excess of fees collected during fiscal years ended June 30, 2012 and 2011, respectively. Additionally, SCF transferred $12,000 and $29,000 to SCCS for the payment of expenses in excess of fees collected during the fiscal years ended June 30, 2012 and 2011, respectively. SCF transferred $1,000 and $52,000 to SVP for the payment of expenses in excess of fees collected during the fiscal years ended June 30, 2012 and 2011, respectively.

### 10. Capital Markets:

During fiscal years 2008 through 2012, financial markets as a whole have incurred significant fluctuations in values. The Plan's investment portfolio incurred a significant decline in the values reported in the accompanying financial statements in 2008 and 2009, but improvements were seen in 2010, 2011, and 2012. However, because the values of individual investments fluctuate with market conditions, the amount of investment losses that the Plan will recognize in its future financial statements, if any, cannot be determined.

SUPPLEMENTARY INFORMATION

# CollegeInvest
# Scholars Choice Fund
## Supplementary Schedule – Combining Schedule of Fiduciary Net Assets
### June 30, 2012
### (Dollar amounts expressed in thousands)

| | Portfolio 1 | Portfolio 2 | Portfolio 3 | Portfolio 4 | Portfolio 5 | Portfolio 6 | Portfolio 7 | Fixed Income | Equity | U.S. Treasury Strip Coupon due 2015 | U.S. Treasury Strip Coupon due 2020 | U.S. Treasury Strip Coupon due 2025 | Cash Reserve | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Investments, at fair value | 225,029 | 155,794 | 278,468 | 611,452 | 376,602 | 378,568 | 188,771 | 50,811 | 439,805 | 1,641 | 363 | 2,016 | 62,412 | 2,771,732 |
| Receivable for portfolio units sold and investments sold | 440 | 120 | 717 | 1,259 | 740 | 1,018 | 460 | 196 | 850 | - | - | - | 172 | 5,972 |
| Interest receivable | - | - | - | - | - | - | - | - | - | - | - | - | 10 | 10 |
| Due from plan managers | 11 | 8 | 13 | 31 | 18 | 18 | 9 | 2 | 21 | - | - | - | 3 | 134 |
| Due from Student Loan Program Funds | 318 | 220 | 394 | 863 | 532 | 535 | 267 | 72 | 621 | 2 | 1 | 3 | 88 | 3,916 |
| Total fiduciary assets | 225,798 | 156,142 | 279,592 | 613,605 | 377,892 | 380,139 | 189,507 | 51,081 | 441,297 | 1,643 | 364 | 2,019 | 62,685 | 2,781,764 |
| Accounts payable | 4 | 3 | 5 | 13 | 7 | 7 | 4 | 1 | 8 | - | - | - | 1 | 53 |
| Payable for portfolio units repurchased and investments purchased | 356 | 72 | 648 | 1,127 | 692 | 933 | 387 | 193 | 732 | - | - | - | 172 | 5,312 |
| Service and investment fees payable | 102 | 70 | 131 | 292 | 184 | 194 | 101 | 26 | 205 | 1 | - | 2 | 5 | 1,313 |
| Deferred revenue | 119 | 82 | 147 | 322 | 199 | 200 | 100 | 27 | 232 | 1 | - | 1 | 33 | 1,463 |
| Due to participants | 206 | 142 | 255 | 559 | 344 | 346 | 173 | 47 | 402 | 1 | - | 2 | 57 | 2,534 |
| Total liabilities | 787 | 369 | 1,186 | 2,313 | 1,426 | 1,680 | 765 | 294 | 1,579 | 3 | - | 5 | 268 | 10,675 |
| Total fiduciary net assets, held in trust | $ 225,011 | $ 155,773 | $ 278,406 | $ 611,292 | $ 376,466 | $ 378,459 | $ 188,742 | $ 50,787 | $ 439,718 | $ 1,640 | $ 364 | $ 2,014 | $ 62,417 | $ 2,771,089 |

