CollegeInvest Prepaid Tuition Fund

Financial Statements and Independent Auditor's Reports

Financial Audit

Years Ended June 30, 2014 and 2013

Compliance Audit

Year Ended June 30, 2014

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BKD LLP
CPAs & Advisors

1700 Lincoln Street, Suite 1400 // Denver, CO 80203-4514
303.861.4545 // fax 303.832.5705 // bkd.com

December 4, 2014

Members of the Legislative Audit Committee:

We have completed the financial statement audits of CollegeInvest Prepaid Tuition Fund as of and for the years ended June 30, 2014 and 2013. Our audits were conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

BKD, LLP

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CollegeInvest
Prepaid Tuition Fund
June 30, 2014

Table of Contents

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CollegeInvest
Prepaid Tuition Fund
Year Ended June 30, 2014

REPORT SUMMARY

Purposes and Scope

The Office of the State Auditor, State of Colorado engaged BKD, LLP to conduct the financial and compliance audit of CollegeInvest (a division of the Department of Higher Education, State of Colorado) Prepaid Tuition Fund (Prepaid Tuition Fund) as of and for the fiscal year ended June 30, 2014. BKD, LLP performed the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The purposes and scope of our audit were to (i) express an opinion on CollegeInvest Prepaid Tuition Fund's basic financial statements as of and for the years ended June 30, 2014 and 2013 and (ii) issue a report on CollegeInvest Prepaid Tuition Fund's internal control over financial reporting and on compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters based on our audit of the financial statements performed in accordance with *Government Auditing Standards* for the year ended June 30, 2014.

Audit Opinions and Reports

We expressed an unmodified opinion on CollegeInvest Prepaid Tuition Fund's basic financial statements as of and for the years ended June 30, 2014 and 2013.

Summary of Key Findings and Recommendations

There were no findings for the year ended June 30, 2014.

Summary of Progress in Implementing Prior Year Audit Recommendations

There were no findings for the year ended June 30, 2013.

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DESCRIPTION OF COLLEGEINVEST PREPAID TUITION FUND

Organization

The Colorado General Assembly, pursuant to Colorado Revised Statutes 23-3.1-201, et seq., and 23-3.1-301, et seq., established a student obligation bond program (Student Loan Program Funds which consists of the Borrower Benefit Fund and Bond Funds), a postsecondary 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), and a Financial Need Scholarship Fund, which are administered by CollegeInvest. The programs assist families in meeting the expenses incurred in availing themselves of higher education opportunities. The Executive Director of the Colorado Department of Higher Education has responsibility for oversight and management of CollegeInvest, including appointing the Director. In addition, CollegeInvest has a nine-person Board of Directors (Board) designated by the Governor with the consent of the State Senate to serve four-year terms.

Colorado Prepaid Tuition Fund

The Prepaid Tuition Fund was established in 1997 to provide families with an opportunity to save for future college education expenses. The Prepaid Tuition Fund offered an annual enrollment period for purchasers to buy prepaid tuition contracts. The Prepaid Tuition Fund offered certain federal and state tax advantages to investors and was designed to keep pace with average tuition inflation in Colorado. Originally, the investment was valued at and paid out at the level of average tuition or an average minimum of 4% per year over the life of the contract (when held until the first payment date), whichever was greater, at the time of payment.

The Colorado Constitution and other State laws prohibit the State from providing its full faith and credit to obligations of other entities, such as the Prepaid Tuition Fund. As a result, payments from the Prepaid Tuition Fund were not guaranteed in any way by the State, and were not considered to have created a debt or obligation of the State. Such payments were limited obligations, payable from the Prepaid Tuition Fund, but not from the other assets of the State or CollegeInvest. As of August 1, 2002, the Fund was not financially sound and was closed to new investors. In accordance with State law, if it was determined that the Prepaid Tuition Fund was not actuarially sound as determined by an actuarial valuation, CollegeInvest may direct the distribution of available assets.

DESCRIPTION OF
COLLEGEINVEST
PREPAID TUITION FUND (continued)

The contract terms were amended on February 20, 2003. Under the amended terms, the investment was valued and paid out at the lesser of 1) the percentage increase in actual average tuition or 2) 5.5%. A purchaser could use amounts paid from the Prepaid Tuition Fund to pay for eligible expenses at private and public colleges, universities, and vocational schools throughout the United States.

