

COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
Denver, Colorado

FINANCIAL STATEMENTS  
June 30, 2011 and 2010

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*Clifton Gunderson LLP*  
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**Members of the Legislative Audit Committee:**

This report contains the results of the financial audit of the College Savings Program Funds of CollegeInvest as of June 30, 2011. 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 Henderson LLP*

Greenwood Village, Colorado  
December 8, 2011

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**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
FINANCIAL AUDIT**  
June 30, 2011

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## **REPORT SUMMARY**

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### **COLLEGEINVEST COLLEGE SAVINGS PROGRAM FUNDS FINANCIAL AUDIT FISCAL YEAR ENDED JUNE 30, 2011**

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#### **Purpose and Scope**

The Office of the State Auditor, State of Colorado, engaged Clifton Gunderson LLP to conduct the financial audit of CollegeInvest College Savings Program Funds for the fiscal year ended June 30, 2011. Clifton Gunderson LLP performed this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The purpose and scope of our audit was to express an opinion on CollegeInvest's College Savings Program Funds' basic financial statements as of and for the fiscal year ended June 30, 2011.

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

We expressed an unqualified opinion on CollegeInvest's College Savings Program Funds' basic financial statements, as of and for the fiscal year ended June 30, 2011.

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

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

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

The audit report for the fiscal year ended June 30, 2010 contained one recommendation, which has been implemented. The Disposition of Prior Year Audit Recommendations begins on page 6.

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**DESCRIPTION OF THE  
COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
FINANCIAL AUDIT  
FISCAL YEAR ENDED JUNE 30, 2011**

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## **Organization**

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

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

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

## Scholars Choice Fund

The Scholars Choice Fund was established in October 1999. The Scholars Choice Fund had \$2.7 billion in net assets as of June 30, 2011. Officials at CollegeInvest oversee the Fund but contract with a private financial service firm, Legg Mason Global Asset Allocation, LLC (LMGAA), to manage the Fund.

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

- **Age-Based Option** – Contributions are invested in a series of up to seven portfolios over time. As the beneficiary gets older and closer to college age, the fund manager automatically moves investments from higher risk portfolios to lower risk portfolios.
- **Balanced 50/50 Option** – Contributions are invested in a portfolio with a median degree of risk, with 50% invested in stocks and 50% invested in bonds.
- **Years-to-Enrollment Option** – Contributions are invested in a series of up to five portfolios depending on the time to account for maturity, similar to the age-based option, but with a more limited, lower risk, range of portfolios.
- **All Equity Option** – Contributions are invested in equity mutual funds throughout the life of the account. This option carries the highest potential for risk and return through its focus on the equity markets.
- **All Fixed Income Option** – Contributions are invested in bond funds throughout the life of the account. This option seeks stable returns on fixed income investments.
- **Equity 80% Option** – Contributions are invested 80% in equity mutual funds while maintaining 20% in one portfolio with exposure to more stable returns of fixed income investments throughout the life of the account.
- **Fixed Income 80% Option** – Contributions are invested 80% in more stable returns of fixed income investments while maintaining 20% in one portfolio with exposure to the long-term capital appreciation potential of equity mutual funds.
- **Zero Coupon Bond Option** – Contributions are invested in U.S. Treasury Zero-Coupon Bonds with specific target maturity dates. The investment objective of this option is to provide investors who hold their units until the selected Zero-Coupon Bond Portfolio's maturity date with an investment experience that is comparable, before taking into account fees and expenses, to that of a direct investment in a zero-coupon U.S. Treasury bond with the same term to maturity.
- **Cash Reserve Option** – Contributions are invested in the Western Asset Money Market Fund. The investment objective of the Cash Reserve Option is to seek maximum current income and preservation of capital.

## **Direct Portfolio Fund**

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

The Direct Portfolio Fund had \$1.3 billion in net assets as of June 30, 2011. Officials at CollegeInvest oversee the Direct Portfolio Fund but contract with two private financial service firms, Upromise Investments, Inc. and The Vanguard Group, to manage the Fund.

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

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

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

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

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

### **Stable Value Plus Fund**

The Stable Value Plus Fund (Fund) began accepting contributions in February 2003. The Stable Value Plus Fund had \$39 million in net assets as of June 30, 2011. CollegeInvest is the trustee and the administrator of the Fund and MetLife is the manager of the Fund.

The Stable Value Plus Fund was designed to provide participants a fixed rate of return, determined on an annual basis, net of an administrative fee calculated on the average daily net assets of the Fund. The current annual rate of return is 3.55% and the current administrative fee is .65%. Therefore, the net rate of return is currently 2.9%. Investments in the Fund are guaranteed solely by MetLife.

### **Smart Choice Fund**

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

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

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**DISPOSITION OF PRIOR AUDIT RECOMMENDATION**

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**Fiscal Year 2010 Recommendation**

<b>Number</b>	<b>Recommendation</b>	<b>Disposition</b>
1	CollegeInvest should require FirstBank to reconcile detailed participant information to trial balances on a monthly basis to ensure that only true contributions and distributions are reported to CollegeInvest.	Implemented

## **Independent Auditor's Report**

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of each major fiduciary fund of CollegeInvest, (a division of the Department of Higher Education, State of Colorado) College Savings Program Funds, as of and for the years ending June 30, 2011 and 2010 which collectively comprise the basic financial statements of the CollegeInvest College Savings Program Funds, as listed in the table of contents. These financial statements are the responsibility of CollegeInvest College Savings Program Funds' management. Our responsibility is to express opinions on these financial statements based on our audits.

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

As discussed in Note 1 – Organization and Summary of Significant Accounting Policies, the financial statements of the CollegeInvest College Savings Program Funds are intended to present the financial position and results of operations for only that portion of the financial reporting entity, State of Colorado, that is attributable to the transactions of CollegeInvest College Savings Program Funds. They do not purport to, and do not present fairly, the financial position of the State of Colorado as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows, where applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of each major fiduciary fund of CollegeInvest College Savings Program Funds, as of June 30, 2011 and 2010, and the changes in net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2011 on our consideration of CollegeInvest College Savings Program Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 9 to 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it.

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

*Clifton Gunderson LLP*

Greenwood Village, Colorado  
December 8, 2011

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011 AND 2010**

This section of the College Savings Program Funds' (Funds) financial statements is a discussion and analysis of the financial performance of the Funds for the years ended June 30, 2011 and 2010 prepared by management. The Funds are Internal Revenue Code (IRC) Section 529 college savings plans administered by CollegeInvest. CollegeInvest, a division of the Department of Higher Education of the State of Colorado, administers the Funds, the Student Loan Program Funds and the Prepaid Tuition Fund. The Scholars Choice, Direct Portfolio, Stable Value Plus and Smart Choice Funds are plans within the Section 529 college savings program of CollegeInvest (Program). The Funds are presented as fiduciary funds (specifically, private purpose trust funds) in the State of Colorado Comprehensive Annual Financial Report. Management is responsible for the financial statements, footnotes, and this discussion. The management's discussion and analysis should be read in conjunction with the Funds' financial statements.

**Overview of the Financial Statements:**

This annual report contains two sections – management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include the Statement of Fiduciary Net Assets, the Statement of Changes in Fiduciary Net Assets, and the Footnotes.

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

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

**Analysis of Financial Activities:**

The Executive Director of the Department of Higher Education of the State of Colorado (Executive Director) and CollegeInvest's Board of Directors approve the annual budget and the investment policies of the Funds. The Scholars Choice Fund began operations and accepting participant contributions in October 1999. The Stable Value Plus Fund began accepting participant contributions in February 2003. The Direct Portfolio Fund began operations in October 2004. The Smart Choice Fund began operations and accepting contributions in October 2009.

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011 AND 2010**

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

***Scholars Choice Fund:***

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

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

***Direct Portfolio Fund:***

On October 22, 2004, CollegeInvest entered into an agreement with Upromise Investments, Inc. and The Vanguard Group, Inc. (Managers) to provide administrative and recordkeeping duties to the Direct Portfolio Fund (DPF). Effective December 1, 2009, this contract was amended to reduce the investment and services fees from an annual percentage rate of 0.65% to 0.42%. The amended contract expires on December 31, 2014.

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

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011 AND 2010**

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

***Stable Value Plus Fund:***

CollegeInvest administers the Stable Value Plus Fund. CollegeInvest entered into a funding agreement in January 2003 (MetLife Agreement) with MetLife Insurance Company of Connecticut (MetLife), a wholly-owned subsidiary of MetLife, Inc., to provide a guarantee on the principal and earnings of the Stable Value Plus Fund (SVP). The SVP offers an investment return based on an interest rate that is reset annually by MetLife each January 1. The agreement expires on January 1, 2012, with the option to extend two additional one year periods.