# CollegeInvest
# Scholars Choice Fund
## Supplementary Schedule – Combining Schedule of Changes in Fiduciary Net Assets
## Year Ended June 30, 2012
## (Dollar amounts expressed in thousands)

| | Portfolio 1 | Portfolio 2 | Portfolio 3 | Portfolio 4 | Portfolio 5 | Portfolio 6 | Portfolio 7 | Fixed Income | Equity | U.S. Treasury Strip Coupon due 2015 | U.S. Treasury Strip Coupon due 2020 | U.S. Treasury Strip Coupon due 2025 | Cash Reserve | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Additions: | | | | | | | | | | | | | | |
| Gross earnings on investments: | | | | | | | | | | | | | | |
| Dividends | $ 4,917 | $ 3,753 | $ 7,448 | $ 15,799 | $ 9,024 | $ 6,970 | $ 2,271 | $ 1,814 | $ 7,816 | $ 23 | $ 9 | $ 57 | $ 276 | $ 60,177 |
| Net realized and unrealized gains (losses) from securities transactions | (227) | 903 | 3,006 | 7,694 | 7,379 | 7,305 | 93 | 1,677 | (7,369) | 33 | 39 | 367 | 4 | 20,904 |
| | 4,690 | 4,656 | 10,454 | 23,493 | 16,403 | 14,275 | 2,364 | 3,491 | 447 | 56 | 48 | 424 | 280 | 81,081 |
| Less investment fees | (43) | (19) | (52) | (260) | (137) | (104) | (41) | (10) | (105) | - | - | - | (183) | (954) |
| Net investment earnings | 4,647 | 4,637 | 10,402 | 23,233 | 16,266 | 14,171 | 2,323 | 3,481 | 342 | 56 | 48 | 424 | 97 | 80,127 |
| Participant contributions | 44,962 | 25,214 | 31,881 | 54,011 | 30,970 | 27,863 | 12,738 | 8,466 | 30,659 | 374 | 134 | 819 | 16,696 | 284,787 |
| Fees | 30 | 21 | 37 | 83 | 51 | 51 | 25 | 7 | 59 | - | - | - | 8 | 372 |
| Total additions | 49,639 | 29,872 | 42,320 | 77,327 | 47,287 | 42,085 | 15,086 | 11,954 | 31,060 | 430 | 182 | 1,243 | 16,801 | 365,286 |
| Deductions: | | | | | | | | | | | | | | |
| Benefits paid to participants and withdrawals | 13,571 | 4,787 | 9,510 | 40,006 | 11,089 | 45,436 | 66,414 | 9,236 | 44,860 | 131 | 14 | 98 | 26,070 | 271,222 |
| Service fees | 1,122 | 774 | 1,508 | 3,137 | 1,963 | 2,022 | 1,044 | 267 | 2,311 | 8 | 3 | 17 | 63 | 14,239 |
| Administrative fees | 107 | 75 | 137 | 288 | 177 | 176 | 87 | 23 | 214 | 1 | - | 1 | 30 | 1,316 |
| Marketing expenses | 30 | 21 | 37 | 83 | 51 | 51 | 25 | 7 | 59 | - | - | - | 8 | 372 |
| Reduced operating expenses | (7) | (5) | (9) | (20) | (12) | (12) | (6) | (2) | (14) | - | - | - | (2) | (89) |
| Total deductions | 14,823 | 5,652 | 11,183 | 43,494 | 13,268 | 47,673 | 67,564 | 9,531 | 47,430 | 140 | 17 | 116 | 26,169 | 287,060 |
| Portfolio exchanges, net | (38,898) | (28,175) | (52,932) | 1,780 | 1,850 | 41,839 | 76,392 | 4,613 | (18,570) | 101 | 25 | (223) | 12,198 | - |
| Change in fiduciary net assets before transfers | (4,082) | (3,955) | (21,795) | 35,613 | 35,869 | 36,251 | 23,914 | 7,036 | (34,940) | 391 | 190 | 904 | 2,830 | 78,226 |
| Administrative fee transfer | (39) | (27) | (48) | (104) | (65) | (65) | (32) | (9) | (75) | - | - | - | (11) | (475) |
| Change in due to participants | 31 | 22 | 39 | 86 | 52 | 53 | 26 | 7 | 61 | - | - | - | 9 | 386 |
| Change in fiduciary net assets | (4,090) | (3,960) | (21,804) | 35,595 | 35,856 | 36,239 | 23,908 | 7,034 | (34,954) | 391 | 190 | 904 | 2,828 | 78,137 |
| Fiduciary net assets, beginning of year | 229,101 | 159,733 | 300,210 | 575,697 | 340,610 | 342,220 | 164,834 | 43,753 | 474,672 | 1,249 | 174 | 1,110 | 59,589 | 2,692,952 |
| Fiduciary net assets, end of year | $ 225,011 | $ 155,773 | $ 278,406 | $ 611,292 | $ 376,466 | $ 378,459 | $ 188,742 | $ 50,787 | $ 439,718 | $ 1,640 | $ 364 | $ 2,014 | $ 62,417 | $ 2,771,089 |

