

**COLLEGEINVEST
PREPAID TUITION FUND
Denver, Colorado**

**FINANCIAL STATEMENTS
June 30, 2006 and 2005**

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**COLLEGEINVEST
PREPAID TUITION FUND**

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June 30, 2006

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Members of the Legislative Audit Committee:

This report contains the results of the financial audit of the Prepaid Tuition Fund of CollegeInvest as of June 30, 2006. 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
September 8, 2006

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REPORT SUMMARY

COLLEGEINVEST PREPAID TUITION FUND FINANCIAL AUDIT FISCAL YEAR ENDED JUNE 30, 2006

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, 2006. Clifton Gunderson LLP performed this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The purpose and scope of our audit was to express an opinion on CollegeInvest's Prepaid Tuition Fund basic financial statements as of and for the fiscal year ended June 30, 2006.

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, 2006.

Summary of Key Findings and Recommendations

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

Summary of Progress in Implementing Prior Year Audit Recommendations

There were no audit recommendations for the year ended June 30, 2005.

Required Communication

Auditor's Responsibility Under Generally Accepted Auditing Standards. Our audit of the financial statements of the CollegeInvest Prepaid Tuition Fund for the years ended June 30 2006 and 2005, was conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Reasonable assurance in an audit is obtained by examining evidence supporting the amounts and disclosures in the financial statements on a test basis. An audit does not include verification of all transactions and account balances, nor does it represent a certification of the absolute accuracy of the financial statements.

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

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

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

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

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

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

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

The investment yield assumption is based on estimates of the yields that will be available on the investment portfolio and cash. For both fiscal years ended June 30, 2006 and 2005, the investment yield assumption was 4.5%.

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, 2006, the tuition increases assumption is 5.5% for four years and 5.25% thereafter. For the fiscal years ended June 30, 2006 and 2005, the actual average tuition increased by 10.3% and 16.0%, 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, 2006 and 2005.

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

Audit Adjustments. We noted no adjustments during our audit.

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

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

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

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

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

**DESCRIPTION OF THE
COLLEGEINVEST
PREPAID TUITION FUND**

Organization

The Colorado General Assembly, pursuant to Colorado Revised Statutes 23-3.1-2 and 23-3.1-3, established a student obligation bond program (Student Loan Program Funds, which consist of the Borrower Benefit Fund, Bond Funds, and College In Colorado Trust), a post secondary education expense program (Prepaid Tuition Fund), and an Internal Revenue Code Section 529 college savings program (Scholars Choice Fund, Direct Portfolio Fund and Stable Value Plus Fund), which are administered by CollegeInvest. The programs assist residents 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. In addition, CollegeInvest has a nine person Board of Directors (Board) designated by the Governor and approved by the State Senate to serve four year terms.

Colorado Prepaid Tuition Fund

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

The Colorado Constitution and other State laws prohibit the State from providing its full faith and credit to obligations of other entities, such as the Prepaid Tuition Fund. As a result, payments from the Prepaid Tuition Fund are not guaranteed in any way by the State, and are not considered to have created a debt or obligation of the State. Such payments are limited obligations, payable from the Prepaid Tuition Fund, but not from the other assets of 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. 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, 2006, none of these criteria were met, thus an evaluation was not necessary.

DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS

There were no findings or recommendations reported in the financial audit of the Prepaid Tuition Fund for the fiscal year ended June 30, 2005.

Independent Auditor's Report

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of CollegeInvest (a division of the Department of Higher Education, State of Colorado) Prepaid Tuition Fund as of and for the years ending June 30, 2006 and 2005, 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, 2006 and 2005, 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, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2006 on our consideration of CollegeInvest Prepaid Tuition Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

CollegeInvest Prepaid Tuition Fund incurred operating losses, before transfers, of \$2,321,000 and \$3,218,000 during the years ended June 30, 2006 and 2005, respectively. The Borrower Benefit Fund within the Student Loan Program Funds transferred \$1.6 million to the Prepaid Tuition Fund during the year ended June 30, 2005 to provide the Fund with sufficient assets to implement a revised investment strategy. The borrower Benefit Fund has no obligation to provide additional transfers in the future. 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 Prepaid Tuition Fund is to hold the investments to maturity, which should reduce the Fund's economic dependency on market fluctuations. The Prepaid Tuition Fund is dependent upon a positive return on its investments and/or future contributions from CollegeInvest to meet its obligations. As of June 30, 2006, the Prepaid Tuition Fund has a net asset deficit of approximately \$2,278,000. See Notes 1, 9 and 10 in Notes to Financial Statements.