Under the MetLife Agreement, MetLife has agreed that the annual interest rate calculated each year will not be less than the greater of (i) the Colorado minimum nonforfeiture interest rate for annuity contracts (currently 3.00%), or (ii) 2.00%. The current minimum investment return on accounts in the SVP could be as low as 2.01%, which is the current minimum annual rate of 3.00% less the maximum CollegeInvest administrative fee of 0.99%. The rate, net of CollegeInvest's administrative fee, has been as follows:

<b>Date</b>	<b>Rate</b>
January 1 – December 31, 2009	3.35%
January 1 – August 31, 2010	3.0%
September 1 – December 31, 2010	3.1%
January 1 – June 30, 2011	2.9%

***Smart Choice Fund:***

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

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

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011 AND 2010**

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

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
	(dollar amounts expressed in thousands)		
Cash and investments	\$ <b>4,067,114</b>	\$ 3,302,129	\$ 2,797,000
Receivables and other	<b>11,661</b>	14,709	6,253
Total fiduciary assets	<b>4,078,775</b>	3,316,838	2,803,253
Total liabilities	<b>11,991</b>	15,104	7,522
Total fiduciary net assets, held in trust	<b>\$ <u>4,066,784</u></b>	<b>\$ <u>3,301,734</u></b>	<b>\$ <u>2,795,731</u></b>

Combined cash and investments of the Program increased by \$765.0 million, or 23.2%, from June 30, 2010 to June 30, 2011, due primarily to net contributions of \$170.0 million and investment and fee income of \$614.7 million which were offset by administrative expenses of \$20.0 million. Combined cash and investments of the Program increased by \$505.1 million, or 18.1%, from June 30, 2009 to June 30, 2010 primarily due to net contributions of \$146.6 million and investment and fee income, net of administrative expenses, of \$360.3 million.

Receivables consist primarily of receivables for fund shares sold, receivables for investments sold, dividends and interest receivable and due from Student Loan Program Funds. Receivables decreased by \$3.0 million in 2011 and increased by \$8.5 million in 2010. The fluctuation in both years is primarily due to the amount of receivables for fund shares sold and receivables for investments sold in the SCF. The year-to-year changes are a reflection of investment decisions made by the participants and the corresponding action taken by the plan manager to process the required transactions.

Liabilities consist of amounts payable for investments purchased, amounts payable for fund shares repurchased, service and investment fees payable, deferred revenue, and due to participants. Total liabilities decreased by \$3.1 million in 2011 and increased by \$7.6 million in 2010. The fluctuation in both years is primarily due to the amount of the payables for investments purchased and the amounts payable for fund shares repurchased in the SCF. The year-to-year changes are a reflection of investment decisions made by the participants and the corresponding action taken by the plan manager to process the required transactions. In the fiscal year ended June 30, 2011, \$1.3 million of the decrease is due to a reduction in CollegeInvest's administrative fee. For the period from September 1, 2010 to June 30, 2011, CollegeInvest reduced its administrative fees from 0.10% to zero for the SCF and DPF and from 0.75% to 0.65% for the SVP in order to reduce the reserve of fees collected greater than actual expenses.

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011 AND 2010**

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

*Condensed Statements of Changes in Fiduciary Net Assets for the Years Ended June 30:*

	<u>2011</u>	<u>2010</u>	<u>2009</u>
	(dollar amounts expressed in thousands)		
Net investment income	\$ <b>614,024</b>	\$ 379,987	\$ (503,240)
Participant contributions	<b>539,437</b>	481,648	444,289
Fee income	<b>684</b>	705	628
Total additions	<u><b>1,154,145</b></u>	<u>862,340</u>	<u>(58,323)</u>
Benefits paid to participants and withdrawals	<b>369,112</b>	335,039	326,708
Administrative, marketing and service fee expense	<b>21,274</b>	20,415	18,817
Total deductions	<u><b>390,386</b></u>	<u>355,454</u>	<u>345,525</u>
Net change in fiduciary net assets before transfers	<b>763,759</b>	506,886	(403,848)
Transfers and change in due to participants	<b>1,291</b>	(883)	(770)
Fiduciary net assets, beginning of year	<u><b>3,301,734</b></u>	<u>2,795,731</u>	<u>3,200,349</u>
Fiduciary net assets, end of year	<u><b>\$ 4,066,784</b></u>	<u>\$ 3,301,734</u>	<u>\$ 2,795,731</u>

Net investment income is comprised of dividends, interest income, and net realized and unrealized gains and losses from security transactions. Net realized and unrealized gains and losses on security transactions were \$533.3 million, \$297.8 million and \$(596.5) million for the years ended June 30, 2011, 2010, and 2009, respectively. Increases and decreases in net realized and unrealized gains and losses on security transactions reflect market conditions during each corresponding year. Interest and dividend income was \$82.4 million, \$83.9 million, and \$94.6 million, for the years ended June 30, 2011, 2010, and 2009, respectively. The decreases in interest and dividend income in 2010 and 2011 are primarily a reflection of overall economic conditions and the investment holdings during each year. The Program participant contributions, net of withdrawals, increased by \$23.7 million to \$170.3 million for the year ended June 30, 2011 and by \$29.0 million to \$146.6 million for the year ended June 30, 2010.

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011 AND 2010**

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
	(dollar amounts expressed in thousands)		
Participant contributions:			
Scholars Choice Fund	\$ <b>288,725</b>	\$ 270,775	\$ 269,565
Direct Portfolio Fund	<b>223,152</b>	191,547	161,478
Stable Value Plus Fund	<b>15,820</b>	15,247	13,246
Smart Choice Fund	<b>11,740</b>	4,079	-
Total participant contributions	<u><b>539,437</b></u>	<u>481,648</u>	<u>444,289</u>
Benefits paid to participants and withdrawals:			
Scholars Choice Fund	<b>254,494</b>	242,992	253,295
Direct Portfolio Fund	<b>97,518</b>	79,339	62,849
Stable Value Plus Fund	<b>11,776</b>	11,931	10,564
Smart Choice Fund	<b>5,324</b>	777	-
Total benefits paid to participants and withdrawals	<u><b>369,112</b></u>	<u>335,039</u>	<u>326,708</u>
Net participant contributions	<u><b>\$ 170,325</b></u>	<u>\$ 146,609</u>	<u>\$ 117,581</u>

Participant contributions were 14.6%, 15.8%, and 14.8% of average net assets for the years ended June 30, 2011, 2010, and 2009, respectively. Benefits paid to participants and withdrawals were 10.0%, 11.0%, and 10.9% of average net assets for the years ended June 30, 2011, 2010, and 2009, respectively.

Fee income is primarily comprised of funds received from Legg Mason and the Managers for marketing and promotion of the Funds. CollegeInvest received \$200,000 and \$478,000 in fee income from Legg Mason and the Managers, respectively, for the year ended June 30, 2011. CollegeInvest received \$298,000 and \$407,000 in fee income from Legg Mason and the Managers, respectively, for the year ended June 30, 2010.

Administrative and service fees are charged to participants as a percentage of net assets based on the investment option chosen. These charges were approximately 0.6%, 0.7% and 0.6% of average net assets for the years ended June 30, 2011, 2010 and 2009 respectively.

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011 AND 2010**

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

**Economic Factors:**

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

**Requests for Information:**

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

COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
STATEMENTS OF FIDUCIARY NET ASSETS  
JUNE 30, 2011 AND 2010  
(Dollar amounts expressed in thousands)

	2011					2010				
	Scholars Choice Fund	Direct Portfolio Fund	Stable Value Plus Fund	Smart Choice Fund	Total Private Purpose Trust Funds	Scholars Choice Fund	Direct Portfolio Fund	Stable Value Plus Fund	Smart Choice Fund	Total Private Purpose Trust Funds
<b>Fiduciary assets:</b>										
Cash and cash equivalents	\$ 6	\$ -	\$ 26	\$ 9,836	\$ 9,868	\$ 6	\$ -	\$ -	\$ 3,345	\$ 3,351
Investments, at fair value	2,693,910	1,324,638	38,698	-	4,057,246	2,251,795	1,013,163	33,820	-	3,298,778
Receivable for portfolio units sold and investments sold	5,645	-	-	-	5,645	7,725	-	-	-	7,725
Interest receivable	-	1,190	-	-	1,190	-	1,064	-	-	1,064
Due from plan managers	-	-	60	-	60	190	85	60	-	335
Due from (to) Student Loan Program Funds	4,262	556	(51)	(1)	4,766	5,131	508	(54)	-	5,585
<b>Total fiduciary assets</b>	<b>2,703,823</b>	<b>1,326,384</b>	<b>38,733</b>	<b>9,835</b>	<b>4,078,775</b>	<b>2,264,847</b>	<b>1,014,820</b>	<b>33,826</b>	<b>3,345</b>	<b>3,316,838</b>
<b>Liabilities:</b>										
Accounts payable	103	54	2	-	159	289	127	38	-	454
Payable for portfolio units repurchased and investments purchased	5,405	-	175	-	5,580	7,189	-	306	-	7,495
Service and investment fees payable	1,209	387	-	-	1,596	1,284	373	-	-	1,657
Deferred revenue	1,235	502	-	-	1,737	822	466	-	-	1,288
Due to participants	2,919	-	-	-	2,919	4,210	-	-	-	4,210
<b>Total liabilities</b>	<b>10,871</b>	<b>943</b>	<b>177</b>	<b>-</b>	<b>11,991</b>	<b>13,794</b>	<b>966</b>	<b>344</b>	<b>-</b>	<b>15,104</b>
<b>Total fiduciary net assets, held in trust</b>	<b>\$ 2,692,952</b>	<b>\$ 1,325,441</b>	<b>\$ 38,556</b>	<b>\$ 9,835</b>	<b>\$ 4,066,784</b>	<b>\$ 2,251,053</b>	<b>\$ 1,013,854</b>	<b>\$ 33,482</b>	<b>\$ 3,345</b>	<b>\$ 3,301,734</b>

