

**COLLEGEINVEST  
PREPAID TUITION FUND  
Denver, Colorado**

**FINANCIAL STATEMENTS  
June 30, 2010 and 2009**

**LEGISLATIVE AUDIT COMMITTEE  
2010 MEMBERS**

*Senator David Schultheis*  
**Chair**

*Senator Lois Tochtrop*  
**Vice-Chair**

*Senator Morgan Carroll*  
*Representative Jim Kerr*  
*Representative Joe Miklosi*

*Senator Shawn Mitchell*  
*Representative Dianne Primavera*  
*Representative Mark Waller*

**OFFICE OF THE STATE AUDITOR**

*Sally Symanski*  
**State Auditor**

*Dianne Ray*  
**Deputy State Auditor**

*Crystal Dorsey*  
**Legislative Audit Manager**

*Clifton Gunderson LLP*  
**Contractor Auditors**

**Members of the Legislative Audit Committee:**

This report contains the results of the financial audit of the Prepaid Tuition Fund of CollegenInvest as of June 30, 2010. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of the departments, institutions and agencies of State government.

*Clifton Gunderson LLP*

Greenwood Village, Colorado  
December 16, 2010

---

**COLLEGEINVEST  
PREPAID TUITION FUND**

**FINANCIAL AUDIT**  
June 30, 2010

---

**Report Summary.....1**

**FINANCIAL AUDIT REPORT SECTION**

**Description of CollegeInvest Prepaid Tuition Fund.....2**

**Disposition of Prior Audit Recommendations.....4**

**PREPAID TUITION FUND**

**Independent Auditor’s Report.....5**

**Management’s Discussion and Analysis .....7**

**Basic Financial Statements**

**Prepaid Tuition Fund Statements of Net Assets .....13**

**Prepaid Tuition Fund Statements of Revenues, Expenses and  
Changes in Fund Net Assets.....14**

**Prepaid Tuition Fund Statements of Cash Flows .....15**

**Prepaid Tuition Fund Notes to Financial Statements .....17**

**Independent Auditor’s Report on Internal Control Over Financial  
Reporting and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance With  
Government Auditing Standards .....37**

**Independent Auditor’s Communication to Legislative Audit Committee.....39**

---

---

## **REPORT SUMMARY**

---

### **COLLEGEINVEST PREPAID TUITION FUND FINANCIAL AUDIT FISCAL YEAR ENDED JUNE 30, 2010**

---

#### **Purpose and Scope**

The Office of the State Auditor, State of Colorado engaged Clifton Gunderson LLP to conduct the financial audit of CollegeInvest Prepaid Tuition Fund (Prepaid Tuition Fund) for the fiscal year ended June 30, 2010. Clifton Gunderson LLP performed this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The purpose and scope of our audit was to express an opinion on CollegeInvest's Prepaid Tuition Fund basic financial statements and footnotes as of and for the fiscal year ended June 30, 2010.

#### **Audit Opinions and Reports**

We expressed an unqualified opinion on CollegeInvest's Prepaid Tuition Fund basic financial statements, as of and for the fiscal year ended June 30, 2010.

#### **Summary of Key Findings and Recommendations**

There were no findings for the year ended June 30, 2010.

#### **Summary of Progress in Implementing Prior Year Audit Recommendations**

The audit report for the year ended June 30, 2009 contained one recommendation, which has been implemented. The Disposition of Prior Year Audit Recommendations begins on page 4.

---

**DESCRIPTION OF  
COLLEGEINVEST  
PREPAID TUITION FUND**

---

**Organization**

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

**Colorado Prepaid Tuition Fund**

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

The Colorado Constitution and other State laws prohibit the State from providing its full faith and credit to obligations of other entities, such as the Prepaid Tuition Fund. As a result, payments from the Prepaid Tuition Fund are not guaranteed in any way by the State, and are not considered to have created a debt or obligation of the State. Such payments are limited obligations, payable from the Prepaid Tuition Fund, but not from the other assets of the State or CollegeInvest. In accordance with State law, if it is determined that the Prepaid Tuition Fund is not actuarially sound as determined by an actuarial valuation, CollegeInvest may direct the distribution of available assets. If it is determined that the Prepaid Tuition Fund is not

financially sound as determined by an annual audit, then CollegeInvest may discontinue permanently or for a period of time may suspend a particular aspect of the Prepaid Tuition Fund and the execution of additional contracts. As of August 1, 2002, the Fund was closed to new investors.

During the March 2004 legislative session, the General Assembly enacted H.B. 04-1350, making changes to the Prepaid Tuition Fund. Effective July 1, 2004, the State Treasurer is required to invest moneys in the Prepaid Tuition Fund based upon direction from CollegeInvest's Board of Directors. Prior to July 1, 2004, the State Treasurer invested moneys in the Prepaid Tuition Fund based on the advice and recommendations of CollegeInvest. CollegeInvest is required to evaluate the actuarial soundness of the Fund if, on the last day of the fiscal year, more than ten percent of the Fund is invested in 1) common or preferred stock, 2) corporate bonds, notes or debentures that are convertible into common stock, or preferred stock, or 3) investment trust shares. CollegeInvest may contract with a private consultant to provide this evaluation. As of June 30, 2010, none of these criteria were met, thus an evaluation was not necessary.

---

---

## DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS

---

### Fiscal Year 2009 Recommendations

Number	Recommendation	Disposition
1	CollegeInvest should establish a process that requires the review and approval of all general ledger entries prior to them being posted to the general ledger.	Implemented



## Independent Auditor's Report

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of CollegeInvest (a division of the Department of Higher Education, State of Colorado) Prepaid Tuition Fund as of and for the years ended June 30, 2010 and 2009 as listed in the table of contents. These financial statements are the responsibility of CollegeInvest Prepaid Tuition Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1 – Organization and Summary of Significant Accounting Policies, the financial statements of the Prepaid Tuition Fund are intended to present the financial position and results of operations and cash flows for only that portion of the financial reporting entity, State of Colorado, that is attributable to the transactions of CollegeInvest Prepaid Tuition Fund. They do not purport to, and do not present fairly, the financial position of the State of Colorado as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows, where applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CollegeInvest Prepaid Tuition Fund, as of June 30, 2010 and 2009 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2010 on our consideration of CollegeInvest Prepaid Tuition Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts 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.