# CollegeInvest
# Scholars Choice Fund
## Supplementary Schedule – Combining Schedule of Investments
### June 30, 2012
### (Dollar amounts expressed in thousands)

| | Portfolio 1 | Portfolio 2 | Portfolio 3 | Portfolio 4 | Portfolio 5 | Portfolio 6 | Portfolio 7 | Fixed Income | Equity | U.S. Treasury Strip Coupon 2015 | U.S. Treasury Strip Coupon 2020 | U.S. Treasury Strip Coupon 2025 | Cash Reserve | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Underlying funds: | | | | | | | | | | | | | | |
| Western Asset Core Plus Bond Portfolio | $ 34,952 | $ 38,108 | $ 95,516 | $ 180,450 | $ 76,000 | $ 57,690 | $ - | $ 38,066 | $ - | $ - | $ - | $ - | $ - | $ 520,782 |
| Legg Mason BW Diversified Large Cap Value Fund (b) | 38,764 | 23,444 | 35,916 | 65,834 | 39,339 | 23,747 | - | - | 94,529 | - | - | - | - | 321,573 |
| Legg Mason ClearBridge Aggressive Growth Fund | 38,217 | 23,127 | 35,577 | 65,296 | 39,152 | 23,478 | - | - | 93,385 | - | - | - | - | 318,232 |
| Western Asset Institutional Liquid Reserves (a) | - | - | - | - | 36,497 | 92,469 | 93,574 | - | - | - | - | - | 62,398 | 284,938 |
| Legg Mason Western Asset Short-Term Bond Fund | - | - | - | 59,942 | 56,113 | 93,994 | 56,639 | - | - | - | - | - | - | 266,688 |
| Thornburg International Value Fund (b) | 35,151 | 21,466 | 33,111 | 61,235 | 13,888 | - | - | - | 82,701 | - | - | - | - | 247,552 |
| Legg Mason ClearBridge Appreciation Fund | 26,102 | 15,700 | 23,950 | 43,863 | 26,532 | 15,948 | - | - | 63,503 | - | - | - | - | 215,598 |
| Legg Mason Batterymarch U.S. Large Cap Equity Fund | 25,576 | 15,412 | 23,617 | 43,236 | 26,054 | 15,631 | - | - | 61,967 | - | - | - | - | 211,493 |
| Western Asset Inflation Indexed Plus Bond Portfolio | - | - | - | 29,647 | 36,372 | 55,575 | 38,532 | 7,588 | - | - | - | - | - | 167,714 |
| Western Asset Global High Yield Bond Fund | 8,309 | 7,577 | 13,998 | 31,051 | 19,030 | - | - | 5,145 | - | - | - | - | - | 85,110 |
| Legg Mason ClearBridge Small Cap Growth Fund | 9,322 | 5,655 | 8,661 | 15,848 | 3,957 | - | - | - | 22,525 | - | - | - | - | 65,968 |
| Royce Pennsylvania Mutual Fund | 8,545 | 5,264 | 8,097 | 14,871 | 3,499 | - | - | - | 20,889 | - | - | - | - | 61,165 |
| U.S. Treasury Strip Coupon, 0% due 5/15/25 | - | - | - | - | - | - | - | - | - | - | - | 2,016 | - | 2,016 |
| U.S. Treasury Strip Coupon, 0% due 5/15/15 | - | - | - | - | - | - | - | - | - | 1,641 | - | - | - | 1,641 |
| U.S. Treasury Strip Coupon, 0% due 5/15/20 | - | - | - | - | - | - | - | - | - | - | 363 | - | - | 363 |
| Repurchase agreement | 91 | 41 | 25 | 179 | 169 | 36 | 26 | 12 | 306 | - | - | - | 14 | 899 |
| Total investments, at fair value | $ 225,029 | $ 155,794 | $ 278,468 | $ 611,452 | $ 376,602 | $ 378,568 | $ 188,771 | $ 50,811 | $ 439,805 | $ 1,641 | $ 363 | $ 2,016 | $ 62,412 | $ 2,771,732 |