CollegeInvest obtained an actuarial evaluation in April 2013, and based on the actuarial evaluation determined the Fund to be financially and actuarially unsound. On July 24, 2013, contract holders were notified that the Fund would be permanently discontinued no later than November 15, 2013. During the period from July 1, 2013 through November 15, 2013, the Fund liquidated all of its fixed income investments and paid all contract units to account owners.

BKD LLP
CPAs & Advisors

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Independent Auditor's Report

Members of the Legislative Audit Committee:

Report on the Financial Statements

We have audited the accompanying basic financial statements of CollegeInvest Prepaid Tuition Fund (a division of the Colorado Department of Higher Education, State of Colorado), which is comprised of statements of net position as of June 30. 2014 and 2013, and statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CollegeInvest Prepaid Tuition Fund as of June 30, 2014 and 2013, and the changes in its financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, Organization and Summary of Significant Accounting Policies, the financial statements of the CollegeInvest Prepaid Tuition Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the financial reporting entity, State of Colorado, that is attributable to the transactions of the CollegeInvest Prepaid Tuition Fund. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2014 and 2013, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter. The Fund was determined to be financially and actuarially unsound, and was permanently closed November 15, 2013.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2014 on our consideration of CollegeInvest Prepaid Tuition Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CollegeInvest Prepaid Tuition Fund's internal control over financial reporting and compliance.

BKD, LLP

Denver, Colorado
December 4, 2014

CollegeInvest
Prepaid Tuition Fund
Management's Discussion and Analysis
(Unaudited)
June 30, 2014 and 2013

This section of the Prepaid Tuition Fund's financial statements is a discussion and analysis of the financial performance of the Prepaid Tuition Fund (Fund) for the years ended June 30, 2014 and 2013. The Fund was a qualified state tuition program pursuant to Internal Revenue Code (IRC) Section 529 administered by CollegeInvest. CollegeInvest, a division of the Department of Higher Education of the State of Colorado, also administers the Student Loan Program Funds, which consist of the Borrower Benefit Fund, the Bond Funds, the CollegeInvest Early Achievers Scholarship Fund, the Nursing Teacher Loan Forgiveness Fund, the Financial Need Scholarship Fund; and the College Savings Program, which consists of the Scholars Choice, Direct Portfolio, Stable Value Plus and Smart Choice College Savings Funds. The Fund is presented as a proprietary fund in the State of Colorado's Comprehensive Annual Financial Report. CollegeInvest's Board of Directors (Board) approves the annual budget and the investment policy of the Fund. Management of CollegeInvest is responsible for the financial statements, footnotes and this discussion. The management's discussion and analysis should be read in conjunction with the Fund's financial statements.

Overview of the Financial Statements:

This annual report contains two sections – management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include Statements of Net Position; Statements of Revenues, Expenses and Changes in Fund Net Position; Statements of Cash Flows; and Notes to Financial Statements. The Notes to Financial Statements present additional information to support the financial statements and are commonly referred to as "Notes." Their purpose is to clarify and expand on the information in the financial statements.

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

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

The Statements of Cash Flows reports the Fund's cash flows from operating, investing, and noncapital financing activities.

Analysis of Financial Activities:

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

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

- Prior to the First Payout Date (the date identified in the contract as the anticipated date funds are needed to pay for school), withdrawals can be made from the Fund accounts at the lesser of:

  1) a pro rata share of assets in the Fund;
  2) the amount contributed; or
  3) average tuition as defined in the contract.

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

According to Colorado statute and the Fund's contract terms, if at any time CollegeInvest determines, based upon an actuarial evaluation, that the Fund is not actuarially sound, CollegeInvest may discontinue the operation of the Fund and thereby cancel all existing contracts. CollegeInvest obtained an actuarial evaluation in April 2013, and based on the results of the evaluation determined the Fund to be financial and actuarially unsound. On July 24, 2013, contract holders were notified that the Fund would be permanently discontinued no later than November 15, 2013. Effective August 1, 2013, contract holders received $47.38 per unit, which was the current average tuition at Colorado public colleges and universities for the 2013–2014 academic year, as calculated by the amended contract terms. Also effective August 1, 2013, contract holders were not penalized for withdrawals made prior to the First Payout Date. Since the Fund was closed by the administrator, any rollovers to other Section 529 plans were not counted as an investment change under the IRS rules.