CollegeInvest Prepaid Tuition Fund has net deficits of approximately \$247,000 and \$1,130,000 as of June 30, 2010 and 2009, respectively. During fiscal year 2005, a bond laddering strategy was implemented with the goal of matching bond maturities and coupon payments to expected net cash outflows. The bond portfolio will be evaluated on an annual basis and rebalanced, if necessary. The intent of the CollegeInvest Prepaid Tuition Fund is to hold the investments to maturity, which should reduce the Fund's economic dependency on market fluctuations. The CollegeInvest Prepaid Tuition Fund is dependent upon a positive return on its investments and/or future contributions from CollegeInvest to meet its obligations. See Notes 1, 9 and 10 in the Notes to Financial Statements.

The Management's Discussion and Analysis on pages 7 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Clifton Henderson LLP*

Greenwood Village, Colorado  
December 16, 2010

**COLLEGEINVEST  
PREPAID TUITION FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010 AND 2009**

This section of the Prepaid Tuition Fund's financial statements is a discussion and analysis of the financial performance of the Prepaid Tuition Fund (Fund) for the years ended June 30, 2010 and 2009. The Fund is a qualified state tuition program pursuant to Internal Revenue Code (IRC) Section 529 administered by CollegeInvest. CollegeInvest, a division of the Department of Higher Education of the State of Colorado, 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 Teacher Loan Forgiveness Fund, and the Health Care Provider Fund; and the College Savings Program, which consists of the Scholars Choice, Direct Portfolio, Stable Value Plus and Smart Choice College Savings Funds. The Fund is presented as a proprietary fund in the State of Colorado Comprehensive Annual Financial Report. CollegeInvest's Board of Directors (Board) approves the annual budget and the investment policy of the Fund. Management of CollegeInvest is responsible for the financial statements, footnotes and this discussion. The management's discussion and analysis should be read in conjunction with the Fund's financial statements.

**Overview of the Financial Statements:**

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

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

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

The Statement of Cash Flows reports the Fund's cash flows from operating and investing activities.

**Analysis of Financial Activities:**

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

**COLLEGEINVEST  
PREPAID TUITION FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2010 AND 2009**

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

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

- ❖ Prior to the First Payout Date (the date identified in the contract as the anticipated date funds are needed to pay for school) withdrawals can be made from the Fund accounts at the lesser of:
  - 1) a pro rata share of assets in the Fund;
  - 2) the amount contributed; or
  - 3) average tuition as defined in the contract.
  
- ❖ The value of annual tuition unit increases for distributions will be limited to the lesser of 1) the percentage increase in actual average tuition at Colorado public colleges and universities (as defined in the Program Disclosure Statement), or 2) 5.5%.

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

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

*Condensed Statement of Net Assets as of June 30:*

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(dollar amounts expressed in thousands)		
<b>Assets:</b>			
Cash and investments	\$ 31,172	\$ 31,229	\$ 32,576
Advance payment contract receivables	996	1,410	1,965
Interest receivable	280	339	383
Total assets	<u>32,448</u>	<u>32,978</u>	<u>34,924</u>
<b>Liabilities:</b>			
Accounts payable, accrued expenses and amounts due to Student Loan Program Funds	79	164	109
Contracts and benefits payable - current	4,788	4,260	5,030
Contracts and benefits payable - noncurrent	<u>27,828</u>	<u>29,684</u>	<u>31,305</u>
Total liabilities	<u>32,695</u>	<u>34,108</u>	<u>36,444</u>
Net assets restricted for contracts and benefits	\$ <u>(247)</u>	\$ <u>(1,130)</u>	\$ <u>(1,520)</u>

Cash and investments decreased by \$57,000 from June 30, 2009 to June 30, 2010. This change is due to a net increase in cash of \$2.1 million, offset by a decrease in investments of \$2.2 million. For the fiscal year ended June 30, 2010, cash increased by \$7.0 million from investments redeemed, installment payments, and interest on investments offset by cash expenses tuition payments, cancellations, rollovers, purchases of investments, and administrative expenses of approximately \$4.9 million. This resulted in a net increase in cash of \$2.1 million. The investments decreased by \$2.2 million due to redemption of investments of \$5.3 million, and offset by purchases of investments of

**COLLEGEINVEST  
PREPAID TUITION FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2010 AND 2009**

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

\$1.1 million, and an increase in fair market value of \$2.0 million in the fixed income investment portfolio during the year ended June 30, 2010. As of June 30, 2010 the Fund's unrealized gain on its investments was \$2.1 million.

Cash and investments decreased by \$1.3 million from June 30, 2008 to June 30, 2009. For the fiscal year ended June 30, 2009, cash received from investments redeemed, installment payments, and interest on investments amounted to \$4.0 million, while cash decreased due to tuition payments, cancellations, rollovers, and administrative expenses amounted to just over \$3.9 million. This resulted in a net increase in cash of \$163,000. The investments decreased by \$1.5 million which is due to redemption of investments of \$2.1 million, and offset somewhat by an increase in fair market value of approximately \$540,000 in the fixed income investment portfolio during the year ended June 30, 2009. As of June 30, 2009 the Fund's unrealized loss on its investments was \$35,200.

Advance payment contract receivables decreased by \$414,000 from June 30, 2009 to June 30, 2010. The decrease was a combination of installment contract principal payments received of \$364,000 and cancellations and rollovers to other qualified plans of \$50,000.

Advance payment contract receivables decreased by \$555,000 from June 30, 2008 to June 30, 2009. The decrease was a combination of installment contract principal payments received of \$484,000 and cancellations and rollovers to other qualified plans of \$71,000.

The decrease to contracts and benefits payable from June 30, 2009 to June 30, 2010 of \$1.3 million was the net result of (1) a decrease of approximately \$3.6 million for payments to contract holders for current tuition payments, cancellations and rollovers, and (2) an increase in the liability of approximately \$2.3 million due to the accumulation of future benefits to contract holders.