The Management's Discussion and Analysis on pages 9 to 16 is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it.

Clifton Henderson LLP

Greenwood Village, Colorado
September 8, 2006

**COLLEGEINVEST
PREPAID TUITION FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006 AND 2005**

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, 2006 and 2005. The Fund is a qualified state tuition program pursuant to Internal Revenue Code (IRC) Section 529. CollegeInvest, a division of the Department of Higher Education of the State of Colorado, administers the Fund, and the Student Loan Program Funds, which consist of the Borrower Benefit Fund, the Bond Funds and the College In Colorado Scholarship Trust, and the College Savings Program, which consists of the Scholars Choice Fund, Direct Portfolio Fund and Stable Value Plus Fund. The Fund is presented as a proprietary fund in the State of Colorado Comprehensive Annual Financial Report. CollegeInvest's Board of Directors (Board) approves the annual budget and the investment policy of the Prepaid Tuition Fund. Management of CollegeInvest is responsible for the financial statements, footnotes and this discussion. The management's discussion and analysis should be read in conjunction with the Fund's financial statements.

Overview of the Financial Statements:

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

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

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

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

Analysis of Financial Activities (continued):

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

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

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

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

Comparison of Current Year Results to Prior Year:

Condensed Statement of Net Assets as of June 30:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	(dollar amounts expressed in thousands)		
Assets:			
Cash and investments	\$ 34,337	\$ 37,284	\$ 34,308
Advance payment contract receivables	3,633	4,894	6,634
Interest receivable	427	428	125
Total assets	<u>38,397</u>	<u>42,606</u>	<u>41,067</u>
Liabilities:			
Accounts payable, accrued expenses and amounts due to Student Loan Program Funds	85	77	52
Contracts and benefits payable - current	4,276	3,928	2,831
Contracts and benefits payable - noncurrent	36,314	38,558	36,523
Total liabilities	<u>40,675</u>	<u>42,563</u>	<u>39,406</u>
Net assets restricted for contracts and benefits	<u>\$ (2,278)</u>	<u>\$ 43</u>	<u>\$ 1,661</u>

Cash and investments decreased by approximately \$3.0 million from June 30, 2005 to June 30, 2006. For the fiscal year ended June 30, 2006, cash received from installment payments and interest on investments amounted to approximately \$2.9 million, while cash decreased due to tuition payments, cancellations and rollovers amounting to approximately \$3.6 million. This resulted in a net decrease in cash of \$700,000. The investments decreased by \$2.3 million which

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

is primarily due to the Fund adjusting its fixed income investments to fair market value at June 30, 2006. The Fund expects to hold its fixed income investments to maturity and therefore, does not anticipate realizing investment losses. However, if the Fund's cash flows vary materially from those forecasted, the Fund may have to liquidate certain investments at the market value, which could be at a loss.

In contrast, cash and investments increased by approximately \$3.0 million from June 30, 2004 to June 30, 2005, due to positive market returns. Additionally, during the year ended June 30, 2005, the Borrower Benefit Fund within the Student Loan Program Funds transferred \$1.6 million to the Fund. Utilizing gains on current holdings and the \$1.6 million transfer, the Fund effected a change in its investment strategy from 60% equity and 40% fixed income to 100% fixed income. The intent of the investment strategy change is to reduce risk and match expected cash outflows with investment maturities. See further discussion of the investment strategy change in the investment income discussion below. Cash inflows from advance payment contract holders and interest payments amounted to approximately \$1.6 million and distributions to contract holders for higher education expenses amounted to approximately \$2.9 million for a net outflow of \$1.3 million for the year ended June 30, 2005.

Advance payment contract receivables decreased by approximately \$1.3 million from June 30, 2005 to June 30, 2006. The decrease was a combination of installment contract principal payments received of \$1.0 million and cancellations and rollovers to other qualified plans of \$255,000. Advance payment contract receivables decreased by approximately \$1.7 million from June 30, 2004 to June 30, 2005. The decrease was a combination of installment contract principal payments received of \$1.1 million and cancellations and rollovers to other qualified plans of \$545,000.

Interest receivable decreased by only \$1,000 from June 30, 2005 to June 30, 2006 as the investment portfolio remained consistent from June 30, 2005 to June 30, 2006. Interest receivable increased by \$303,000 from June 30, 2004 to June 30, 2005 due primarily to a larger portion of the investment portfolio invested in interest bearing instruments.