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

COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010  
(Dollar amounts expressed in thousands)

	2011					2010				
	Scholars Choice Fund	Direct Portfolio Fund	Stable Value Plus Fund	Smart Choice Fund	Total Private Purpose Trust Funds	Scholars Choice Fund	Direct Portfolio Fund	Stable Value Plus Fund	Smart Choice Fund	Total Private Purpose Trust Funds
<b>Additions:</b>										
Gross earnings on investments:										
Interest and dividends	\$ 51,441	\$ 29,659	\$ 1,260	\$ 74	\$ 82,434	\$ 57,953	\$ 24,695	\$ 1,180	\$ 44	\$ 83,872
Net realized and unrealized gains (losses) from securities transactions	371,878	161,379	-	-	533,257	227,390	70,406	-	-	297,796
	423,319	191,038	1,260	74	615,691	285,343	95,101	1,180	44	381,668
Less investment fees	(943)	(724)	-	-	(1,667)	(1,002)	(679)	-	-	(1,681)
Net investment income (loss)	422,376	190,314	1,260	74	614,024	284,341	94,422	1,180	44	379,987
Participant contributions	288,725	223,152	15,820	11,740	539,437	270,775	191,547	15,247	4,079	481,648
Fee income	200	478	-	6	684	298	407	-	-	705
<b>Total additions (deductions)</b>	<b>711,301</b>	<b>413,944</b>	<b>17,080</b>	<b>11,820</b>	<b>1,154,145</b>	<b>555,414</b>	<b>286,376</b>	<b>16,427</b>	<b>4,123</b>	<b>862,340</b>
<b>Deductions:</b>										
Benefits paid to participants and withdrawals	254,494	97,518	11,776	5,324	369,112	242,992	79,339	11,931	777	335,039
Service fees	14,315	4,183	-	-	18,498	13,086	4,055	-	-	17,141
Administrative fees	393	178	230	6	807	2,238	958	255	1	3,452
Marketing expenses	200	478	-	-	678	298	407	-	-	705
Excess (reduced) operating expenses	545	665	52	29	1,291	(1,126)	100	(5)	148	(883)
<b>Total deductions</b>	<b>269,947</b>	<b>103,022</b>	<b>12,058</b>	<b>5,359</b>	<b>390,386</b>	<b>257,488</b>	<b>84,859</b>	<b>12,181</b>	<b>926</b>	<b>355,454</b>
<b>Net change in fiduciary net assets before transfers</b>	<b>441,354</b>	<b>310,922</b>	<b>5,022</b>	<b>6,461</b>	<b>763,759</b>	<b>297,926</b>	<b>201,517</b>	<b>4,246</b>	<b>3,197</b>	<b>506,886</b>
<b>Intraplan administrative fee transfers</b>	<b>(746)</b>	<b>665</b>	<b>52</b>	<b>29</b>	<b>-</b>	<b>(243)</b>	<b>100</b>	<b>(5)</b>	<b>148</b>	<b>-</b>
<b>Change in due to participants</b>	<b>1,291</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,291</b>	<b>(883)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(883)</b>
<b>Fiduciary net assets, beginning of year</b>	<b>2,251,053</b>	<b>1,013,854</b>	<b>33,482</b>	<b>3,345</b>	<b>3,301,734</b>	<b>1,954,253</b>	<b>812,237</b>	<b>29,241</b>	<b>-</b>	<b>2,795,731</b>
<b>Fiduciary net assets, end of year</b>	<b>\$ 2,692,952</b>	<b>\$ 1,325,441</b>	<b>\$ 38,556</b>	<b>\$ 9,835</b>	<b>\$ 4,066,784</b>	<b>\$ 2,251,053</b>	<b>\$ 1,013,854</b>	<b>\$ 33,482</b>	<b>\$ 3,345</b>	<b>\$ 3,301,734</b>

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

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

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

Pursuant to Colorado Revised Statutes 23-3.1-2 01, et seq., and 23-3.1-3 01, et seq., as amended, CollegeInvest is a division of the Colorado Department of Higher Education (Department) of the State of Colorado. The Executive Director of the Department has responsibility for oversight and management of CollegeInvest. In addition, CollegeInvest has a nine-person Advisory Board of Directors (Board) designated by the Governor with the consent of the State Senate to serve four-year terms.

The Colorado General Assembly established a Section 529 college savings program (Program). The Program includes the Scholars Choice Fund (SCF), Direct Portfolio Fund (DPF), Stable Value Plus Fund (SVP), and Smart Choice Fund (SCCS) (Funds), all of which are administered by CollegeInvest. CollegeInvest also administers a Section 529 post secondary education expense program (Prepaid Tuition Fund) and the Student Loan Program Funds, which consists of the Borrower Benefit Fund, the Bond Funds, the CollegeInvest Early Achievers Scholarship Fund the Nursing Loan Forgiveness Fund, the Financial Need Scholarship Fund, and the Job Retraining Fund. The operations of the Funds are accounted for under accounting principles generally accepted in the United States of America as a private-purpose trust. CollegeInvest receives no grants from, and is not otherwise financially assisted by, the State or any local government of the State. CollegeInvest is an enterprise activity under Section 20, Article X of the Colorado Constitution.

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

**Reporting Entity:**

The Program was authorized in the 1999 legislative session and as a result, the Funds were established to provide families with additional opportunities to save for future college educational expenses. The Funds account for the operations and activities of the Section 529 savings program as private-purpose trusts, where both principal and earnings on principal may be spent for the trust's intended purpose. Participant contributions and the earnings thereon are invested to assist in meeting the obligations for future higher education expenses of a named student. The payment of general and administrative expenses and other activities of the Funds

**COLLEGEINVEST**  
**COLLEGE SAVINGS PROGRAM FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2011 AND 2010**

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

**Reporting Entity (continued):**

necessary to fulfill their purposes are recorded within the Funds. There are no other funds of CollegeInvest combined in the accompanying financial statements. Thus, the accompanying statements are not intended to present the financial position, results of operations, or cash flows of CollegeInvest as a whole in conformity with accounting principles generally accepted in the United States of America.

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

***Scholars Choice Fund***

The Scholars Choice Fund (SCF) began operations in October 1999. SCF offers nine investment options in which participants may invest. Each investment option is comprised of one or more of the thirteen active portfolios as of June 30, 2011. The accompanying financial statements report on the combined portfolios.

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

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

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011 AND 2010**

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

**Reporting Entity (continued):**

*Scholars Choice Fund (continued)*

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

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

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

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

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

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

**COLLEGEINVEST**  
**COLLEGE SAVINGS PROGRAM FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2011 AND 2010**

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

**Reporting Entity (continued):**

*Scholars Choice Fund (continued)*

- Equity 80% Option: Contributions are invested 80% in equity mutual funds and 20% in fixed income investments (Portfolio #1). The investment objective of this option is to seek long-term capital appreciation through investments in equity mutual funds while maintaining 20% exposure to the relatively more stable returns of fixed income investments through investment in fixed income mutual funds.
- Fixed Income 80% Option: Contributions are invested 80% in fixed income and money market fund investments and 20% in equity mutual funds (Portfolio #6). The investment objective of this option is to seek the relatively more stable returns of a fixed income investment through investments in fixed income mutual funds while maintaining 20% exposure to the long-term capital appreciation potential of investments in equity mutual funds.
- Zero Coupon Bond Option: Contributions are invested in U.S. Treasury zero-coupon bonds with specific target maturity dates (Zero-Coupon Bond Portfolios). The investment objective of this option is to provide investors who hold their units until the selected Zero-Coupon Bond Portfolio's maturity date with an investment experience that is comparable, before taking into account fees and expenses, to that of a direct investment in a zero-coupon U.S. Treasury bond with the same term to maturity.
- Cash Reserve Option: Contributions are invested in the Western Asset Institutional Liquid Reserves. The investment objective of the Cash Reserve Option is to seek maximum current income and preservation of capital.

*Direct Portfolio Fund*

The Direct Portfolio Fund (DPF) began operations in October 2004. DPF offers eleven investment options, including three age-based options and eight blended and individual portfolios, in which participants may invest. Each investment option is comprised of one or more of eight active portfolios within DPF as of June 30, 2011.

As the trustee for DPF, CollegeInvest entered into an agreement (DPF Service Agreement) with Upromise Investments, Inc. and The Vanguard Group, Inc. (Managers) to manage the DPF. This contract expires on December 31, 2014. The investment return for DPF is based on the market performance of investments. Investment options are selected by CollegeInvest based on recommendations from the Managers.