The decrease to contracts and benefits payable from June 30, 2008 to June 30, 2009 of \$2.4 million was the net result of (1) a decrease of approximately \$3.9 million for payments to contract holders for current tuition payments, cancellations and rollovers, and (2) an increase in the liability of approximately \$1.5 million due to the accumulation of future benefits to contract holders.

**COLLEGEINVEST  
PREPAID TUITION FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2010 AND 2009**

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

*Condensed Statement of Revenues, Expenses and  
Changes in Net Assets for the Years Ended June 30:*

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(dollar amounts expressed in thousands)		
Operating revenues:			
Contract income	\$ 71	\$ 116	\$ 161
Investment income	1,178	1,319	1,445
Gain on sale of investments	18	-	-
Unrealized gain on investments	2,031	554	567
Total operating revenues	<u>3,298</u>	<u>1,989</u>	<u>2,173</u>
Operating expenses:			
Contracts and benefits expense	2,246	1,411	1,619
Other expenses	169	188	209
Total operating expenses	<u>2,415</u>	<u>1,599</u>	<u>1,828</u>
Change in net assets	883	390	345
Net assets, beginning of year	<u>(1,130)</u>	<u>(1,520)</u>	<u>(1,865)</u>
Net assets, end of year	<u>\$ (247)</u>	<u>\$ (1,130)</u>	<u>\$ (1,520)</u>

Contract income decreased by \$45,000 for both the years ended June 30, 2010 and June 30, 2009 due primarily to the continued reduction in the number of participants making installment contract payments. The number of installment contracts decreased by approximately 152 from 637 as of June 30, 2009 to 485 as of June 30, 2010 and by 189 contracts from June 30, 2008 to June 30, 2009. This was primarily a result of final installment payments received from contract holders. Additionally, during a contract's early amortization period, a larger percentage of the monthly payment is used for paying the interest and as the contract is paid down, more of the monthly payment is applied to principal, resulting in a decrease in contract income.

Investment income consists of interest on corporate and treasury bonds and interest on the State Treasurer's cash pool, net of investment fees. Interest income decreased by \$141,000 for the year ended June 30, 2010 from the year ended June 30, 2009. The decrease is a result of a decrease in the monthly average investment balance of \$2.9 million from \$29.5 million in fiscal year 2009 to \$26.6 million in fiscal year 2010. CollegeInvest redeems bonds in order to fund withdrawal activity for the year.

Interest income decreased by \$126,000 for the year ended June 30, 2009 from the year ended June 30, 2008. The decrease is a result of a decrease in the monthly average investment balance of \$2.2 million from \$31.7 million in fiscal year 2008 to \$29.5 million in fiscal 2009. The overall strategy of the Fund was to purchase bonds with maturities that coincide with withdrawals. The intent is to hold the bonds to maturity.

**COLLEGEINVEST  
PREPAID TUITION FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2010 AND 2009**

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

The fixed income investment portfolio had an unrealized gain of almost \$2.0 million and \$540,000 during the fiscal years ended June 30, 2010 and 2009, respectively, due to market adjustments of investment values. The State Treasurer's cash pool had an unrealized gain of \$64,000 and \$14,000 as of June 30, 2010 and 2009, respectively. The annualized yield on fixed income investments, including unrealized gains and losses, of the Fund was 7.0% and 2.0% for the fiscal years ended June 30, 2010 and 2009, respectively.

Contracts and benefits expense consists of the annual accrual of future benefits adjusted for the actual experience of tuition payments, cancellations, and rollovers during the year. This expense increased by \$835,000 for the year ended June 30, 2010 from the year ended June 30, 2009, and decreased by \$208,000 for the year ended June 30, 2009 from the year ended June 30, 2008. The increase in 2010 is due to changes made to the actuarial assumptions, which primarily consist of setting the tuition inflation at 5.5% for five years and 5.25% thereafter, rather than 5.5% for one year and 5.25% thereafter, and delaying the timing of withdrawal of tuition units based on actual trends. The decrease in 2009 is due primarily to a decrease in the number of contracts remaining and the effect of actual withdrawals made during the year. Actuarial assumptions were the same for the fiscal years ended June 30, 2009 and 2008.

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(dollar amounts expressed in thousands)		
Expenses subject to the 1% cap	\$ <b>169,000</b>	\$ 189,000	\$ 193,000
1% cap	\$ <b>192,000</b>	\$ 217,000	\$ 246,000

Expenses did not exceed the 1% cap of contract price for the years ended June 30, 2010, 2009, or 2008. There is no assurance that the 1% cap will be sufficient to cover operating costs in the future as the overall program assets decrease.

**Economic Factors and Future Years' Rates:**

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

**COLLEGEINVEST  
PREPAID TUITION FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2010 AND 2009**

**Economic Factors and Future Years' Rates (continued):**

- ❖ The Fund's amended contract terms limit the annual percentage increases in average tuition for distributions to the lesser of 1) the percentage increase in actual average tuition of Colorado public colleges and universities, or 2) 5.5%. In addition, the Fund offers a minimum cumulative return of 4% per annum calculated at the time of distribution. Average tuition as computed under these contract terms increased 5.5% in fiscal years 2008, 2009 and 2010, from \$36.26 per unit as of August 1, 2008, to \$38.25 as of August 1, 2009 and to \$40.35 as of August 1, 2010. Actual average tuition of Colorado public colleges and universities increased by 8.0% and 10.8% for the 2009-2010 and 2010-2011 school years, respectively.
- ❖ Future fair market valuation of fixed income securities may fluctuate based on interest rates and/or the underlying credit of the securities. The Fund's intent is to hold these investments to maturity. The Fund has not liquidated any investments prior to maturity since the amended investment policy was placed into effect during fiscal year 2005 except to decrease the concentration of investments in one issuer which resulted in an \$18,000 gain. A downgrade in the rating of any fixed income securities or changes in liquidity needs of the Fund could cause the Fund to liquidate fixed income securities prior to maturity. If the Fund liquidated fixed income securities prior to maturity it may experience different returns than expected. The Fund may also experience losses as a result of a default by an issuer of its fixed income securities.
- ❖ The contract and benefit liability is calculated based on assumptions determined by management. Management utilizes past experience, as well as consultation with an actuary who is experienced in prepaid tuition plans, to determine the assumptions used in the liability calculation. In June of 2010, changes to the assumptions were made which primarily included setting tuition inflation at 5.5% for five years and 5.25% thereafter rather than 5.5% for one year and 5.25% thereafter, and reallocating the withdrawal usage percentages to 45% for year one, 20% for year two, 15% for year three, 10% for year four, 5% for year five, 2.5% for year 6 and 2.5% for year ten. The assumptions related to the timing of cash flows are used as a basis for management's investment decisions. Variances between the cash flows experienced by the Fund and the assumptions utilized by management may impact the ability of the Fund to meet its obligations as they come due.
- ❖ If it is determined that the Fund is not financially sound, then the Fund may discontinue permanently or for a period of time may suspend that particular aspect of the Fund.