The decrease to contracts and benefits payable from June 30, 2005 to June 30, 2006 of \$1.9 million was the net result of (1) a decrease of approximately \$3.6 million for payments to contract holders for current tuition payments, cancellations and rollovers, and (2) an increase in the liability of approximately \$1.7 million due to the accumulation of future benefits to contract holders. The increase to contracts and benefits payable from June 30, 2004 to June 30, 2005 of \$3.1 million was the net result of (1) a decrease of approximately \$3.4 million for payments to contract holders for current tuition payments, cancellations and rollovers, and (2) an increase in the liability of approximately \$6.5 million due to the accumulation of future benefits to contract holders. See the contracts and benefits expense variance explanation for further details.

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

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	(dollar amounts expressed in thousands)		
Operating revenues:			
Contract income	\$ 303	\$ 393	\$ 531
Interest and dividend income	1,588	1,037	741
Net realized and unrealized (loss) gain on investments	<u>(2,260)</u>	<u>2,102</u>	<u>3,269</u>
Total operating revenues	<u>(369)</u>	<u>3,532</u>	<u>4,541</u>
Operating expenses:			
Contracts and benefits expense	1,757	6,534	4,949
Other expenses	<u>195</u>	<u>216</u>	<u>234</u>
Total operating expenses	<u>1,952</u>	<u>6,750</u>	<u>5,183</u>
Net operating loss before transfers	(2,321)	(3,218)	(642)
Transfer from Student Loan Program Funds	<u>-</u>	<u>1,600</u>	<u>-</u>
Change in net assets	(2,321)	(1,618)	(642)
Net assets, beginning of year	<u>43</u>	<u>1,661</u>	<u>2,303</u>
Net assets, end of year	<u>\$ (2,278)</u>	<u>\$ 43</u>	<u>\$ 1,661</u>

Contract income decreased by \$90,000 for the year ended June 30, 2006 from the year ended June 30, 2005 due primarily to the continued reduction in the number of participants making installment contract payments. The number of installment contracts decreased by approximately 200 from 1,500 as of June 30, 2005 to 1,300 as of June 30, 2006 primarily as a result of final installment payments received from contract holders.

Contract income decreased by \$138,000 for the year ended June 30, 2005 from the year ended June 30, 2004. The decrease is due to a reduction in the number of participants making installment contract payments.

Interest and dividend income is comprised of the following:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	(dollar amounts expressed in thousands)		
Interest income	\$ 1,588	\$ 1,005	\$ 481
Dividend income	<u>-</u>	<u>32</u>	<u>260</u>
Total interest and dividend income	<u>\$ 1,588</u>	<u>\$ 1,037</u>	<u>\$ 741</u>

Interest income increased by \$583,000 and dividend income decreased by \$32,000 for the year ended June 30, 2006 from the year ended June 30, 2005. Interest income increased by \$524,000

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

and dividend income decreased by \$228,000 for the year ended June 30, 2005 from the year ended June 30, 2004. The increases in interest income and decreases in dividend income are due to a change in the investment policy statement and investment strategy of the Fund. The new strategy was approved by CollegeInvest's Board on December 9, 2004 and put into effect at the end of that month. The goal of the amended investment strategy is to minimize volatility of investment values and returns by purchasing high grade bonds with maturities that match projected future cash flows of the Fund. The Board also approved a transfer of moneys to the Fund from the Borrower Benefit Fund of the Student Loan Program Funds to implement this new investment strategy, and CollegeInvest transferred \$1.6 million during the year ended June 30, 2005 to effect this change. As of January 2005, the Fund was invested 100% in fixed income investments. The investment composition prior to the investment strategy change was 60% equity mutual funds and 40% Treasury Inflation Protected Securities (TIPS). The annualized yield on investments of the Fund was (4.2%) and 10.1% for the fiscal years ended June 30, 2006 and 2005, respectively.

Investments are comprised of the following as of:

	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>	<u>June 30,</u> <u>2004</u>
	(dollar amounts expressed in thousands)		
Fixed income investments	\$ 33,044	\$ 35,366	\$ 10,713
Equity income investments	-	-	19,623
Total investments	<u>\$ 33,044</u>	<u>\$ 35,366</u>	<u>\$ 30,335</u>

For the year ended June 30, 2005, interest income was comprised of interest on TIPS for the first half of the year and on corporate and treasury bonds for the last half of the year. For the year ended June 30, 2004, interest income was comprised primarily of interest on TIPS. Dividend income decreased by \$32,000 for the year ended June 30, 2006 from the year ended June 30, 2005, and decreased by \$228,000 for the year ended June 30, 2005 from the year ended June 30, 2004 due to a decrease in the balance of equity mutual funds held during the year.