Analysis of Financial Activities (continued):

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

Comparison of Current Year Results to Prior Year:

Condensed Statement of Net Position as of June 30,

	2014	2013
	(dollar amounts expressed in thousands)	
Assets:		
Cash and investments	$ -	$ 24,309
Advance payment contract receivables	-	292
Interest receivable	-	228
Due from Student Loan Program Funds	-	6
Total assets	-	24,835
Liabilities:		
Accounts payable, accrued expenses and amounts due to Student Loan Program Funds	-	7
Contracts and benefits payable - current	-	24,770
Contracts and benefits payable - noncurrent	-	-
Total liabilities	-	24,777
Net position - restricted (unrestricted)	$ -	$ 58

Cash and investments decreased by $24.3 million and $2.9 million during the years ended June 30, 2014 and 2013, respectively. For the fiscal year ended June 30, 2014, cash decreased by $3.3 million due to closing the Fund. This was a result of cash increases of $19.5 million from investments redeemed, $29,000 from installment payments on advance payment contracts, and $1.8 million from investment income. These increases were offset by tuition payments, cancellations, rollovers, and administrative expenses of $24.6 million.

For the fiscal year ended June 30, 2013, cash decreased by $42,000. This was a result of cash increases of $3.0 million from investments redeemed, $194,000 from installment payments on advance payment contracts, and $600,000 from investment income. These increases were offset by tuition payments, cancellations, rollovers, and administrative expenses of $4.0 million.

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

In fiscal year 2014, the investments decreased by $21.0 million due to redemption of investments of $19.5 million and realized and unrealized losses totaling $1.5 million. In fiscal year 2013, the investments decreased by $2.9 million due to redemption of investments of $3.0 million, offset by realized and unrealized gains totaling $83,000. Average investments decreased to $18.9 million in 2013 from $21.6 million in 2012.

Advance payment contract receivables decreased by $292,000 from June 30, 2013 to June 30, 2014. The decrease was a combination of installment contract principal payments of $25,000 and cancellations of $267,000, the latter primarily due to closing the Fund. Advance payment contract receivables decreased by $168,000 from June 30, 2012 to June 30, 2013. The decrease was a combination of installment contract principal payments of $162,000 and cancellations of $6,000.

Contracts and benefits payable decreased by $24.8 million in total from June 30, 2013 to June 30, 2014. Due to closing the Fund, $24.4 million of the decrease was the result of payments to contract holders for current tuition payments, cancellations and rollovers. The liability decreased by $394,000 due to cancellation of advance payment contract receivables. Units included in advance payment contract receivables were accrued at the full tuition payment value of $394,000, whereas the receivable was accrued at the original contract price of $267,000. The difference resulted in a decrease in the liability of the early settlement of the plan of $127,000 for the fiscal year ended June 30, 2014.

Contracts and benefits payable decreased by $3.5 million in total from June 30, 2012 to June 30, 2013; $650,000 of the decrease was the net result of 1) a decrease of approximately $3.8 million for payments to contract holders for current tuition payments, cancellations and rollovers, and 2) an increase in the liability of approximately $3.1 million due to the accumulation of future benefits to contract holders, as calculated by the actuary using long term assumptions. Since the Fund was determined to be financially and actuarially unsound, and the decision was made to close the Fund, the contract and benefit payable liability was reduced to the liquidation value. The decrease in the liability as a result of early settlement of the plan was $2.8 million.

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

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

	2014	2013
	(dollar amounts expressed in thousands)	
Operating revenues:		
Contract income	$ **3**	$ 26
Investment income	**30**	777
Total operating revenues	**33**	803
Operating expenses:		
Contracts and benefits expense	**-**	3,118
Other expenses	**233**	218
Total operating expenses	**233**	3,336
Operating income (loss) before transfers	**(200)**	(2,533)
Transfer from Student Loan Program Funds	**15**	97
Change in net assets position settlement adjustment	**(185)**	(2,436)
Adjustment for early settlement of plan	**(127)**	(2,831)
Change in net position after settlement adjustment	**(58)**	395
Net position, beginning of year	**58**	(337)
Net position, end of year	$ **-**	58

Contract income decreased by $23,000 and $9,000 for the years ended June 30, 2014 and 2013, respectively, due to the continued reduction in the number of participants making installment payments, but primarily due to closing the Fund in fiscal year 2014. The number of installment contracts decreased from 217 as of June 30, 2013 to none as of June 30, 2014, and decreased by approximately 75 from 292 as of June 30, 2012 to 217 as of June 30, 2013. The decrease in fiscal year 2013 was primarily a result of final installment payments received from contract holders. Additionally, as the contract is paid down, more of the monthly payment is applied to principal, resulting in a decrease in contract income.