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011 AND 2010**

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

**Reporting Entity (continued):**

*Direct Portfolio Fund (continued)*

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

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

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

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

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011 AND 2010**

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

**Reporting Entity (continued):**

*Direct Portfolio Fund (continued)*

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

Within the Individual Portfolios participants may invest as follows:

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

*Stable Value Plus Fund*

The Stable Value Plus Fund (SVP) began operations in February 2003. In January 2003, CollegeInvest entered into an agreement with MetLife (the MetLife Agreement) to provide a net rate of return to investors. Under the MetLife Agreement, the rate of return is reset annually each January 1. The MetLife Agreement expires on January 1, 2012, with the option to extend two additional one year periods. MetLife has agreed that the annual interest rate calculated each year

**COLLEGEINVEST**  
**COLLEGE SAVINGS PROGRAM FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2011 AND 2010**

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

**Reporting Entity (continued):**

*Stable Value Plus Fund (continued)*

will not be less than the greater of (i) the Colorado minimum nonforfeiture interest rate for annuity contracts (currently 3.00%), or (ii) 2.00%. The current minimum investment return on accounts in the fund could be as low as 2.35%, which is the current minimum annual rate of 3.00% less the CollegeInvest administrative fee of .65%.

MetLife agreed to pay an annual net rate of 4.10% from July 1 through December 31, 2009, 3.75% from January 1 to December 31, 2010, and 3.55% from January 1 to June 30, 2011. The rate, net of CollegeInvest's administrative fee, was 3.35% from July 1 through December 31, 2009, 3.00% from January 1 through August 31, 2010, 3.10% from September 1 through December 31, 2010, and 2.9% from January 1 through June 30, 2011.

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

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

*Smart Choice Fund*

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

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011 AND 2010**

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

**Reporting Entity (continued):**

*Smart Choice Fund (continued)*

are a One-Year Time Savings option and a Money Market Savings option. The agreement expires September 30, 2019, with an option to extend for up to two additional 2-year periods.

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

**Basis of Accounting:**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and standards of the Governmental Accounting Standards Board (GASB). The accrual basis of accounting is utilized by the Funds. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period they are incurred.

**Cash and Cash Equivalents:**

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

**Investments and Revenue Recognition:**

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

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

**COLLEGEINVEST**  
**COLLEGE SAVINGS PROGRAM FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2011 AND 2010**

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

**Investments and Revenue Recognition (continued):**

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

Security transactions for the SCF and the DPF are accounted for on a trade-date basis. This may result in receivables and payables for transactions at year end. Investments in the Underlying Funds are valued at the closing net asset value per share of each Underlying Fund on the day of valuation.

Income distributions and short-term capital gain distributions from the Underlying Funds are recorded on the ex-dividend date as investment income and interest income is recorded on an accrual basis. Long-term capital gains, if any, from the Underlying Funds are recorded on the ex-dividend date as realized gains. Gains or losses on the sale of the Underlying Funds are calculated by using the specific identification method.

Investments are carried at fair value, which is primarily determined based on market prices at June 30, 2011 and 2010.

**Participant Contributions:**

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

**Withdrawals:**

A qualified withdrawal is a withdrawal made to pay qualified higher education expenses of the beneficiary. The earnings on qualified withdrawals are not subject to Federal income tax. All withdrawals other than for this purpose are considered non-qualified withdrawals. Non-qualified withdrawals are subject to Federal income tax plus a 10% penalty on earnings per Section 529 of the Internal Revenue Code. A non-qualified withdrawal is not subject to the 10% penalty only if the withdrawal is: (i) made on account of the death or disability of the beneficiary; (ii) made on account of a scholarship received by the beneficiary, to the extent that the withdrawal does not exceed the amount of the scholarship; or (iii) a non-taxable transfer to another account or to another Section 529 plan on behalf of a beneficiary or for a different beneficiary who is a

**COLLEGEINVEST**  
**COLLEGE SAVINGS PROGRAM FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2011 AND 2010**

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

**Withdrawals (continued):**

family member of the original student. A non-qualified withdrawal may also be subject to recapture in the event a deduction has been taken from Colorado taxable income.

**Investment, Service and Administrative Fees:**

***Scholars Choice Fund***

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

This rate will vary with the Unit Class the account owner chooses. During the years ended June 30, 2011 and 2010, the investment fees paid by SCF were \$0.9 million and \$1.0 million, respectively, under the SCF Service Agreement. In addition, according to the SCF Service Agreement, each participant bears certain ongoing service fees that will vary with the Unit Classes the participant chooses. These direct service fees provide for the costs associated with distribution, servicing, and administration of the Unit Classes. Such direct service fees reduce the value of the participant's account as incurred. Such fees are payable to LMGAA monthly, solely from the assets of SCF. SCF paid service fees of \$14.3 million and \$13.1 million for the years ended June 30, 2011 and 2010, respectively.

The SCF Service Agreement states that CollegeInvest will receive an administrative fee at an annual rate of up to 0.10% of average daily net assets. These fees represent charges to SCF for actual administrative costs of CollegeInvest. Such fees are payable to CollegeInvest monthly, solely from the assets of the SCF. For the period from September 1, 2010 to June 30, 2011, CollegeInvest waived this administrative fee. SCF paid administrative fees of \$393,000 and \$2.2 million for the years ended June 30, 2011 and 2010, respectively.

***Direct Portfolio Fund***

CollegeInvest entered into a service agreement (DPF Service Agreement) with the Managers, pursuant to which the Managers are responsible for providing administrative, record keeping,

**COLLEGEINVEST**  
**COLLEGE SAVINGS PROGRAM FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2011 AND 2010**

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

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

*Direct Portfolio Fund (continued):*

marketing, and investment management services to the DPF. As of December 1, 2009, the DPF Service Agreement reduced the investment and services fees from an annual percentage rate of .65% to .42% of average daily net assets. During the year ended June 30, 2011, DPF paid investment fees of \$724,000 and service fees of \$4.2 million. During the year ended June 30, 2010, DPF paid investment fees of \$679,000 and service fees of \$4.1 million. Such direct investment and service fees reduce the value of the participant's account as incurred. Such fees are payable to the Managers monthly, solely from the assets of DPF.

Under the DPF Service Agreement, CollegeInvest receives an administrative fee at an annual rate of up to 0.10% of average daily net assets. These fees represent charges to DPF for actual administrative costs of CollegeInvest. Such fees are payable to CollegeInvest monthly, solely from the assets of DPF. For the period from September 1, 2010 to June 30, 2011, CollegeInvest waived this administrative fee. DPF paid administrative fees of \$178,000 and \$958,000 for the years ended June 30, 2011 and 2010, respectively.

*Stable Value Plus Fund*

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

The MetLife Agreement states that CollegeInvest will receive an administrative fee at an annual rate of up to 0.99% of the average daily net assets of the Fund. Such fees are payable to CollegeInvest solely from Account owners and cannot exceed actual expenses of administering the Fund as defined by Statute. For the period from July 1, 2009 through August 31, 2010, the fee was 0.75% and from September 1, 2010 through June 30, 2011, the fee was 0.65%. SVP paid administrative fees on behalf of its participants of \$230,000 and \$255,000 for the years ended June 30, 2011 and 2010, respectively.

*Smart Choice Fund*

All monies received as contributions to the accounts under the service agreement (SCCS Service Agreement) between CollegeInvest and FirstBank shall be deposited by FirstBank into the Trust Account and invested according to the respective Investment Option or Options, as directed by the account Owner. The SCCS Service Agreement requires FirstBank to repay the amounts

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011 AND 2010**

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

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

*Smart Choice Fund (continued):*

deposited along with any interest earned on their deposit. The interest rate will be calculated, and may be adjusted if needed, every Wednesday and on the first day of each month and is net of all administrative and other charges of FirstBank.

Under the SCCS Service Agreement, CollegeInvest receives an administrative fee at an annual rate of up to 0.10% of average daily net assets. These fees represent charges to SCCS for actual administrative costs of CollegeInvest. Such fees are payable to CollegeInvest monthly, solely from the assets of SCCS. SCCS paid administrative fees on behalf of its participants of \$6,000 and \$1,000 for the years ended June 30, 2011 and 2010, respectively.

**Fee Limitation:**

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

As of June 30, 2011 and 2010, \$2.9 million and \$4.2 million were accumulated in reserve from participant fees that were greater than actual expenses. The reserve is restricted for future expenses of CollegeInvest in its capacity as administrator of the Program.

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

**Cash and Cash Equivalents:**

As contributions are received from participants, the cash is held in the respective Fund until such time as it may be invested in the underlying funds of the chosen investment portfolios. With respect to the SCF and DPF, depending upon the timing of the cash receipts, there could be up to two days delay between actual receipt of cash and the investment made on behalf of the participant. Cash and cash equivalents are held in trust by the Funds' Managers as of June 30, 2011 and 2010. With respect to SVP, contributions will be invested with MetLife within 30 days of receipt by CollegeInvest. Interest earned on contributions prior to investment with MetLife will accrue to CollegeInvest and will be used to offset administrative expenses. SVP had deposits that were not yet transferred to MetLife of \$175,000 and \$306,000 as of June 30, 2011 and 2010, respectively.