Net realized and unrealized gain on investments is comprised of the following:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	(dollar amounts expressed in thousands)		
Realized gain on investments	\$ -	\$ 1,885	\$ 298
Unrealized gain (loss) on investments	<u>(2,260)</u>	<u>217</u>	<u>2,971</u>
Net realized and unrealized gain on investments	<u>\$ (2,260)</u>	<u>\$ 2,102</u>	<u>\$ 3,269</u>

The fixed income investment portfolio had an unrealized loss of \$2.3 million and a \$217,000 unrealized gain as of June 30, 2006 and 2005, respectively, due to market adjustments of investment values.

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

All investments that were held as of June 30, 2004 were liquidated in December 2004 which resulted in a realized gain of approximately \$1.9 million during the fiscal year ended June 30, 2005. During the fiscal year ended June 30, 2004, an underperforming mutual fund was sold and the proceeds were invested in a mutual fund that was deemed more suitable to meeting the investment goals of the Fund. The sale resulted in a net realized gain of \$298,000.

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 decreased by \$4.8 million for the year ended June 30, 2006 from the year ended June 30, 2005, while it increased by \$1.6 million for the year ended June 30, 2005 from the year ended June 30, 2004. The changes are due primarily to a change in the investment return assumption for the Fund's investments. For the year ended June 30, 2004, the investment return assumption was 6.5%. For the year ended June 30, 2005, the Fund revised its investment strategy and the investment return assumption was reduced to 4.5%. A higher investment return assumption results in a lower liability. Therefore, lowering the investment return assumption for the year ending June 30, 2005 increased the liability and the corresponding expense. The higher contract and benefit expense for the year ended June 30, 2004 as compared to the year ended June 30, 2006 is primarily due to the lower investment return assumption for the year ended June 30, 2006, which reduces the annual accrual of future benefits.

Other expenses primarily reflect those expenses incurred to operate the Fund. Other expenses decreased by \$21,000 or 9.7% for the year ended June 30, 2006 from the year ended June 30, 2005. Operating expenses are generally directly related to the number of contracts outstanding, with the exception of certain fixed expenses.

CollegeInvest reduced the other expenses of the Fund by \$18,000 or 7.7% for the year ended June 30, 2005 from the year ended June 30, 2004. This was in addition to a reduction of \$510,000 or 68.6% for the year ended June 30, 2004 from the year ended June 30, 2003. This was due to a concerted effort to reduce costs of the program as it has been closed to new investors since August 1, 2002.

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>2006</u>	<u>2005</u>	<u>2004</u>
	(dollar amounts expressed in thousands)		
Expenses subject to the 1% cap	\$ 175,000	\$ 192,000	\$ 211,000
1% cap	\$ 308,000	\$ 341,000	\$ 374,000

Expenses did not exceed the 1% cap of contract price for the years ended June 30, 2006, 2005 or 2004. There is no assurance that the 1% cap will be sufficient to cover operating costs in the future as the overall program decreases.

Economic Factors and Future Years' Rates:

- ❖ As of August 1, 2002, the Fund suspended execution of new contracts. The Fund is collecting payments on installment contracts but does not have any other incoming cash payments except what it receives in interest income.
- ❖ The Fund's amended contract terms limit the annual percentage increases in average tuition for distributions to the lesser of 1) the percentage increase in actual average tuition of Colorado public colleges and universities, or 2) 5.5%. In addition, the Fund offers a minimum cumulative return of 4% per annum calculated at the time of distribution. Average tuition as computed under these contract terms increased 5.5% in fiscal years 2005 and 2006 from \$29.27 per unit as of August 1, 2004 to \$30.88 per unit as of August 1, 2005 and to \$32.58 as of August 1, 2006. Actual average tuition of Colorado public colleges and universities increased by 16.0% and 10.3% for the 2005-2006 and 2006-2007 school years, respectively.
- ❖ During the year ended June 30, 2005, the Fund amended its investment policy. The goal of the amended investment strategy is to minimize volatility of investment values and returns by purchasing high grade bond investments with maturities that match projected future cash flows of the Fund. The Fund has implemented the amended investment strategy. See Note 2 in the notes to financial statements for details on investments.
- ❖ Future fair market valuation of fixed income securities may fluctuate based on interest rates. The Fund's intent is to hold these investments to maturity. However, if the Fund liquidated fixed income securities prior to maturity it may experience different returns than expected.
- ❖ The contract and benefit liability is calculated based on assumptions determined by management. Management utilizes past experience, as well as consultation with an actuary who is experienced in prepaid tuition plans, to determine the assumptions used in the liability calculation. The assumptions related to the timing of cash flows were used as a basis for management's investment decisions. Variances between the cash flows experienced by the Fund and the assumptions utilized by management may impact the ability of the Fund to meet its obligations as they come due.
- ❖ The Borrower Benefit Fund did not contribute any monies for any general and administrative expenses during the years ended June 30, 2006, 2005 or 2004. During the year ended June 30, 2005, the Borrower Benefit Fund contributed \$1.6 million to the Fund to implement the new fixed income investment strategy. Contributions are considered voluntary contributions and may not be available in future years. If it is determined that the Fund is not financially sound, then the Fund may discontinue permanently or for a period of time may suspend that particular aspect of the Fund.