# CollegeInvest
# Direct Portfolio Fund
## Supplementary Schedule – Combining Schedule of Fiduciary Net Assets
### June 30, 2012
### (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 | $ 256,263 | $ 269,129 | $ 308,620 | $ 248,475 | $ 199,203 | $ 114,476 | $ 36,992 | $ 61,924 | $ 1,495,082 |
| Dividends and interest receivable | - | 132 | 307 | 375 | 206 | - | 83 | 5 | 1,108 |
| Due from plan managers | 12 | 13 | 14 | 12 | 10 | 6 | 2 | 3 | 72 |
| Due from Student Loan Program Funds | 108 | 113 | 130 | 105 | 84 | 48 | 16 | 26 | 630 |
| Total fiduciary assets | 256,383 | 269,387 | 309,071 | 248,967 | 199,503 | 114,530 | 37,093 | 61,958 | 1,496,892 |
| Liabilities: | | | | | | | | | |
| Accounts payable | 4 | 5 | 6 | 4 | 3 | 2 | 1 | 1 | 26 |
| Service and investment fees payable | 90 | 95 | 108 | 88 | 67 | 42 | 13 | 5 | 508 |
| Deferred revenue | 116 | 122 | 139 | 112 | 90 | 52 | 17 | 28 | 676 |
| Total liabilities | 210 | 222 | 253 | 204 | 160 | 96 | 31 | 34 | 1,210 |
| Total fiduciary net assets, held in trust | $ 256,173 | $ 269,165 | $ 308,818 | $ 248,763 | $ 199,343 | $ 114,434 | $ 37,062 | $ 61,924 | $ 1,495,682 |

# CollegeInvest
# Direct Portfolio Fund
## Supplementary Schedule – Combining Schedule of Changes in Fiduciary Net Assets
### Year Ended June 30, 2012
### (Dollar amounts expressed in thousands)