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011 AND 2010**

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

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

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

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

	<u>2011</u>		<u>2010</u>
(dollar amounts expressed in thousands)			
Demand deposit accounts	\$ 26	\$	-
Money market accounts	9,842		3,351
Total cash deposits	<u>9,868</u>	<u>\$</u>	<u>3,351</u>

**Custodial Credit Risk - Cash Deposits**

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, CollegeInvest will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Monies in the SVP demand deposit accounts are insured by federal depository insurance for the first \$250,000. Deposits in excess of the \$250,000 limit are collateralized subject to the provisions of the State's Public Deposit Protection Act (PDPA) for monies held within the State. Monies held in the SCF and DPF are uncollateralized. Individual accounts in the SCCS that are greater than \$250,000 are uncollateralized.

**Investments:**

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

	<u>2011</u>		<u>2010</u>
(dollar amounts expressed in thousands)			
Scholars Choice Fund	\$ 2,693,910	\$	2,251,795
Direct Portfolio Fund	1,324,638		1,013,163
Stable Value Plus Fund	38,698		33,820
Total investments	<u>4,057,246</u>	<u>\$</u>	<u>3,298,778</u>

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011 AND 2010**

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

**Investment Authority and Policy:**

*Scholars Choice Fund and Direct Portfolio Fund*

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer [A]
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Certificates of Deposit	12 months	[B]	[B]
Commercial Paper	9 months	None	None
General or Revenue Obligations	None	None	None
Repurchase Agreements [C]	None	None	None
Investment Agreements	None	None	None
Banker's Acceptances	None	None	None
Domestic Equity Securities	N/A	[D]	[D]
Foreign Equity Securities	N/A	[E]	[E]
Money Market Funds	N/A	None	None
Demand Deposits	N/A	None	None

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011 AND 2010**

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

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

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

- [A] No more than 10% of the total amount of the fixed-income portion shall be committed to the securities of any one issuer at the time of purchase, with the exception of securities issued or guaranteed by the full faith and credit of the United States or AAA rated securities issued by governmental agencies as to which there is no limit.
- [B] No more than 5% of the assets of the short-term investment account shall be committed to certificates of deposit from one institution.
- [C] Repurchase agreements must be secured by U.S. Treasury Obligations or U.S. Agency Securities.
- [D] No more than 5% of the total amount of the underlying portfolio in the securities of any one issuer; no more than 5% of the outstanding shares of any single corporation; and no more than 25% of the total amount of the underlying portfolio in any one industry.
- [E] No more than 5% of the total amount of the underlying portfolio in the securities of any one issuer; no more than 5% of the outstanding shares of any single corporation; investment in any one country shall be no more than a) 25% of the total amount of the underlying portfolio or, b) the country weight in the EAFE benchmark plus 10% and a minimum of eight countries should be represented in the underlying portfolio.

*Stable Value Plus Fund*

The Board approves the investment policy for the SVP. Generally, investments include any funding agreement, guaranteed interest contract, guaranteed investment contract, annuity contract, repurchase agreement, or other similar investments which are issued by an insurance company or other investment provider with financial strength ratings in any one of the three highest rating categories by two or more nationally recognized rating agencies which regularly rate the ability of such investment providers to pay claims. The SVP may terminate any agreement with an existing investment provider should two or more of the nationally recognized rating agencies reduce their rating of the provider to a category that is below the lowest "A" rating. As of June 30, 2011 and 2010, the MetLife Insurance Company of Connecticut's rating met the requirements of the investment policy.

*Smart Choice Fund*

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

**COLLEGEINVEST**  
**COLLEGE SAVINGS PROGRAM FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2011 AND 2010**

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

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

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

	<u>2011</u>	<u>2010</u>
	(dollar amounts expressed in thousands)	
Western Asset Core Plus Bond Portfolio	\$ 616,136	\$ 533,632
Vanguard Institutional Total Stock Market Index Fund	609,212	432,332
Vanguard Total Bond Market II Index Fund	428,227	345,777
Legg Mason Batterymarch U.S. Large Cap Equity Trust	354,092	301,533
Legg Mason Western Asset Short-Term Bond Fund	293,424	258,442
Thornburg International Value Fund (b)	261,567	-
Western Asset Institutional Liquid Reserve	260,069	-
Legg Mason ClearBridge Appreciation Fund	209,149	181,763
Legg Mason Capital Management Value Trust, Inc.	203,513	177,749
Legg Mason ClearBridge Aggressive Growth Fund	141,697	122,029
Legg Mason BW Diversified Large Cap Value Fund (b)	138,407	-
Vanguard Total International Stock Index Fund	126,042	92,857
Vanguard Prime Money Market Fund	93,886	83,366
Legg Mason Western Asset Global High Yield Bond Fund	81,412	61,722
Legg Mason ClearBridge Small Cap Growth Fund	66,811	72,188
Royce Pennsylvania Mutual Fund	64,357	71,709
Investment Agreement – MetLife	38,698	33,511
Vanguard Inflation-Protected Securities Fund	39,244	32,486
Vanguard Institutional Total Bond Market Index Fund	27,835	25,807
U.S. Treasury Strip Coupon, 0% due 05/15/25	1,250	459
U.S. Treasury Strip Coupon, 0% due 05/15/15	1,111	237
Legg Mason Repurchase Agreement	742	2,265
U.S. Treasury Strip Coupon, 0% due 05/15/20	173	97
Vanguard Cash Management Trust	192	538
Western Asset Money Market Fund	-	202,600
Legg Mason Batterymarch International Equity Trust	-	146,616
John Hancock Classic Value Fund	-	118,754
JP Morgan Prime Money Market Fund	-	309
	<u>\$ 4,057,246</u>	<u>\$ 3,298,778</u>

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011 AND 2010**

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

**Interest Rate Risk:**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. CollegeInvest provides participants investment opportunities in various portfolios that are constructed from a range of mutual funds that it has selected. CollegeInvest does not actively manage interest rate risk except through its mutual fund selection process. LMGAA and the Managers of the Funds report interest rate risk evaluation of the fixed income mutual funds in the various portfolios based on the duration and weighted average maturity methods.

	<b>2011</b>		<b>2010</b>
	<b>Duration</b>	<b>Weighted Average Maturity</b>	<b>Duration</b>
			<b>Weighted Average Maturity</b>
Western Asset Core Plus Bond Portfolio	<b>4.8 years</b>		4.5 years
Vanguard Total Bond Market II Index Fund	<b>5.2 years</b>		4.4 years
Legg Mason Western Asset Short-Term Bond Fund	<b>1.7 years</b>		1.9 years
Western Asset Institutional Liquid Reserves		<b>57 days</b>	N/A
Legg Mason Western Asset Global High Yield Bond	<b>4.4 years</b>		4.0 years
Vanguard Inflation-Protected Securities Fund	<b>8.1 years</b>		3.9 years
Vanguard Institutional Total Bond Market Index Fund	<b>5.2 years</b>		4.4 years
U.S. Treasury Strip Coupon, 0% due 05/15/15	<b>3.8 years</b>		4.9 years
U.S. Treasury Strip Coupon, 0% due 05/15/25	<b>13.8 years</b>		14.9 years
U.S. Treasury Strip Coupon, 0% due 05/15/20	<b>8.8 years</b>		9.9 years

**Credit Risk:**

Generally, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investment options in SCF and DPF attempt to diversify risk by offering multiple portfolio options with a range of credit risk characteristics. Investments of the underlying portfolios shall be selected and managed in accordance with the standards set forth in Section 15-1-304, C.R.S. That is, (a) with the care which men of prudence, discretion and intelligence exercise in the management of the property of another, not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income as well as the probable safety of capital, and (b) for the sole benefit of the beneficiary. Investment decisions shall be made in accordance with the prudent investor rule set forth in Section 15-1.1-102, C.R.S. Consistent with the above, the Committee

**COLLEGEINVEST**  
**COLLEGE SAVINGS PROGRAM FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2011 AND 2010**

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

**Credit Risk (continued):**

will determine, from time to time, suitable investment parameters for the SCF and DPF which seeks to control risk through portfolio diversification. Additionally, CollegeInvest's investment policy states that all mutual fund assets are subject to the provisions of the Investment Company Act of 1940. As of June 30, 2011 and 2010, investments in the SCF, DPF and SCCS portfolios and the Funding Agreement were unrated. The zero coupon treasury strips are explicitly guaranteed by the U.S. Government and are not subject to credit risk disclosures.

**Units:**

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

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

**3. State of Wyoming Agreement**

CollegeInvest entered into an Intergovernmental Agreement for marketing services with the State of Wyoming and the Wyoming Family College Savings Program Trust (Wyoming Trust) on June 14, 2006 to market and promote sales and interest in the CollegeInvest 529 Plans to State of Wyoming residents. Under the agreement, The Wyoming Trust reimbursed CollegeInvest \$20,000 for start-up expenses and up to \$40,000 annually for marketing expenses. The agreement expired on September 4, 2011 and was not extended.

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011 AND 2010**

**4. Retirement Plans:**

**Plan Description:**

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

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

Based on changes in the 2010 legislative session slightly different plan requirements were in effect until December 31, 2010. The following requirements were effective at June 30, 2011.

Plan members (except State troopers) are eligible to receive a monthly retirement benefit when they meet age and service requirements 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.