Requests for Information:

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

**COLLEGEINVEST
PREPAID TUITION FUND
STATEMENT OF NET ASSETS
JUNE 30, 2006 AND 2005
(dollar amounts expressed in thousands)**

	<u>2006</u>	<u>2005</u>
Assets:		
Current assets:		
Cash deposits	\$ 1,293	\$ 1,918
Advance payment contract receivables	815	1,000
Interest receivable	<u>427</u>	<u>428</u>
Total current assets	<u>2,535</u>	<u>3,346</u>
Noncurrent assets:		
Investments	33,044	35,366
Advance payment contract receivables	<u>2,818</u>	<u>3,894</u>
Total noncurrent assets	<u>35,862</u>	<u>39,260</u>
Total assets	<u>38,397</u>	<u>42,606</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	33	19
Due to Student Loan Program Funds	52	58
Contracts and benefits payable	<u>4,276</u>	<u>3,928</u>
Total current liabilities	<u>4,361</u>	<u>4,005</u>
Noncurrent liabilities:		
Contracts and benefits payable	<u>36,314</u>	<u>38,558</u>
Total noncurrent liabilities	<u>36,314</u>	<u>38,558</u>
Total liabilities	<u>40,675</u>	<u>42,563</u>
Net assets restricted for contracts and benefits	<u>(2,278)</u>	<u>43</u>
Total net assets	<u>\$ (2,278)</u>	<u>\$ 43</u>

The accompanying notes are an integral part of this financial statement.

**COLLEGEINVEST
PREPAID TUITION FUND
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(dollar amounts expressed in thousands)**

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Contract income	\$ 303	\$ 393
Interest and dividend income	1,588	1,037
Net realized and unrealized (loss) gain on investments	<u>(2,260)</u>	<u>2,102</u>
Total operating revenues	<u>(369)</u>	<u>3,532</u>
Operating expenses:		
Contracts and benefits expense	1,757	6,534
General and administrative expenses	51	60
Salaries and benefits	53	66
Professional services	<u>91</u>	<u>90</u>
Total operating expenses	<u>1,952</u>	<u>6,750</u>
Net operating loss before transfers	(2,321)	(3,218)
Transfer from the Student Loan Program Funds	<u>-</u>	<u>1,600</u>
Change in net assets	(2,321)	(1,618)
Net assets, beginning of year	<u>43</u>	<u>1,661</u>
Net assets, end of year	<u>\$ (2,278)</u>	<u>\$ 43</u>

The accompanying notes are an integral part of this financial statement.

**COLLEGEINVEST
PREPAID TUITION FUND
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(dollar amounts expressed in thousands)**

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities:		
Cash receipts from advance payment contracts	\$ 1,323	\$ 1,596
Cash distributions for advance payment contracts	(3,406)	(2,863)
Cash payments to suppliers for goods and services	(151)	(127)
Cash payments to employees for service	<u>(53)</u>	<u>(66)</u>
Net cash used by operating activities	<u>(2,287)</u>	<u>(1,460)</u>
Cash Flows from Investing Activities:		
Redemptions of investments	73	32,148
Purchases of investments	-	(35,077)
Income received from investments	<u>1,589</u>	<u>734</u>
Net cash provided (used) by investing activities	<u>1,662</u>	<u>(2,195)</u>
Cash Flows from Non-Capital Financing Activities:		
Transfers from Student Loan Program Funds	<u>-</u>	<u>1,600</u>
Net cash provided by non-capital financing activities	<u>-</u>	<u>1,600</u>
Decrease in cash and cash equivalents	(625)	(2,055)
Cash and cash equivalents, beginning of period	<u>1,918</u>	<u>3,973</u>
Cash and cash equivalents, end of period	<u><u>\$ 1,293</u></u>	<u><u>\$ 1,918</u></u>

The accompanying notes are an integral part of this financial statement.