**Requests for Information:**

This report is designed to provide a general overview of the Fund's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Wendy Hause, Controller, CollegeInvest, 1560 Broadway, Suite 1700, Denver, CO 80202.



**COLLEGEINVEST  
PREPAID TUITION FUND  
STATEMENTS OF NET ASSETS  
JUNE 30, 2010 AND 2009  
(dollar amounts expressed in thousands)**

	<u>2010</u>	<u>2009</u>
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 4,300	\$ 2,129
Investments	3,178	4,367
Advance payment contract receivables	279	365
Interest receivable	<u>280</u>	<u>339</u>
Total current assets	<u>8,037</u>	<u>7,200</u>
Noncurrent assets:		
Investments	23,694	24,733
Advance payment contract receivables	<u>717</u>	<u>1,045</u>
Total noncurrent assets	<u>24,411</u>	<u>25,778</u>
<b>Total assets</b>	<u><b>32,448</b></u>	<u><b>32,978</b></u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued expenses	29	116
Due to Student Loan Program Funds	50	48
Contracts and benefits payable	<u>4,788</u>	<u>4,260</u>
Total current liabilities	<u>4,867</u>	<u>4,424</u>
Noncurrent liabilities:		
Contracts and benefits payable	<u>27,828</u>	<u>29,684</u>
Total noncurrent liabilities	<u>27,828</u>	<u>29,684</u>
<b>Total liabilities</b>	<u><b>32,695</b></u>	<u><b>34,108</b></u>
Net assets restricted for contracts and benefits	<u>(247)</u>	<u>(1,130)</u>
<b>Total net assets</b>	<u><b>\$ (247)</b></u>	<u><b>\$ (1,130)</b></u>

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

**COLLEGEINVEST  
PREPAID TUITION FUND  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009  
(dollar amounts expressed in thousands)**

	<u>2010</u>	<u>2009</u>
<b>Operating revenues:</b>		
Contract income	\$ 71	\$ 116
Investment income	1,178	1,319
Gain on sale of investments	18	-
Unrealized gain on cash and investments	<u>2,031</u>	<u>554</u>
<b>Total operating revenues</b>	<u>3,298</u>	<u>1,989</u>
<b>Operating expenses:</b>		
Contracts and benefits expense	2,246	1,411
General and administrative expenses	115	118
Salaries and benefits	<u>54</u>	<u>70</u>
<b>Total operating expenses</b>	<u>2,415</u>	<u>1,599</u>
<b>Change in net assets</b>	<b>883</b>	<b>390</b>
<b>Net assets, beginning of year</b>	<u>(1,130)</u>	<u>(1,520)</u>
<b>Net assets, end of year</b>	<u>\$ (247)</u>	<u>\$ (1,130)</u>

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

**COLLEGEINVEST  
PREPAID TUITION FUND  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009  
(dollar amounts expressed in thousands)**

	<u>2010</u>	<u>2009</u>
<b>Cash Flows from Operating Activities:</b>		
Cash receipts from advance payment contracts	\$ 431	\$ 587
Cash distributions for advance payment contracts	(3,517)	(3,718)
Cash payments to suppliers for goods and services	(197)	(94)
Cash payments to employees for service	(54)	(70)
	<u>          </u>	<u>          </u>
<b>Net cash used by operating activities</b>	<u>(3,337)</u>	<u>(3,295)</u>
<b>Cash Flows from Investing Activities:</b>		
Redemptions of investments	5,320	2,051
Purchases of investments	(1,066)	-
Income received from investments	1,254	1,407
	<u>          </u>	<u>          </u>
<b>Net cash provided by investing activities</b>	<u>5,508</u>	<u>3,458</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>2,171</b>	<b>163</b>
<b>Cash and cash equivalents, beginning of period</b>	<u>2,129</u>	<u>1,966</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 4,300</u>	<u>\$ 2,129</u>

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

**COLLEGEINVEST  
PREPAID TUITION FUND  
STATEMENTS OF CASH FLOWS (continued)  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009  
(dollar amounts expressed in thousands)**

	<u>2010</u>	<u>2009</u>
<b>Reconciliation of net gain to net cash used by operating activities:</b>		
Change in net assets	\$ 883	\$ 390
<b>Items reflected as investing activities:</b>		
Income received from investments	(1,236)	(1,363)
Gain on sale of investments	(18)	-
<b>Adjustments to reconcile net gain to net cash used by operating activities:</b>		
Net appreciation of fair value of investments	(1,967)	(540)
<b>Changes in operating assets and liabilities:</b>		
Advance payment contract receivables	414	554
Accounts payable and accrued expenses	(87)	89
Due to Student Loan Program Funds	2	(34)
Contracts and benefits payable	<u>(1,328)</u>	<u>(2,391)</u>
<b>Net cash used by operating activities</b>	<b>\$ <u>(3,337)</u></b>	<b>\$ <u>(3,295)</u></b>

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

**COLLEGEINVEST  
PREPAID TUITION FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

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

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

The Colorado General Assembly established a student obligation bond program (Student Loan Program Funds), a post secondary education expense program (Prepaid Tuition Fund), a college savings program (Scholars Choice, Direct Portfolio, Stable Value Plus and Smart Choice College Savings Funds), a scholarship trust program (CollegeInvest Early Achievers Scholarship Fund), a Nursing Teacher Loan Forgiveness program (Nursing Teacher Loan Forgiveness Fund) and a Health Care Provider Loan Repayment program (Health Care Provider Fund) which are administered by CollegeInvest. This report contains only the Prepaid Tuition Fund (Fund). The mission of CollegeInvest is to be Colorado's higher education financing leader and to help Colorado families break down the financial barriers to college. The operations of the programs of CollegeInvest are accounted for under generally accepted accounting principles. CollegeInvest receives less than 10% of its funding from the State or any local government of the State, and therefore, retains its enterprise status under Section 20, Article X of the Colorado Constitution.