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011 AND 2010**

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

**Plan Description (continued):**

- Hired between January 1, 2007 and December 31, 2010 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service. For employees hired before January 1, 2007, age and service requirements increase to those required for members hired between January 1, 2007 and December 31, 2010 if the member has less than five years of service credit as of January 1, 2011.
- Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, or age 65 with 5 years of service.
- Hired on or after January 1, 2017 – any age with 35 years of service, age 60 with 30 years of service, or age 65 with 5 years of service.

Members with five years of service credit at January 1, 2011, are also eligible for retirement benefits without a reduction for early retirement based on the original hire date, as follows:

- Hired before January 1, 2007 – age 55 and age plus years of service equals 80 or more.
- Hired between January 1, 2007 and December 31, 2010 – age 55 and age plus years of service equals 85 or more. For members hired before January 1, 2007, age plus years of service increase to 85 for members with less than five years of service credit as of January 1, 2011.
- Hired between January 1, 2011 and December 31, 2016 – age 58 and age plus years of service equals 88 or more.
- Hired on or after January 1, 2017 – age 60 and age plus years of service equals 90.

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

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 if the salaries used were from the last three years of employment. For retirements after January 1, 2009, four periods are used and are ranked from lowest to highest with the maximum increase between years limited to 15 percent. For members hired on or after January 1, 2007, the maximum increase between ranked periods is 8 percent. Notwithstanding any other provisions, members first eligible for retirement after January 2, 2011 have a maximum increased between periods of 8 percent.

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
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JUNE 30, 2011 AND 2010**

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

**Plan Description (continued):**

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

- Hired before July 1, 2007 – the lesser of 2 percent or the average of the monthly Consumer Price Index increases.
- Hired on or after January 1, 2007 – the lesser of 2 percent or the actual increase in the national Consumer Price Index, limited to a 10 percent reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)
- The upper limits on benefits increase by one-quarter percentage point each year when the funded ratio of PERA equals or exceeds 103 percent and declines by one-quarter percentage point when the funded ratio drops below 90 percent after having exceeded 103 percent. The funded ratio increase does not apply for three years when a negative return on investment occurs.

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

**Funding Policy:**

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

Most employees contribute 8.0 percent (10.0 percent for State troopers) of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. Effective July 1, 2010 Senate Bill 10-146 requires members in the State and Judicial Divisions to pay 2.5 percent additional member contributions through June 30, 2011. Employer contributions for members in these two divisions will be reduced by 2.5 percent. Senate Bill 11-076 continued these contribution rates through June 30, 2012.

From July 1, 2010, to December 31, 2010, the State contributed 11.35 percent (14.05 percent for State troopers and 14.86 percent for the Judicial Branch) of the employee's salary. From January 1, 2011, through June 30, 2011, the State contributed 12.25 percent (14.95 percent for State

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011 AND 2010**

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

**Funding Policy (continued):**

troopers and 14.86 percent for the Judicial Branch). During all of Fiscal Year 2010-11, 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, 2010, the division of PERA in which the State participates has a funded ratio of 62.8 percent and a 47 year amortization period based on current contribution rates. The funded ratio on the market value of assets is lower at 61.3 percent.

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.

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 0.4 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. Both the AED and SAED will be reduced by one-half percent point when funding levels reach 103 percent, and both will be increased by one-half percent point when the funding level subsequently falls below 90 percent. Neither the AED or 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 Funds' contributions to the PERA defined benefit plan and/or the defined contribution plan for the fiscal years ending June 30, 2011, 2010, and 2009 were \$100,000, \$102,000, and \$79,000, respectively. These contributions met the contribution requirement for each year.

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011 AND 2010**

**5. Other Retirement Plans:**

**Defined Contribution Plan:**

The PERA Defined Contribution Retirement Plan was established January 1, 2006, as an alternative to the defined benefit plan. All employees, with the exception of certain higher education employees, have the option of participating in the plan. New member contributions to the plan vest from 50 percent to 100 percent evenly over 5 years. Participants in the plan are required to contribute 8 percent (10 percent for state troopers) of their salary. For Fiscal Years 2009-10 and 2010-11 the legislature temporarily increased the required contribution rate to 10.5 percent (12.5 percent for State Troopers). At December 31, 2010, the plan had 3,479 participants.

**Deferred Compensation Plan:**

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2010, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution with a temporarily increase to 10.5 percent for Fiscal Years 2010-11 and 2011-12) to a maximum of \$16,500. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional \$5,500 contribution in 2010, for total contributions of \$22,000. Contributions and earnings are tax deferred. At December 31, 2010, the plan had 18,215 participants.

PERA also offers a voluntary 401k plan entirely separate from the defined benefit pension plan, the deferred compensation plan, and the defined contribution plan. Certain agencies and institutions of the State offered 403(b) or 401(a) plans.

**6. Other Postemployment Benefits:**

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

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011 AND 2010**

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

eligibility, and the number of persons covered. Effective July 1, 2000, the maximum monthly subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; and \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5 percent for each year less than 20 years.

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed above in Note 5. Beginning July 1, 2004, State agencies/institutions are required to contribute 1.02 percent of gross covered wages to the Health Care Trust Fund. The Funds contributed \$8,000, \$9,000, and \$7,000 as required by statute in Fiscal Years 2010-11, 2009-10, and 2008-09, respectively. In each year the amount contributed was 100 percent of the required contribution.

The Health Care Trust Fund offers two general types of plans: fully-insured plans offered through health care organizations and self-insured plans administered for PERA by third party vendors. As of December 31, 2010, there were 48,455 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2010, the Health Care Trust Fund had an unfunded actuarial accrued liability of \$1.35 billion, a funded ratio of 17.5 percent, and a 42-year amortization period. The actuarial valuation was based on the entry age cost method, an 8 percent investment rate of return, a 4.5 percent projection of salary increases (assuming a 0.75 percent inflation rate), a 3.5 percent annual medical claims increase, no post-retirement benefit increases, and a level dollar amortization on an open basis over 30 years.

**7. Risk Management:**

Self Insurance

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

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

**COLLEGEINVEST  
COLLEGE SAVINGS PROGRAM FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011 AND 2010**

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

**Self Insurance (continued):**

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

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

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

**8. Net Assets:**

All of the Funds' fiduciary net assets of \$4.1 billion and \$3.3 billion as of June 30, 2011 and 2010, respectively, are net assets held in trust on behalf of investors in the Funds.

**COLLEGEINVEST**  
**COLLEGE SAVINGS PROGRAM FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2011 AND 2010**

**9. Intraplan Administrative Fee Transfers:**

CollegeInvest receives an administration fee at an annual rate of up to 0.99% of the average daily net assets of SVP, and up to 0.10% of the average daily net assets of SCF, DPF and SCCS. These fees are deducted monthly from each Fund and are used by CollegeInvest for the payment of administrative expenses incurred by CollegeInvest in connection with the operation of the Program in accordance with and as permitted by applicable law. From July 1, 2009 through August 31, 2010, the fee was 0.75% of the average daily net assets of SVP. Effective September 1, 2010, CollegeInvest reduced the SVP fee to 0.65% of the average daily net assets of SVP and reduced the SCF and DPF fee to zero for a period of one year. SCF transferred \$665,000 and \$100,000 to DPF for the payment of expenses in excess of fees collected during fiscal years ending June 30, 2011 and 2010, respectively. Additionally, SCF transferred \$29,000 and \$148,000 to SCCS for the payment of expenses in excess of fees collected during the fiscal years ending June 30, 2011 and 2010. SCF transferred \$52,000 to SVP for the payment of expenses in excess of fees collected during the fiscal year ending June 30, 2011 and SVP collected \$5,000 more than the expenses that were paid out in the fiscal year ending June 30, 2010 and this amount was transferred to SCF.

**10. Capital Markets:**

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

**11. Subsequent Events:**

The SCF and DPF Service Agreements state that CollegeInvest will receive an administrative fee at an annual rate of up to 0.10% of average daily net assets. CollegeInvest reduced its administrative fee from 0.10% to zero for the period from September 1, 2010 through August 31, 2011. CollegeInvest reinstated its administrative fee for the SCF and DPF effective September 1, 2011 at 0.06%.

The MetLife Agreement states that CollegeInvest will receive an administrative fee at an annual rate of up to 0.99% of the average daily net assets of SVP. For the period from July 1, 2009 through August 31, 2010, the administrative fee was 0.75% of the average daily net assets of SVP.

For the period from September 1, 2010 through August 31, 2011, the administrative fee was 0.65% of the average daily net assets of SVP. Effective September 1, 2011 the administrative fee will be 0.71% of the average daily net assets of SVP.

This information is an integral part of the accompanying 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 financial statements of each major fiduciary fund of CollegeInvest, (a division of the Department of Higher Education, State of Colorado) College Savings Program Funds as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated December 8, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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 preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

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

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

*Clifton Henderson LLP*

Greenwood Village, Colorado  
December 9, 2011

## **Required Communications to the Legislative Audit Committee**

December 9, 2011

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 College Savings Program Funds for the year ended June 30, 2011.

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 College Savings Program Funds' 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 College Savings Program Funds' 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 College Savings Program Funds 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. There were no significant accounting estimates of financial data which would be particularly sensitive and require substantial judgments by management.