| | Aggressive Growth | Growth | Moderate Growth | Conservative Growth | Income | Stock Index | Bond Index | Money Market | Total |
|---|---|---|---|---|---|---|---|---|---|
| Additions: | | | | | | | | | |
| Gross earnings on investments: | | | | | | | | | |
| Dividends | $ 5,403 | $ 6,481 | $ 8,922 | $ 7,690 | $ 4,678 | $ 2,139 | $ 1,160 | $ 114 | $ 36,587 |
| Net realized and unrealized gains (losses) from securities transactions | (4,941) | 298 | 4,226 | 5,866 | 6,492 | 2,293 | 1,134 | - | 15,368 |
| | 462 | 6,779 | 13,148 | 13,556 | 11,170 | 4,432 | 2,294 | 114 | 51,955 |
| Less investment fees | (86) | (92) | (113) | (90) | (107) | (21) | (16) | (53) | (578) |
| Net investment earnings | 376 | 6,687 | 13,035 | 13,466 | 11,063 | 4,411 | 2,278 | 61 | 51,377 |
| Participant contributions | 42,670 | 44,792 | 41,297 | 28,327 | 29,082 | 13,682 | 6,732 | 24,894 | 231,476 |
| Fees | 56 | 60 | 67 | 54 | 43 | 25 | 8 | 13 | 326 |
| Total additions | 43,102 | 51,539 | 54,399 | 41,847 | 40,188 | 18,118 | 9,018 | 24,968 | 283,179 |
| Deductions: | | | | | | | | | |
| Benefits paid to participants and withdrawals | 5,722 | 6,136 | 9,685 | 9,203 | 37,286 | 5,502 | 4,164 | 29,189 | 106,887 |
| Service fees | 927 | 941 | 1,115 | 852 | 630 | 417 | 119 | 32 | 5,033 |
| Administrative fees | 121 | 124 | 147 | 114 | 89 | 52 | 16 | 29 | 692 |
| Marketing expenses | 56 | 59 | 68 | 54 | 43 | 25 | 8 | 13 | 326 |
| Excess operating expenses | 79 | 83 | 96 | 77 | 62 | 35 | 11 | 19 | 462 |
| Total deductions | 6,905 | 7,343 | 11,111 | 10,300 | 38,110 | 6,031 | 4,318 | 29,282 | 113,400 |
| Portfolio exchanges, net | (31,574) | (14,542) | (21,217) | 13,453 | 40,768 | (2,746) | 4,440 | 11,418 | - |
| Change in fiduciary net assets before transfers | 4,623 | 29,654 | 22,071 | 45,000 | 42,846 | 9,341 | 9,140 | 7,104 | 169,779 |
| Intraplan administrative fee transfer | 79 | 83 | 96 | 77 | 62 | 35 | 11 | 19 | 462 |
| Change in fiduciary net assets | 4,702 | 29,737 | 22,167 | 45,077 | 42,908 | 9,376 | 9,151 | 7,123 | 170,241 |
| Fiduciary net assets, beginning of year | 251,471 | 239,428 | 286,651 | 203,686 | 156,435 | 105,058 | 27,911 | 54,801 | 1,325,441 |
| Fiduciary net assets, end of year | $ 256,173 | $ 269,165 | $ 308,818 | $ 248,763 | $ 199,343 | $ 114,434 | $ 37,062 | $ 61,924 | $ 1,495,682 |

# CollegeInvest
# Direct Portfolio Fund
## Supplementary Schedule – Combining Schedule of Investments
## June 30, 2012
## (Dollar amounts expressed in thousands)

| | Aggressive Growth | Growth | Moderate Growth | Conservative Growth | Income | Stock Index | Bond Index | Money Market | Total |
|---|---|---|---|---|---|---|---|---|---|
| Underlying funds: | | | | | | | | | |
| Vanguard Institutional Total Stock Market Index Fund | $ 204,640 | $ 162,650 | $ 124,769 | $ 50,920 | $ - | $ 114,497 | $ - | $ - | $ 657,476 |
| Vanguard Total Bond Market Index II Fund | - | 65,137 | 152,240 | 184,709 | 99,509 | - | - | - | 501,595 |
| Vanguard Total International Stock Index Fund | 51,636 | 41,189 | 31,399 | 12,882 | - | - | - | - | 137,106 |
| Vanguard Prime Money Market Fund | - | - | - | - | 49,860 | - | - | 61,942 | 111,802 |
| Vanguard Inflation-Protected Securities Fund | - | - | - | - | 49,770 | - | - | - | 49,770 |
| Vanguard Total Bond Market Index Fund | - | - | - | - | - | - | 36,988 | - | 36,988 |
| Vanguard Cash Management Trust | (13) | 153 | 212 | (36) | 64 | (21) | 4 | (18) | 345 |
| Total investments, at fair value | $ 256,263 | $ 269,129 | $ 308,620 | $ 248,475 | $ 199,203 | $ 114,476 | $ 36,992 | $ 61,924 | $ 1,495,082 |