*Prepaid Tuition Fund*

The Fund was established in 1997 to provide families with an opportunity to save for future college education expenses. The Fund offered an annual enrollment period for purchasers to buy prepaid tuition contracts until July 31, 2002. Effective August 1, 2002, the Fund ceased accepting new contracts. The contract terms were amended on February 20, 2003 and state that the annual increase in average tuition as defined below is limited to the lesser of 1) the percentage increase in actual average tuition at Colorado public colleges and universities, or 2) 5.5%. The Fund offers certain Federal and State tax advantages to investors.

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

**COLLEGEINVEST  
PREPAID TUITION FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009**

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

*Prepaid Tuition Fund (continued)*

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

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

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

In accordance with the Colorado Revised Statutes (CRS) 23-3.1-206.7(5)(d), CollegeInvest shall evaluate the actuarial soundness of the Prepaid Tuition Fund if, on the last day of the fiscal year, more than ten percent of the Fund is invested in common or preferred stock; corporate bonds, notes, or debentures that are convertible into common or preferred stock; or investment trust shares. As of June 30, 2010 and 2009 investments of the Fund were 100% fixed income and therefore, an actuarial valuation was not obtained. The Fund has estimated its contract and benefit liability as of June 30, 2010 and 2009 based on cash flows. The CRS also states that if it is determined that the Fund is not financially sound, then the Fund may discontinue permanently or for a period of time may suspend a particular aspect of the Fund and the execution of additional contracts. Likewise, if it is determined that an excess amount exists in the Fund, CollegeInvest would calculate the portion of such excess that would be attributable on a pro rata basis to each tuition unit.

**COLLEGEINVEST  
PREPAID TUITION FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009**

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

**Reporting Entity:**

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

**Budgets and Budgetary Accounting:**

By statute, the Fund is continuously appropriated through user charges. Therefore, the budget is not legislatively adopted and a Statement of Revenues and Expenses – Budget to Actual is not a required part of these financial statements. Total budgeted expenses for the Prepaid Tuition Fund for the fiscal year ended June 30, 2010 were \$1.5 million, compared to actual expenses of \$2.4 million. The actual contract and benefit expense was greater than budget by approximately \$869,000, due to changes made to the actuarial assumptions. The actual contract and benefit expense for the fiscal year ended June 30, 2010 is determined using actuarial cash flows while the budget is determined based on a variety of cash inflow and outflow assumptions using historical data.

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

**Basis of Accounting:**

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

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

**COLLEGEINVEST  
PREPAID TUITION FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009**

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

**Operating Revenues and Expenses:**

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

**Cash and Cash Equivalents:**

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

**Investments:**

Investments are carried at fair value, which are primarily determined based on quoted market prices at June 30, 2010 and 2009.

**Advance Payment Contract Receivables:**

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

**Compensated Absences:**

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

**Due to Student Loan Program Funds:**

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



**COLLEGEINVEST  
PREPAID TUITION FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009**

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

**Reclassifications:**

For comparability, certain fiscal year 2009 amounts have been reclassified to conform with the fiscal year 2010 financial statement presentation.

**Contracts and Benefits Payable/Expense:**

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

**Revenue Recognition:**

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

**Expense Limitation:**

The annual administrative expenses of the Fund (excluding contracts and benefits expense and amortization of software costs) is limited by the Colorado Revised Statutes 23-3.1-206.7(5)(e)(I) to 1% of the contract price. For the fiscal years ended June 30, 2010 and 2009, the Fund was in compliance with this requirement.

**Use of Estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ significantly from these estimates.

**2. Cash Deposits and Investments:**

**Cash Deposits:**

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

**COLLEGEINVEST  
PREPAID TUITION FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009**

**2. Cash Deposits and Investments (continued):**

**Cash Deposits (continued):**

CollegeInvest deposits cash with the Colorado State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. CollegeInvest reports its share of the treasurer’s unrealized gains/losses based on its participation in the State Treasurer’s pool. All of the State Treasurer’s investments are reported at fair value, which is determined based on quoted market prices at June 30, 2010 and 2009. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the pool. The unrealized gain included in “Investment Income” reflects only the change in fair value during the current fiscal year. As of June 30, 2010, CollegeInvest had \$4.3 million of cash on deposit with the State Treasurer which represented approximately .07% of the total \$5,977.9 million for market value of deposits in the State Treasurer’s pool. As of June 30, 2009, CollegeInvest had \$2.1 million of cash on deposit with the State Treasurer which represented approximately .04% of the total \$5,742.1 million fair market value of deposits in the State Treasurer’s pool. Additional information on the treasurer’s pool may be obtained in the State of Colorado’s Comprehensive Annual Financial Report.

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

	<b>2010</b>	<b>2009</b>
	(dollar amounts expressed in thousands)	
State Treasurer's Cash Pool	\$ <b>4,300</b>	\$ 2,129
Total cash deposits	\$ <b>4,300</b>	\$ 2,129

**Custodial Credit Risk – Cash Deposits:**

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Fund will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Monies in the demand deposit accounts are insured by federal depository insurance for the first \$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.

The carrying amount and bank balance of demand deposit accounts was \$0 as of June 30, 2010 and June 30, 2009. All amounts were fully insured by the FDIC and therefore, the Fund did not have any custodial credit risk on its cash deposits as of June 30, 2010 and 2009.

**COLLEGEINVEST  
PREPAID TUITION FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009**

**2. Cash Deposits and Investments (continued):**

**Investment Authority and Policy:**

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

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

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

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

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

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

**Custodial Credit Risk – Investments:**

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

**COLLEGEINVEST  
PREPAID TUITION FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009**

**2. Cash Deposits 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. One of the ways that the Fund manages exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity as necessary to provide the cash flow and liquidity needed for operations. The Fund monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The Fund has no specific limitations with respect to this metric. Additionally, the Fund intends to hold its fixed income investments to maturity. The Fund had \$4.9 million of corporate bonds subject to call options for both years on June 30, 2010 and 2009.