### *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 College Savings Program Funds' 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.

SUPPLEMENTARY INFORMATION

**CollegeInvest**  
**Scholars Choice Fund**  
**Supplementary Schedule - Combining Schedule of Fiduciary Net Assets**  
**June 30, 2011**  
(Dollar amounts expressed in thousands)

	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	Portfolio 5	Portfolio 6	Portfolio 7	Fixed Income	Equity	U.S. Treasury Strip Coupon due 2015	U.S. Treasury Strip Coupon due 2020	U.S. Treasury Strip Coupon due 2025	Cash Reserve	Total
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6
Investments, at fair value	229,180	159,797	300,299	575,902	340,747	342,293	164,914	43,774	474,874	1,250	174	1,111	59,595	2,693,910
Receivable for portfolio units sold and investments sold	225	140	879	1,123	713	981	535	46	855	-	-	-	148	5,645
Due from plan managers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due from Student Loan Program Funds	363	253	475	910	539	542	261	150	671	2	-	2	94	4,262
Total fiduciary assets	<u>229,768</u>	<u>160,190</u>	<u>301,653</u>	<u>577,941</u>	<u>341,999</u>	<u>343,816</u>	<u>165,710</u>	<u>43,970</u>	<u>476,400</u>	<u>1,252</u>	<u>174</u>	<u>1,113</u>	<u>59,837</u>	<u>2,703,823</u>
Accounts payable	9	6	12	22	13	13	6	4	16	-	-	-	2	103
Payable for portfolio units repurchased and investments purchased	206	137	832	1,072	693	890	531	46	850	-	-	-	148	5,405
Service and investment fees payable	99	68	136	261	158	165	84	21	209	1	-	1	6	1,209
Deferred revenue	105	73	138	264	156	157	76	43	194	1	-	1	27	1,235
Due to participants	248	173	325	625	369	371	179	103	459	1	-	1	65	2,919
Total liabilities	<u>667</u>	<u>457</u>	<u>1,443</u>	<u>2,244</u>	<u>1,389</u>	<u>1,596</u>	<u>876</u>	<u>217</u>	<u>1,728</u>	<u>3</u>	<u>-</u>	<u>3</u>	<u>248</u>	<u>10,871</u>
Total fiduciary net assets, held in trust	\$ <u>229,101</u>	\$ <u>159,733</u>	\$ <u>300,210</u>	\$ <u>575,697</u>	\$ <u>340,610</u>	\$ <u>342,220</u>	\$ <u>164,834</u>	\$ <u>43,753</u>	\$ <u>474,672</u>	\$ <u>1,249</u>	\$ <u>174</u>	\$ <u>1,110</u>	\$ <u>59,589</u>	\$ <u>2,692,952</u>
Units outstanding	<u>16,149,754</u>	<u>10,779,636</u>	<u>19,929,117</u>	<u>37,113,501</u>	<u>23,193,946</u>	<u>24,179,334</u>	<u>12,444,844</u>	<u>2,510,038</u>	<u>44,974,304</u>	<u>116,783</u>	<u>15,732</u>	<u>104,546</u>	<u>59,593,603</u>	<u>251,105,138</u>

**CollegeInvest**  
**Scholars Choice Fund**  
**Supplementary Schedule - Combining Schedule of Changes in Fiduciary Net Assets**  
**For the fiscal year ended June 30, 2011**  
**(Dollar amounts expressed in thousands)**

	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	Portfolio 5	Portfolio 6	Portfolio 7	Fixed Income	Equity	U.S. Treasury Strip Coupon due 2015	U.S. Treasury Strip Coupon due 2020	U.S. Treasury Strip Coupon due 2025	Cash Reserve	Total
<b>Additions:</b>														
Gross earnings on investments:														
Dividends	\$ 3,529	\$ 3,184	\$ 7,133	\$ 14,255	\$ 8,094	\$ 6,837	\$ 2,211	\$ 2,088	\$ 3,803	\$ 15	\$ 5	\$ 35	\$ 252	\$ 51,441
Net realized and unrealized loss from securities transactions	44,469	29,508	48,556	74,763	37,174	20,560	3,076	1,185	112,617	9	(1)	(38)		371,878
	47,998	32,692	55,689	89,018	45,268	27,397	5,287	3,273	116,420	24	4	(3)	252	423,319
Less investment fees	(45)	(21)	(67)	(273)	(128)	(102)	(39)	(11)	(119)	-	-	-	(138)	(943)
Net investment income (loss)	47,953	32,671	55,622	88,745	45,140	27,295	5,248	3,262	116,301	24	4	(3)	114	422,376
Participant contributions	46,507	25,385	32,733	53,517	32,670	26,121	12,075	6,333	37,027	507	95	547	15,208	288,725
Fee income	17	12	22	44	25	25	12	7	32	-	-	-	4	200
Total additions (deductions)	94,477	58,068	88,377	142,306	77,835	53,441	17,335	9,602	153,360	531	99	544	15,326	711,301
<b>Deductions:</b>														
Benefits paid to participants and withdrawals	12,372	6,560	11,275	38,411	10,741	40,165	57,777	8,229	43,729	40	7	17	25,171	254,494
Service fees	1,151	832	1,666	3,044	1,868	1,915	941	264	2,511	9	2	8	104	14,315
Administrative fees	33	25	46	82	49	50	23	7	68	-	-	-	10	393
Marketing expenses	17	12	22	44	25	25	12	7	32	-	-	-	4	200
Reduced operating expenses	46	32	61	117	69	69	33	19	87	-	-	-	12	545
Total deductions	13,619	7,461	13,070	41,698	12,752	42,224	58,786	8,526	46,427	49	9	25	25,301	269,947
Portfolio exchanges, net	(38,986)	(34,025)	(37,036)	9,890	(7,024)	38,091	73,961	1,361	(15,007)	529	(14)	131	8,129	-
Net change in fiduciary net assets before transfers	41,872	16,582	38,271	110,498	58,059	49,308	32,510	2,437	91,926	1,011	76	650	(1,846)	441,354
Administrative fee transfer	(63)	(44)	(83)	(161)	(94)	(95)	(46)	(26)	(117)	-	-	-	(17)	(746)
Change in due to participants	110	77	144	275	163	164	79	45	203	1	-	1	29	1,291
Fiduciary net assets, beginning of year	187,182	143,118	261,878	465,085	282,482	292,843	132,291	41,297	382,660	237	98	459	61,423	2,251,053
Fiduciary net assets, end of year	\$ 229,101	\$ 159,733	\$ 300,210	\$ 575,697	\$ 340,610	\$ 342,220	\$ 164,834	\$ 43,753	\$ 474,672	\$ 1,249	\$ 174	\$ 1,110	\$ 59,589	\$ 2,692,952

**Supplementary Schedule - Combining Schedule of Investments**  
**June 30, 2011**  
(Dollar amounts expressed in thousands)

	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	Portfolio 5	Portfolio 6	Portfolio 7	Fixed Income	Equity	U.S. Treasury Strip Coupon 2015	U.S. Treasury Strip Coupon 2020	U.S. Treasury Strip Coupon 2025	Cash Reserve	Total
Underlying funds:														
Western Asset Core Plus Bond Portfolio	\$ 37,490	\$ 40,824	\$ 106,860	\$ 202,325	\$ 103,003	\$ 86,223	\$ -	\$ 39,411	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 616,136
Legg Mason Batterymarch U.S. Large Cap Equity Fund	43,009	26,424	42,085	68,059	38,666	22,991	-	-	112,858	-	-	-	-	354,092
Legg Mason Western Asset Short-Term Bond Fund	-	-	-	56,941	50,929	102,727	82,827	-	-	-	-	-	-	293,424
Thornburg International Value Fund (b)	36,513	22,304	36,002	58,076	13,666	-	-	-	95,006	-	-	-	-	261,567
Western Asset Institutional Liquid Reserves (a)	-	-	-	-	33,511	84,909	82,068	-	-	-	-	-	59,581	260,069
Legg Mason ClearBridge Appreciation Fund	25,616	15,390	24,974	40,083	23,004	13,901	-	-	66,181	-	-	-	-	209,149
Legg Mason Capital Management Value Trust Fund	25,002	15,048	24,512	38,818	22,233	13,244	-	-	64,656	-	-	-	-	203,513
Legg Mason ClearBridge Aggressive Growth Fund	17,135	10,535	16,999	27,350	15,934	9,236	-	-	44,508	-	-	-	-	141,697
Legg Mason BW Diversified Large Cap Value Fund (b)	16,836	10,303	16,640	26,252	15,580	8,963	-	-	43,833	-	-	-	-	138,407
Legg Mason Western Asset Global High Yield Bond Fund	9,134	7,814	14,213	28,876	17,024	-	-	4,351	-	-	-	-	-	81,412
Legg Mason ClearBridge Small Cap Growth Fund	9,381	5,625	9,093	14,895	3,569	-	-	-	24,248	-	-	-	-	66,811
Royce Pennsylvania Mutual Fund	8,997	5,485	8,836	14,068	3,543	-	-	-	23,428	-	-	-	-	64,357
U.S. Treasury Strip Coupon, 0% due 5/15/25	-	-	-	-	-	-	-	-	-	-	-	-	1,111	1,111
U.S. Treasury Strip Coupon, 0% due 5/15/15	-	-	-	-	-	-	-	-	-	1,250	-	-	-	1,250
U.S. Treasury Strip Coupon, 0% due 5/15/20	-	-	-	-	-	-	-	-	-	-	173	-	-	173
Legg Mason Repurchase agreement	67	45	85	159	85	99	19	12	156	-	1	-	14	742
Total investments, at fair value	\$ <u>229,180</u>	\$ <u>159,797</u>	\$ <u>300,299</u>	\$ <u>575,902</u>	\$ <u>340,747</u>	\$ <u>342,293</u>	\$ <u>164,914</u>	\$ <u>43,774</u>	\$ <u>474,874</u>	\$ <u>1,250</u>	\$ <u>174</u>	\$ <u>1,111</u>	\$ <u>59,595</u>	\$ <u>2,693,910</u>