**COLLEGEINVEST
PREPAID TUITION FUND
STATEMENT OF CASH FLOWS (continued)
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(dollar amounts expressed in thousands)**

	<u>2006</u>	<u>2005</u>
Reconciliation of net loss to net cash used by operating activities:		
Net operating loss before transfers	\$ (2,321)	\$ (3,218)
Items reflected as investing activities:		
Income received from investments	(1,589)	(734)
Gain on sale of investments	-	(1,908)
Adjustments to reconcile net loss to net cash used by operating activities:		
Net depreciation (appreciation) of fair value of investments	2,249	(194)
Changes in operating assets and liabilities:		
Advance payment contract receivables	1,261	1,740
Interest receivable	1	(303)
Accounts payable and accrued expenses	14	(4)
Due to Student Loan Program Funds	(6)	29
Contracts and benefits payable	<u>(1,896)</u>	<u>3,132</u>
Net cash used by operating activities	\$ <u>(2,287)</u>	\$ <u>(1,460)</u>

The accompanying notes are an integral part of this financial statement.

**COLLEGEINVEST
PREPAID TUITION FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

1. Organization and Summary of Significant Accounting Policies:

Pursuant to the Colorado Revised Statutes 23-3.1-2 and 23-3.1-3, 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. In addition, CollegeInvest has a nine-person Board of Directors (Board) designated by the Governor and approved by the State Senate to serve four-year terms.

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

Prepaid Tuition Fund

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

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

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

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.

**COLLEGEINVEST
PREPAID TUITION FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006 AND 2005**

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

Prepaid Tuition Fund (continued)

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

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

In accordance with the Colorado Revised Statutes (CRS) 23-3.1-206.7(5)(d), CollegeInvest shall evaluate the actuarial soundness of the Prepaid Tuition Fund if, on the last day of the fiscal year, more than ten percent of the Fund is invested in common or preferred stock; corporate bonds, notes, or debentures that are convertible into common or preferred stock; or investment trust shares. CollegeInvest may contract with a consultant to perform this actuarial evaluation. If, based upon an actuarial evaluation, CollegeInvest determines that the Fund is not actuarially sound, CollegeInvest may direct the distribution of available assets. As of June 30, 2006 and 2005, 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, 2006 and 2005, based on cash flows prepared by an actuary without a formal actuarial report. As of June 30, 2004, an actuarial valuation was performed by an actuary. The CRS also states that if it is determined that the Fund is not financially sound, then the Fund may discontinue permanently or for a period of time may suspend a particular aspect of the Fund and the execution of additional contracts. Likewise, if it is determined that an excess amount exists in the Fund, CollegeInvest would calculate the portion of such excess that would be attributable on a pro rata basis to each tuition unit. As of August 1, 2002, the Fund suspended execution of new contracts. In addition, contract terms were amended on February 20, 2003.

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

**COLLEGEINVEST
PREPAID TUITION FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006 AND 2005**

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

Reporting Entity (continued):

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, 2006 were \$1.8 million, compared to actual expenses of \$2.0 million. The actual contract and benefits expense was over budget by approximately \$200,000, primarily due to various differences in the actuarial assumptions and changes in the anticipated cash flows, and the timing of disbursements and contributions. The actual contract and benefit expense for the fiscal year ended June 30, 2006 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.

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

**COLLEGEINVEST
PREPAID TUITION FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006 AND 2005**

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

Operating Revenues and Expenses (continued):

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, 2006 and 2005.

Effective July 1, 2004, the Fund adopted statement number 40 of the Governmental Accounting Standards Board (GASB). Statement 40 is titled *Deposit and Investment Risk Disclosures*. The required implementation date for GASB statement 40 is for periods beginning after June 15, 2004.

Advance Payment Contract Receivables:

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

Compensated Absences:

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

Due to Student Loan Program Funds:

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

**COLLEGEINVEST
PREPAID TUITION FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006 AND 2005**

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

Contracts and Benefits Payable/Expense:

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

Transfers from Student Loan Program Funds:

During the fiscal year ending June 30, 2006, no amounts were transferred to the Fund from the Borrower Benefit Fund within the Student Loan Program Funds. During the fiscal year ended June 30, 2005, the Borrower Benefit Fund within the Student Loan Program Funds transferred \$1.6 million as a contribution to the Prepaid Tuition Fund. The Borrower Benefit Fund within the Student Loan Program Funds is not obligated to make contributions to the Fund currently or in future years.

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, 2006 and 2005, 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. Payments and receipts are deposited to demand deposit accounts daily.