Investment Type	2010		2009	
	Fair Value	Weighted Average Maturity (in years)	Fair Value	Weighted Average Maturity (in years)
(dollar amounts expressed in thousands)				
U.S. Agency Securities	\$ 6,781	7.8	\$ 5,918	8.9
Corporate Debt	20,001	3.2	23,022	2.8
Money Market Mutual Funds	90	N/A	160	N/A
	<u>\$ 26,872</u>		<u>\$ 29,100</u>	

**Credit Risk:**

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

*As of June 30, 2010:*

Investment Type	Minimum Rating	Standard & Poor's Rating as of Year End									
		AAA	AA+	AA	AA-	A+	A	A-	BBB+	NR	
(dollar amounts expressed in thousands)											
Corporate Debt	[*]	-	\$ -	\$ -	\$ 1,010	\$ 2,916	\$ 12,632	\$ 2,368	\$ 1,075	-	-
Money Market Mutual Funds	N/A	-	-	-	-	-	-	-	-	\$ 90	-

**COLLEGEINVEST  
PREPAID TUITION FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009**

**2. Cash Deposits and Investments (continued):**

**Credit Risk (continued):**

*As of June 30, 2009:*

Investment Type	Minimum Rating	Standard & Poor's Rating as of Year End								
		AAA	AA+	AA	AA-	A+	A	A-	BBB+	NR
(dollar amounts expressed in thousands)										
Corporate Debt	[*]	-	\$ -	\$ -	\$ 916	\$ 3,990	\$ 13,156	\$ 3,670	\$ 1,290	-
Money Market Mutual Funds	N/A	-	-	-	-	-	-	-	-	\$ 160

*As of June 30, 2010:*

Investment Type	Minimum Rating	Moody's Rating as of Year End							NR
		Aa3	A1	A2	A3	Baa1	Baa2		
(dollar amounts expressed in thousands)									
Corporate Debt	[*]	2,490	3,687	9,942	-	3,882	-	\$ -	
Money Market Mutual Funds	N/A	-	-	-	-	-	-	\$ 90	

*As of June 30, 2009:*

Investment Type	Minimum Rating	Moody's Rating as of Year End							NR
		Aa3	A1	A2	A3	Baa1	Baa2		
(dollar amounts expressed in thousands)									
Corporate Debt	[*]	3,625	\$ 3,546	\$ 9,382	\$ 1,697	\$ 3,482	\$ 1,290	\$ -	
Money Market Mutual Funds	N/A	-	-	-	-	-	-	\$ 160	

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

**Concentrations of Credit Risk:**

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

**COLLEGEINVEST  
PREPAID TUITION FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009**

**2. Cash Deposits and Investments (continued):**

**Concentrations of Credit Risk (continued):**

invested in any one issuer, as noted above. Because they are explicitly guaranteed, FNMA securities are not subject to concentration of credit risk and therefore, are not included. Investments in any one issuer that represent 5% or more of total the Fund investments as of June 30, 2010 and 2009 are as follows:

Issuer	Investment Type	<u>2010</u> <b>Fair Value</b>	<u>2009</u> <b>Fair Value</b>
(dollar amounts expressed in thousands)			
Goldman Sachs	Corporate Debt	<b>\$3,687</b>	\$3,546
Merrill Lynch & Co.	Corporate Debt	<b>\$3,566</b>	\$3,256
Morgan Stanley	Corporate Debt	<b>\$3,360</b>	\$3,376
Citigroup	Corporate Debt	<b>\$2,368</b>	\$1,973
Wells Fargo	Corporate Debt	<b>\$2,326</b>	\$2,087
Verizon Pennsylvania	Corporate Debt	<b>\$1,514</b>	\$1,509
JP Morgan Chase	Corporate Debt	<b>\$1,479</b>	\$2,709
Bank of America	Corporate Debt	<b>\$0</b>	\$3,165

**3. Advance Payment Contract Receivables:**

Until August 1, 2002, purchasers entered into advance payment contracts for a number of tuition units. The Fund values and pays out tuition units based on future average tuition (as defined in the contract terms) to the designated student when he or she attends an eligible college of his or her choice. The contracts were purchased with a one-time lump sum payment, a monthly payment plan, or a combination plan. The monthly payment plan allowed the purchaser to determine the monthly payment amount and the number of payments the purchaser wished to make. The combination plan allowed the purchaser to begin paying with a lump sum payment and his or her first monthly payment, followed by subsequent monthly payments. Monthly payment plans are generally for full term (from the contract date until at least three months before the scheduled payout date), five years, or ten years. The full term monthly payment plan has a preset number of months based on the payout year. The full term monthly payment plans range from 10 months remaining for payout year 2011 to 118 months remaining for payout year 2020. Contracts for monthly payment plans generally provide for payment of a contract base price and a charge for paying over time (at an approximate effective rate of 6.78%). Advance payment contract receivables are \$996,000 and \$1.4 million as of June 30, 2010 and 2009, respectively. The Fund expects to collect approximately \$279,000 in contract receivables during the fiscal year ended June 30, 2011. The remaining \$717,000 is expected to be collected from July 1, 2011 through January 31, 2020.

**COLLEGEINVEST  
PREPAID TUITION FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009**

**4. Contracts and Benefits Payable:**

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

<i>As of June 30:</i>	<u>2010</u>	<u>2009</u>
	(dollar amounts expressed in thousands)	
APV of Future Contracts and Benefits Payable	\$ <u>32,616</u>	\$ <u>33,944</u>
Total Assets Available for Future Contracts and Benefits are as follows:		
Cash deposits	\$ 4,300	\$ 2,129
Investments	26,872	29,100
Advance payment contract receivables	996	1,410
Interest receivable	280	339
Less:		
Accounts payable and accrued expenses	(29)	(116)
Due to Student Loan Program Funds	(50)	(48)
Total Assets Available for Future Contracts and Benefits Payable	\$ <u>32,369</u>	\$ <u>32,814</u>
Excess (Deficit) Assets	\$ <u>(247)</u>	\$ <u>(1,130)</u>
Total Assets Available as a Percentage of Contracts and Benefits Payable	99%	97%

The following assumptions developed by management were used in the actuarial analysis as of June 30, 2010 and 2009. These assumptions are based on historical data both for the State and national trends.