**Direct Portfolio Fund**  
**Supplementary Schedule - Combining Schedule of Fiduciary Net Assets**  
**June 30, 2011**  
(Dollar amounts expressed in thousands)

	Aggressive Growth	Growth	Moderate Growth	Conservative Growth	Income	Stock Index	Bond Index	Money Market	Total
<b>Fiduciary assets:</b>									
Investments, at fair value	\$ 251,547	\$ 239,349	\$ 286,375	\$ 203,357	\$ 156,276	\$ 105,091	\$ 27,843	\$ 54,800	\$ 1,324,638
Dividends and interest receivable	-	153	364	388	203	-	77	5	1,190
Due from Student Loan Program Funds	106	100	119	85	66	45	12	23	556
<b>Total fiduciary assets</b>	<u>251,653</u>	<u>239,602</u>	<u>286,858</u>	<u>203,830</u>	<u>156,545</u>	<u>105,136</u>	<u>27,932</u>	<u>54,828</u>	<u>1,326,384</u>
<b>Liabilities:</b>									
Accounts payable	10	10	13	8	6	4	1	2	54
Service and investment fees payable	77	73	86	59	45	34	8	5	387
Deferred revenue	95	91	108	77	59	40	12	20	502
<b>Total liabilities</b>	<u>182</u>	<u>174</u>	<u>207</u>	<u>144</u>	<u>110</u>	<u>78</u>	<u>21</u>	<u>27</u>	<u>943</u>
<b>Total fiduciary net assets, held in trust</b>	<u>\$ 251,471</u>	<u>\$ 239,428</u>	<u>\$ 286,651</u>	<u>\$ 203,686</u>	<u>\$ 156,435</u>	<u>\$ 105,058</u>	<u>\$ 27,911</u>	<u>\$ 54,801</u>	<u>\$ 1,325,441</u>

**CollegeInvest**  
**Direct Portfolio Fund**  
**Supplementary Schedule - Combining Schedule of Changes in Fiduciary Net Assets**  
**For the fiscal year ended June 30, 2011**  
(Dollar amounts expressed in thousands)

	Aggressive Growth	Growth	Moderate Growth	Conservative Growth	Income	Stock Index	Bond Index	Money Market	Total
<b>Additions:</b>									
Gross earnings on investments:									
Dividends	\$ 4,205	\$ 4,973	\$ 7,409	\$ 5,986	\$ 4,146	\$ 1,733	\$ 1,066	\$ 141	\$ 29,659
Net realized and unrealized loss from securities transactions	54,961	38,731	33,257	11,405	997	22,125	(97)	-	161,379
	59,166	43,704	40,666	17,391	5,143	23,858	969	141	191,038
Less investment fees	(126)	(126)	(165)	(120)	(105)	(22)	(14)	(46)	(724)
Net investment income	59,040	43,578	40,501	17,271	5,038	23,836	955	95	190,314
Participant contributions	46,194	42,529	38,871	27,327	25,330	13,778	5,934	23,189	223,152
Fee income	91	86	104	73	56	38	10	20	478
Total additions	105,325	86,193	79,476	44,671	30,424	37,652	6,899	23,304	413,944
<b>Deductions:</b>									
Benefits paid to participants and withdrawals	5,967	6,040	9,899	7,796	30,842	4,687	4,480	27,807	97,518
Service fees	820	761	933	638	485	360	101	86	4,184
Administrative fees	32	30	41	27	22	13	4	9	178
Marketing expenses	91	86	104	73	56	38	10	20	478
Excess operating expenses	126	120	144	102	78	53	14	27	664
Total deductions	7,036	7,037	11,121	8,636	31,483	5,151	4,609	27,949	103,022
Portfolio exchanges, net	(27,909)	(9,404)	(9,962)	11,224	27,444	537	(281)	8,351	-
Net change in fiduciary net assets before transfers	70,380	69,752	58,393	47,259	26,385	33,038	2,009	3,706	310,922
Intraplan administrative fee transfer	126	120	145	102	78	53	14	27	665
Fiduciary net assets, beginning of year	180,965	169,556	228,113	156,325	129,972	71,967	25,888	51,068	1,013,854
Fiduciary net assets, end of year	\$ 251,471	\$ 239,428	\$ 286,651	\$ 203,686	\$ 156,435	\$ 105,058	\$ 27,911	\$ 54,801	\$ 1,325,441

**CollegeInvest**  
**Direct Portfolio Fund**  
**Supplementary Schedule - Combining Schedule of Investments**  
**June 30, 2011**  
(Dollar amounts expressed in thousands)

	Aggressive Growth	Growth	Moderate Growth	Conservative Growth	Income	Stock Index	Bond Index	Money Market	Total
Underlying funds:									
Vanguard Total Stock Market Index Fund	\$ 201,194	\$ 144,353	\$ 116,764	\$ 41,799	\$ -	\$ 105,102	\$ -	\$ -	\$ 609,212
Vanguard Total Bond Market Index II Fund	-	58,997	140,470	150,985	77,775	-	-	-	428,227
Vanguard Total International Stock Index Institutional PlusFund	50,384	36,249	28,954	10,455	-	-	-	-	126,042
Vanguard Prime Money Market Fund	-	-	-	-	39,233	-	-	54,653	93,886
Vanguard Inflation-Protected Securities Fund	-	-	-	-	39,244	-	-	-	39,244
Vanguard Institutional Total Bond Market Index Fund	-	-	-	-	-	-	27,835	-	27,835
Vanguard Cash Management Trust	(31)	(250)	187	118	24	(11)	8	147	192
Total investments, at fair value	<u>\$ 251,547</u>	<u>\$ 239,349</u>	<u>\$ 286,375</u>	<u>\$ 203,357</u>	<u>\$ 156,276</u>	<u>\$ 105,091</u>	<u>\$ 27,843</u>	<u>\$ 54,800</u>	<u>\$ 1,324,638</u>

**CollegeInvest  
Smart Choice Plan  
Supplementary Schedule - Combining Schedule of Fiduciary Net Assets  
June 30, 2011  
(Dollar amounts expressed in thousands)**

	<u>Money Market Savings</u>	<u>One Year Savings</u>	<u>Total</u>
Fiduciary assets:			
Cash and cash equivalents	\$ 4,916	\$ 4,920	\$ 9,836
Investments, at fair value	<u>-</u>	<u>-</u>	<u>-</u>
Total fiduciary assets	<u>4,916</u>	<u>4,920</u>	<u>9,836</u>
Liabilities:			
Due to Student Loan Program Funds	<u>-</u>	<u>1</u>	<u>1</u>
Total liabilities	<u>-</u>	<u>1</u>	<u>1</u>
Total fiduciary net assets, held in trust	<u>\$ 4,916</u>	<u>\$ 4,919</u>	<u>\$ 9,835</u>

**CollegeInvest**  
**Smart Choice Plan**  
**Supplementary Schedule - Combining Schedule of Changes in Fiduciary Net Assets**  
**For the fiscal year ended June 30, 2011**  
(Dollar amounts expressed in thousands)

	<u>Money Market Savings</u>	<u>One Year Savings</u>	<u>Total</u>
Additions:			
Gross earnings on investments:			
Interest	\$ 20	\$ 54	\$ 74
Net investment income	<u>20</u>	<u>54</u>	<u>74</u>
Participant contributions	8,351	3,389	11,740
Fee income	<u>3</u>	<u>3</u>	<u>6</u>
Total additions	<u>8,374</u>	<u>3,446</u>	<u>11,820</u>
Deductions:			
Benefits paid to participants and withdrawals	5,178	146	5,324
Administrative fees	3	3	6
Excess operating expenses	<u>14</u>	<u>15</u>	<u>29</u>
Total deductions	<u>5,195</u>	<u>164</u>	<u>5,359</u>
Portfolio exchanges, net	<u>103</u>	<u>(103)</u>	<u>-</u>
Net change in fiduciary net assets before transfers	3,282	3,179	6,461
Intraplan administrative fee transfer	14	15	29
Fiduciary net assets, beginning of year	<u>1,620</u>	<u>1,725</u>	<u>3,345</u>
Fiduciary net assets, end of year	<u>\$ 4,916</u>	<u>\$ 4,919</u>	<u>\$ 9,835</u>

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