**COLLEGEINVEST
PREPAID TUITION FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006 AND 2005**

2. Cash Deposits and Investments (continued):

Cash Deposits (continued):

Cash deposits as of June 30 are as follows:

	2006	2005
	(dollar amounts expressed in thousands)	
State Treasurer's Cash Pool	\$ 1,290	\$ 1,912
Demand Deposit Accounts	3	6
Total cash deposits	\$ 1,293	\$ 1,918

Custodial Credit Risk – Cash Deposits:

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

The carrying amount and bank balance of demand deposits accounts was \$3,000 and \$3,000 as of June 30, 2006 and \$6,000 and \$6,000 as of June 30, 2005. 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, 2006 and 2005.

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. 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

**COLLEGEINVEST
PREPAID TUITION FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006 AND 2005**

2. Cash Deposits and Investments (continued):

Investment Authority and Policy (continued):

investment types that are authorized for the Fund:

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

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

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

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

Custodial Credit Risk – Investments:

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

Interest Rate Risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Fund manages exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The Fund monitors the interest rate risk inherent in its portfolio

**COLLEGEINVEST
PREPAID TUITION FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006 AND 2005**

2. Cash Deposits and Investments (continued):

Interest Rate Risk (continued):

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.

Investment Type	2006		2005	
	Fair Value	Weighted Average Maturity (in years)	Fair Value	Weighted Average Maturity (in years)
(dollar amounts expressed in thousands)				
U.S. Agency Securities	\$ 4,641	11.9	\$ 4,959	12.8
Corporate Debt	28,371	5.4	30,302	6.5
Money Market Mutual Funds	32	N/A	105	N/A
	<u>\$ 33,044</u>		<u>\$ 35,366</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. 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, 2006:

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

**COLLEGEINVEST
PREPAID TUITION FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006 AND 2005**

2. Cash Deposits and Investments (continued):

Credit Risk (continued):

As of June 30, 2006:

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

As of June 30, 2005:

Investment Type	Minimum Rating	Standard & Poor's Rating as of Year End				
		AAA	AA-	A+	A	NR
(dollar amounts expressed in thousands)						
U.S. Agency Securities	AAA	\$4,959	-	-	-	-
Corporate Debt	[*]	-	\$4,643	\$24,685	\$974	-
Money Market Mutual Funds	N/A	-	-	-	-	\$105

As of June 30, 2005:

Investment Type	Minimum Rating	Moody's Rating as of Year End						
		Aaa	Aa3	Aa2	Aa1	A3	A1	NR
(dollar amounts expressed in thousands)								
U.S. Agency Securities	Aaa	\$4,959	-	-	-	-	-	-
Corporate Debt	[*]	-	\$19,481	\$7,705	\$860	-	\$2,256	-
Money Market Mutual Funds	N/A	-	-	-	-	-	-	\$105

[*]

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, 2006 AND 2005**

2. Cash Deposits and Investments (continued):

Concentrations of Credit Risk (continued):

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

Issuer	Investment Type	<u>2006</u>	<u>2005</u>
		Fair Value	Fair Value
(dollar amounts expressed in thousands)			
FNMA	U.S. Agency Securities	\$4,383	\$4,679
Morgan Stanley	Corporate Debt	\$3,327	\$3,556
Goldman Sachs	Corporate Debt	\$3,315	\$3,567
Merrill Lynch & Co.	Corporate Debt	\$3,256	\$3,575
Bank of America	Corporate Debt	\$3,129	\$3,357
JP Morgan Chase	Corporate Debt	\$2,537	\$2,663
Citigroup	Corporate Debt	\$2,213	\$2,424
AIG/International Lease Finance	Corporate Debt	\$2,200	\$2,256
Wells Fargo	Corporate Debt	\$2,045	\$2,262

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 a 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 2007 to 166 months remaining for payout year 2019. 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 \$3.6 million and \$4.9 million as of June 30, 2006 and 2005, respectively. The Fund expects to collect approximately \$815,000 in contract receivables during the fiscal year ended June 30, 2007. The remaining \$2.8 million is expected to be collected from July 1, 2008 through June 30, 2020.

**COLLEGEINVEST
PREPAID TUITION FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006 AND 2005**

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>2006</u>	<u>2005</u>
	(dollar amounts expressed in thousands)	
APV of Future Contracts and Benefits Payable	\$ <u>40,590</u>	\$ <u>42,486</u>
Total Assets Available for Future Contracts and Benefits are as follows:		
Cash deposits	\$ 1,293	\$ 1,918
Investments	33,044	35,366
Advance payment contract receivables	3,633	4,894
Interest receivable	427	428
Less:		
Accounts payable and accrued expenses	(33)	(19)
Due to Student Loan Program Funds	(52)	(58)
Total Assets Available for Future Contracts and Benefits Payable	\$ <u>38,312</u>	\$ <u>42,529</u>
Excess (Deficit) Assets	\$ <u>(2,278)</u>	\$ <u>43</u>
Total Assets Available as a Percentage of Contracts and Benefits Payable	94%	100%