# CollegeInvest
# Smart Choice Fund

## Supplementary Schedule – Combining Schedule of Fiduciary Net Assets

### June 30, 2012

### (Dollar amounts expressed in thousands)

| | Money Market Savings | One Year Savings | Total |
|---|---|---|---|
| Fiduciary assets: | | | |
| Cash and cash equivalents | $ 8,266 | 8,586 | 16,852 |
| Due from Plan Manager | 1 | - | 1 |
| Total fiduciary assets | 8,267 | 8,586 | 16,853 |
| Liabilities: | | | |
| Accounts payable | 1 | - | 1 |
| Total liabilities | 1 | - | 1 |
| Total fiduciary net assets, held in trust | $ 8,266 | $ 8,586 | $ 16,852 |

# CollegeInvest
# Smart Choice Fund
## Supplementary Schedule – Combining Schedule of Changes in Fiduciary Net Assets
### Year Ended June 30, 2012
### (Dollar amounts expressed in thousands)

| | Money Market Savings | One Year Savings | Total |
|---|---|---|---|
| Additions: | | | |
| Gross earnings on investments: | | | |
| Interest | $ 21 | $ 65 | $ 86 |
| Net investment earnings | 21 | 65 | 86 |
| Participant contributions | 12,569 | 4,474 | 17,043 |
| Fees | 6 | 7 | 13 |
| Total additions | 12,596 | 4,546 | 17,142 |
| Deductions: | | | |
| Benefits paid to participants and withdrawals | 9,778 | 334 | 10,112 |
| Administrative fees | 6 | 7 | 13 |
| Excess operating expenses | 6 | 6 | 12 |
| Total deductions | 9,790 | 347 | 10,137 |
| Portfolio exchanges, net | 538 | (538) | - |
| Change in fiduciary net assets before transfers | 3,344 | 3,661 | 7,005 |
| Intraplan administrative fee transfer | 6 | 6 | 12 |
| Change in fiduciary net assets | 3,350 | 3,667 | 7,017 |
| Fiduciary net assets, beginning of year | 4,916 | 4,919 | 9,835 |
| Fiduciary net assets, end of year | $ 8,266 | $ 8,586 | $ 16,852 |

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## Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standard*

Members of the Legislative Audit Committee:

We have audited the financial statements of CollegeInvest (a division of the Department of Higher Education, State of Colorado) College Savings Program Funds (Funds) as of and for the year ended June 30, 2012 and have issued our report thereon dated November 16, 2012. 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*

Management of the Funds is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Funds' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Funds' internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Funds' financial statements will not be prevented or detected and corrected on a timely basis.

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

Members of the Legislative Audit Committee:

### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the 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, the Office of the State Auditor, management and others within CollegeInvest and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

November 16, 2012

BKD LLP
CPAs & Advisors

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

## Independent Auditors' Communication to Legislative Audit Committee

Members of the Legislative Audit Committee:

As part of our audit of the financial statements of CollegeInvest College Savings Program Funds as of and for the year ended June 30, 2012, we wish to communicate the following to you.

### Auditor's Responsibility Under 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

An audit performed 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 is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

### Qualitative Aspects of Significant Accounting Policies and Practices

*Significant Accounting Policies*

The College Savings Program Funds' significant accounting policies are described in Note 1 of the audited financial statements.