Investment rates	The investment yield assumption is based on estimates of the yields that will be available on the investment portfolio and cash. For both fiscal years ended June 30, 2010 and 2009, the investment yield assumption was 4.5%. For the fiscal years ended June 30, 2010 and 2009, the actual annualized yield on investments was 7.0% and 2.0%, respectively. The actual annualized yield on advance payment contract receivables was 6.78% for both years.
Tuition increases	Tuition increases are based on the current best estimate of future tuition increases for Colorado public four-year colleges and universities in existence at such time plus the State community colleges. For the fiscal year ended June 30, 2010, the tuition increases assumption is 5.5% for five years and 5.25% thereafter. For the fiscal year ended June 30, 2009, the tuition increases assumption was 5.5% for one year and 5.25% thereafter.

**COLLEGEINVEST  
PREPAID TUITION FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009**

**4. Contracts and Benefits Payable (continued):**

For the fiscal years ended June 30, 2010 and 2009, the actual average tuition increased by 8.0% and 8.5%, respectively. Average tuition as computed under the contract terms increased 5.5% in both the fiscal years ended June 30, 2010 and 2009.

Cancellations                      Cancellations occur when a participant rolls funds into another type of plan or ceases to make installment payments on an outstanding contract. Contract cancellations are estimated to be 1.75% per year. Installment cancellations are estimated to be 5.12% per year. Average contract and installment cancellations over the last five years were 1.61% and 5.21% respectively.

The following schedule of the estimated distribution of contracts and benefits payments does not convey the same information as the actuarial net present value of future contracts and benefits presented on the previous page. The actuarial net present value represents management's estimate of assets required today so that all participants will be paid in the future. The following schedule of the estimated distribution of contracts and benefits payments shows future benefits payments using an expected long-term annualized rate of tuition growth of 5.5% per annum. The schedule assumes that contracts that have reached their matriculation will be distributed 45% in the first year, 20% in the second year, 15% in the third year, 10% in the fourth year, 5% in the fifth year, 2.5% in the sixth year and 2.5% in the tenth year.

	<u>Total</u>
(dollar amounts expressed in thousands)	
2011	<b>4,935</b>
2012	<b>4,063</b>
2013	<b>4,223</b>
2014	<b>4,368</b>
2015	<b>3,974</b>
2016-2020	<b>13,795</b>
2020-2025	<b>2,282</b>
2026-2030	<b>233</b>
Total Estimated Contracts and Benefits Distributions	<b>\$ 37,873</b>



**COLLEGEINVEST  
PREPAID TUITION FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009**

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

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, excluding 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.

New employees, excluding four-year college and university employees, are allowed 60 days to elect to participate in PERA's defined contribution plan. If that election is not made, the employee is automatically enrolled in the plan to which he or she last contributed or, if there was no prior participation, to the defined benefit plan. PERA members electing the PERA defined contribution plan are allowed an irrevocable election between the second and fifth year of membership 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 1, 2007, as discussed below. The employer contribution to the defined contribution plan is the same amount as the contribution to the PERA defined benefit plan.

Defined benefit plan members (except state troopers) vest after five years of service and are eligible for full retirement based on their original hire date as follows:

- Hired before July 1, 2005 – age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired on or after January 1, 2007 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service.

**COLLEGEINVEST  
PREPAID TUITION FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009**

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

**Plan Description (continued):**

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

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

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

Most 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, the HAS is calculated based on original hire date as follows:

- Hired before January 1, 2007 – HAS is calculated based on three periods of service credit and is limited to a 15 percent increase between periods; the lowest salary of four periods is used as a base for determining the maximum allowable 15 percent increase.
- Hired on or after January 1, 2007 – HAS is calculated based on three periods of service credit and is limited to an 8 percent increase between periods; the lowest salary of four periods is used as a base for determining the maximum allowable 8 percent increase.

Prior to January 1, 2010, retiree benefits were increased annually based on their original hire date as follows:

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

**COLLEGEINVEST  
PREPAID TUITION FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009**

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

**Plan Description (continued):**

In the 2010 legislative session, the General Assembly set the current increase as the lesser of 2 percent or the average of the monthly CPI amounts for calendar year 2009. The 2009 CPI was negative resulting in a calendar year 2010 increase of 0 percent. The 2010 legislation moved the payment date of all increases to July. New rules governing the annual increase amount will be in effect beginning January 1, 2011.

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. From July 1, 2009, to December 31, 2009, the state contributed 12.95 percent (15.65 percent for state troopers and 16.46 percent for the Judicial Branch) of the employee's salary. From January 1, 2010, through June 30, 2010, the state contributed 13.85 percent (16.55 percent for state troopers and 17.36 percent for the Judicial Branch). During all of Fiscal Year 2009-2010, 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, 2009, the division of PERA in which the state participates was underfunded with an amortization period of 43 years.

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

**COLLEGEINVEST  
PREPAID TUITION FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009**

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

**Funding Policy (continued):**

In the 2006 legislative session, the General Assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries paid beginning January 1, 2008. The SAED is scheduled to increase by one half percentage point through 2013 resulting in a cumulative increase of three percentage points. For state employers, each year's one half percentage point increase in the SAED will be deducted from the amount of changes to state employees' salaries, and used by the employer to pay the SAED.

In the 2010 legislative session, the General Assembly extended both the AED and SAED. The AED will continue to increase at a rate of .4 percent of salary from calendar years 2013 through 2017. The SAED will continue to increase by one-half percentage point from calendar years 2014 through 2017. If the funding ratio reaches 103%, both the AED and the SAED will be reduced by one-half percentage point. Neither the AED nor the SAED may exceed 5 percent.

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

The Fund's contributions to PERA and/or the state defined contribution plan for the fiscal years ending June 30, 2010, 2009 and 2008 were \$5,400, \$5,300, and \$4,600, respectively. These contributions met the contribution requirement for each year.