The following assumptions developed by management were used in the actuarial analysis as of June 30, 2006 and 2005. 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, 2006 and 2005, the investment yield assumption was 4.5%. For the fiscal years ended June 30, 2006 and 2005, the actual annualized yield on investments was (4.2%) and 10.1%, 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, 2006, the tuition increases assumption is 5.5% for four years and 5.25% thereafter. For the fiscal year ended June 30, 2005, the tuition increases assumption is 5.5% per year for five years and 5.25% thereafter. For the fiscal years ended June 30, 2006 and 2005, the actual

**COLLEGEINVEST
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JUNE 30, 2006 AND 2005**

4. Contracts and Benefits Payable (continued):

average tuition increased by 10.3% and 16.0%, respectively. Average tuition as computed under the contract terms increased 5.5% in both the fiscal years ended June 30, 2006 and 2005.

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

	<u>Total</u>	
		(dollar amounts expressed in thousands)
2007	\$	4,084
2008		4,018
2009		3,973
2010		4,083
2011		4,274
2012-2016		18,934
2017-2021		10,093
2022-2025		786
Total Estimated Contracts and Benefits Distributions	\$	<u><u>50,245</u></u>

5. Retirement Plan:

Plan Description:

Most of CollegeInvest's employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The state 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 1-800-729-PERA(7372), or by visiting www.copera.org.

Prior to January 1, 2006, state employees and employees of local school districts were members of the combined State and School Division of PERA. On January 1, 2006, that combined division was segregated into a State Division and a separate School Division. PERA's financial statements

**COLLEGEINVEST
PREPAID TUITION FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006 AND 2005**

5. Retirement Plan (continued):

Plan Description (continued):

at December 31, 2005, presented the state and school portions of the trust as a single division.

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

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

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

**COLLEGEINVEST
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006 AND 2005**

5. Retirement Plan (continued):

Funding Policy (continued):

Most employees contribute 8.0 percent (10.0 percent for state troopers) of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2005, to December 31, 2005, the state contributed 10.15 percent (12.85 percent for state troopers and 13.66 percent for the Judicial Branch) of the employee's salary. From January 1, 2006, through June 30, 2006, the state contributed these same percentage amounts plus an additional .5 percent for the Amortization Equalization Disbursement discussed below. During all of Fiscal Year 2006, 1.02% of the employees' total salary was allocated to the Health Care Trust Fund.

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

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

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

CollegeInvest's contributions to the Defined Benefit Plan and the Health Care Trust Fund for the fiscal years ending June 30, 2006, 2005 and 2004 were \$4,000, \$5,000 and \$7,000, respectively. These contributions met the contribution requirement for each year.

6. Voluntary Tax-deferred Retirement Plans:

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

**COLLEGEINVEST
PREPAID TUITION FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006 AND 2005**

7. Postretirement Health Care and Life Insurance 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. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During Fiscal Year 2006, the premium subsidy was \$115.00 for those with 20 years of service credit (\$230.00 for members under age 65 and not eligible for Medicare), and it was reduced by 5 percent for each year of service fewer than 20.

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

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

Life Insurance Program

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

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

**COLLEGEINVEST
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JUNE 30, 2006 AND 2005**

8. Risk Management (continued):

Self Insurance (continued)

(formerly Colorado Compensation Insurance Authority), a related party, to administer its plan. The State reimburses Pinnacol Assurance for the current cost of claims paid and related administrative expenses.

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

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

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

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

Furniture and Equipment

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

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 \$2.3 million as of June 30, 2006, and restricted net assets of \$43,000 as of June 30, 2005. The deficiency is primarily due to the Fund adjusting its fixed income investments to fair market value at June 30, 2006. The Fund expects to hold its fixed income investments to maturity and therefore, does not anticipate realizing investment losses.

**COLLEGEINVEST
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JUNE 30, 2006 AND 2005**

9. Net Assets (continued):

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

10. Economic Dependency on Market Fluctuations:

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



**Clifton
Gunderson LLP**
Certified Public Accountants & Consultants

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

Members of the Legislative Audit Committee:

We have audited the basic financial statements of CollegeInvest Prepaid Tuition Fund as of and for the year ended June 30, 2006, and have issued our report thereon dated September 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CollegeInvest Prepaid Tuition Fund's basic 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*.

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

Clifton Anderson LLP

Greenwood Village, Colorado
September 8, 2006

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

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

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