Members of the Legislative Audit Committee:

*Alternative Accounting Treatments*

We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, as follows:

- No matters are reportable

*Management Judgments and Accounting Estimates*

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- No matters are reportable

*Financial Statement Disclosures*

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- No matters are reportable

## Audit Adjustments

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

Areas in which adjustments were proposed include:

Proposed Audit Adjustments Recorded

- No matters are reportable

Proposed Audit Adjustments Not Recorded

- Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole

Members of the Legislative Audit Committee:

**Auditor's Judgments About the Quality of the Entity's Accounting Principles**

During the course of the audit, we made the following observations regarding the College Savings Program Funds' application of accounting principles:

- No matters are reportable

**Disagreements with Management**

The following matters involved disagreements which if not satisfactorily resolved would have caused a modified auditor's opinion on the financial statements:

- No matters are reportable

**Consultation with Other Accountants**

During our audit we became aware that management had consulted with other accountants about the following auditing or accounting matters:

- No matters are reportable

**Significant Issues Discussed with Management**

*Prior to Retention*

During our discussion with management prior to our engagement, the following issues regarding application of accounting principles or auditing standards were discussed:

- No matters are reportable

*During the Audit Process*

During the audit process, the following issues were discussed or were the subject of correspondence with management:

- No matters are reportable

Members of the Legislative Audit Committee:

**Difficulties Encountered in Performing the Audit**

Our audit requires cooperative effort between management and the audit team. During our audit, we found significant difficulties in working effectively on the following matters:

- No matters are reportable

**Other Material Written Communications**

Listed below are other material written communications between management and us related to the audit:

- Management representation letter

* * * * *

This letter is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor, management and others within CollegeInvest and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

November 16, 2012

## Client: CollegeInvest

## Period Ending: June 30, 2012

***SCHEDULE OF ADJUSTMENTS PASSED***

***Smart Choice***

| Description | Type of Misstatement (Known or Likely) | Total Assets DR (CR) | Total Liabilities DR (CR) | Additions DR (CR) | Deductions DR (CR) | Net Assets *(Beg. of year)* DR (CR) | Net Assets, held in trust DR (CR) | Net Effect on Following Year: *Change in Net Assets* DR (CR) | Net Effect on Following Year: *Net Assets* DR (CR) |
|---|---|---|---|---|---|---|---|---|---|
| PY - NONE | | | | | | | | | |
| | | | | | | | | | |
| CY | | | | | | | | | |
| To adjust contributions and distributions | | | | | | | | | |
| for an error in reporting | **Known** | 12,693 | | (106,901) | 94,208 | | (12,693) | | |
| **Total passed adjustments** | | 12,693 | | (106,901) | 94,208 | | (12,693) | | |

| | |
|---|---|
| **Impact on Change in Net Assets** | **(12,693)** |
| **Impact on Fund Balance** | **(12,693)** |

BKD
AWP335-GV
5-2010

**CollegeInvest**
**ATTACHMENT**

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

# Smart Choice

## QUANTITATIVE ANALYSIS

| | Before Misstatements | Misstatements | Subsequent to Misstatements | % Change |
|---|---|---|---|---|
| Total Assets | 16,853,000 | 12,693 | 16,865,693 | 0.08% |
| Total Liabilities | (1,000) | | (1,000) | |
| | | | | |
| Net Assets, held in trust | (16,852,000) | (12,693) | (16,864,693) | 0.08% |
| | | | | |
| Total Net Assets | (16,852,000) | (12,693) | (16,864,693) | 0.08% |
| | | | | |
| Additions | (17,142,000) | (106,901) | (17,248,901) | 0.62% |
| Deductions | 10,125,000 | 94,208 | 10,219,208 | 0.93% |
| Change in Net Assets | (7,017,000) | (12,693) | (7,029,693) | 0.18% |

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

**A bound report may be obtained by calling the Office of the State Auditor 303-869-2800**

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

**Report Control Number 2113B-12**

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