**6. 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. On July 1, 2009, administration of the state's defined contribution plan was transferred to PERA and participants of the state's plan became participants of the PERA defined contribution plan. Existing state plan members at the time of the transfer became participants in the PERA defined contribution plan and retained their vesting schedule for employer contributions, while employer contributions for new members will 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. At December 31, 2009, the plan had 3,039 participants.

**COLLEGEINVEST  
PREPAID TUITION FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009**

**6. Other Retirement Plans (continued):**

**Defined Compensation Plan:**

The PERA 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 were transferred to PERA, and all costs of administration and funding are borne by the plan participants. In calendar year 2009, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution) to a maximum of \$16,500. Participants who are age 50 and older may contribute an additional \$5,500 for total contributions of \$22,000 in 2009. At December 31, 2009, the plan had 18,007 participants.

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

**7. 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 PO 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.

**COLLEGEINVEST  
PREPAID TUITION FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009**

**7. Other Postemployment Benefits (continued):**

Health Care Program (continued):

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 \$500, \$500, and \$400 as required by statute in Fiscal Years 2009-10, 2008-09, and 2007-08, 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. In addition, two of PERA's insurance carriers offered high deductible health care plans in 2009. As of December 31, 2009, there were 46,985 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2009, the Health Care Trust Fund had an unfunded actuarial accrued liability of \$1.50 billion, a funded ratio of 14.8 percent, and a 53-year amortization period.

**8. Risk Management:**

Self Insurance

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

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

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

**COLLEGEINVEST  
PREPAID TUITION FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009**

**8. Risk Management (continued):**

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

<u>Liability</u>	<u>Limits of Liability</u>
General & Automobile	Each person \$150,000 Each occurrence \$600,000

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

Furniture and Equipment

The State of Colorado carries a \$15,000 deductible replacement policy on all state owned furniture and equipment. For each loss incurred, CollegeInvest is responsible for the first \$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.

**9. Net Assets:**

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

The Fund had a deficiency in restricted net assets of \$247,000 and \$1.3 million as of June 30, 2010 and 2009, respectively. In fiscal year 2010, the deficiency is primarily due to the Fund adjusting its cash flow assumptions and in fiscal year 2009, adjusting its fixed income investments to fair market value and recording unrealized gains and losses based on this adjustment. The Fund expects to hold its fixed income investments to maturity and therefore, does not anticipate realizing investment losses.

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

**COLLEGEINVEST  
PREPAID TUITION FUND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010 AND 2009**

**10. Economic Dependency on Market Fluctuations:**

The Fund had an operating gain for the years ended June 30, 2010 and 2009. A bond laddering strategy was implemented with the goal of matching bond maturities and coupon payments to expected net cash outflows. The bond portfolio is adjusted to fair market value and this adjustment may be positive or negative depending on financial market conditions at the time. The bond portfolio will be evaluated on an annual basis and rebalanced, if necessary. The intent of the Fund is to hold the investments to maturity which should reduce the Fund's economic dependency on market fluctuations.

This information is an integral part of the financial statements.



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

Members of the Legislative Audit Committee:

We have audited the basic financial statements of CollegeInvest (a division of the Department of Higher Education, State of Colorado) Prepaid Tuition Fund as of and for the years ending June 30, 2010 and 2009, and have issued our report thereon dated December 16, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered CollegeInvest Prepaid Tuition Funds' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's 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 would not necessarily 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.

## Compliance and Other Matters

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

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

*Clifton Henderson LLP*

Greenwood Village, Colorado  
December 16, 2010

## Required Communications to the Legislative Audit Committee

December 16, 2010

Members of the Legislative Audit Committee:

This letter is to provide you with information about significant matters related to our audit of the financial statements of CollegeInvest Prepaid Tuition Fund for the year ended June 30, 2010.

The following are our observations arising from the audit that are relevant to the CollegeInvest Board of Directors (the Board) responsibilities in overseeing the financial reporting process.

**Auditor's Responsibilities Under Generally Accepted Auditing Standards.** Our audit was performed for the purpose of forming and expressing an opinion about whether the financial statements, that have been prepared by management with the Board's oversight, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit does not relieve the Board or management of their responsibilities.

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

**Significant Issues Discussed With Management Prior to Retention.** We discuss various matters with management prior to retention as CollegeInvest Prepaid Tuition Fund's auditors. These discussions occur in the normal course of our professional relationship. There were no significant issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors.

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

## **Qualitative Aspects of Accounting Practices.**

### *Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by CollegeInvest Prepaid Tuition Fund are described in Note 1 to the financial statements. There were no significant accounting policies or their application which were either initially selected or changed during the year.

We noted no transactions in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

There were no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

### *Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

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

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

Contract and installment cancellations assumptions are 1.75% and 5.12%, respectively, and are based on the Fund's past experience of cancellations. Over the past five years, actual contract and instalment cancellations averaged 1.61% and 5.21%, respectively.

The investment yield assumption is based on estimates of the yields that will be available on the investment portfolio and cash. For both fiscal years ended June 30, 2010 and 2009, the investment yield assumption was 4.5%. The actual annualized yield on investments of the fund was 7.0% and 2.0%, respectively.

Tuition increases are based on the current best estimate of future tuition increases for Colorado public four-year colleges and universities in existence at such time plus the State community colleges. For the fiscal year ended June 30, 2010, the tuition increases assumption is 5.5% for the next five years and 5.25% thereafter. For the fiscal years ended June 30, 2010 and 2009, the actual average tuition increased by 8.0% and 8.5%, respectively. However due to contract restrictions, average tuition as computed under the contract terms increased 5.5% in both the fiscal years ended June 30, 2010 and 2009.

*Financial Statement Disclosures*

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

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

**Corrected Misstatements.** There were no material misstatements detected as a result of audit procedures and corrected by management that were material, either individually or in the aggregate, to the financial statements taken as a whole.

**Representations from Management.** We have requested and received representations from management.

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

Please contact Mark Elmshouser if you have any questions regarding the matters included in this letter.

*Clifton Henderson LLP*

**The electronic version of this report is available on the website of the  
Office of the State Auditor  
[www.state.co.us/auditor](http://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 2113A-10**