Investment income consists of interest on corporate and treasury bonds and interest on the State Treasurer's cash pool, net of investment fees, and realized and unrealized gains on investments. Interest income decreased by $600,000 and $150,000 during the years ended June 30, 2014 and 2013, respectively. The decrease in 2014 was a result of the sale of all investments due to

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

closing the Fund, and a decrease in the average monthly investment balance of $2.7 million in fiscal year 2013.

In fiscal year 2014, all outstanding bonds were redeemed or sold due to closing the Fund. This resulted in a realized loss of $117,000 recognized as of June 30, 2014. Two bonds matured during fiscal year 2013 and two bonds were sold, resulting in a realized gain of $9,000 recognized at June 30, 2013. This was a result of the difference in the maturity at the par amount compared to original cost, including the premium paid.

The fixed income investment portfolio had a net change of $5,000 and $74,000 during the fiscal years ended June 30, 2014 and 2013, respectively, due to market adjustments of investment values. The State Treasurer's cash pool had unrealized losses of $5,000 and $37,000 during the years ended June 30, 2014 and 2013, respectively. The annualized yield on fixed income investments, including unrealized gains and losses of the Fund, was 0.3% and 3.3% for the fiscal years ended June 30, 2014 and 2013, respectively.

Contracts and benefits expense consists of the accrual of future benefits determined by the actuary adjusted for the actual experience of tuition payments, cancellations, and rollovers during the year. This expense decreased by $3.1 million for the year ended June 30, 2014, and increased by $1.9 million for the year ended June 30, 2013. The decrease in expense for the fiscal year 2014 was due to closing the Fund. The increase in expense for the fiscal year 2013 was primarily due to a change in the investment return assumption used in the actuarial evaluation of the Fund. In fiscal year 2013, the assumption decreased from a 4.5% return to a 2.3% return.

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

	2013	2012
	(dollar amounts expressed in thousands)	
Expenses subject to the 1% cap	$ 216,000	$ 155,000
1% cap	$ 119,000	$ 143,000

Due to closing the Fund in fiscal year 2014, this limitation was not applicable. Expenses exceeded the 1% cap of contract price by $97,000 and $12,000 for the fiscal years ended June 30, 2013 and 2012. A transfer was made from the Student Loan Program Funds to the Fund to

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

cover these expenses in fiscal year 2013. Expenses to close the Fund exceeded net position by $15,000 in fiscal year 2014. A transfer was made from the Student Loan Program Funds to cover these expenses.

The adjustment for early settlement of the plan during the years ended June 30, 2014 and 2013 consists of the difference between the actuarially determined contracts and benefits payable and the liability as calculated based on closing the plan effective November 15, 2013.

Economic Factors and Future Years' Rates:

- As of August 1, 2002, the Fund suspended execution of new contracts. As of November 15, 2013, the Fund was closed permanently. The Fund was collecting payments on installment contracts through September 30, 2013. Contract holders were paid $47.38 per unit, which was the average tuition as of August 1, 2013, as computed under the contract terms, as amended. Distribution requests received from contract holders were processed until October 15, 2013. If a distribution request was not received by October 15, 2013, the account was frozen and the balance was rolled over to the Money Market Portfolio within the Direct Portfolio College Savings Plan.

Requests for Information:

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

CollegeInvest
Prepaid Tuition Fund
Statements of Net Position
June 30, 2014 and 2013
(dollar amounts expressed in thousands)

	2014	2013
Assets:		
Cash and cash equivalents	$ -	$ 3,312
Investments	-	20,997
Advance payment contract receivables	-	292
Interest receivable	-	228
Due from Student Loan Program Funds	-	6
Total assets	-	24,835
Liabilities:		
Accounts payable and accrued expenses	-	7
Contracts and benefits payable	-	24,770
Total liabilities	-	24,777
Net position - restricted	-	58
Total net position	$ -	$ 58

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

CollegeInvest
Prepaid Tuition Fund
Statements of Revenues, Expenses and Changes in Fund Net Position
Years Ended June 30, 2014 and 2013
(dollar amounts expressed in thousands)

	2014	2013
Operating revenues:		
Contract income	**$ 3**	$ 26
Investment income	**30**	777
Total operating revenues	**33**	803
Operating expenses:		
Contracts and benefits expense (credit)	**-**	3,118
General and administrative expenses	**151**	146
Salaries and benefits	**82**	72
Total operating expenses	**233**	3,336
Operating loss before transfers	**(200)**	(2,533)
Transfer from Student Loan Program Funds	**15**	97
Change in net position before settlement adjustment	**(185)**	**(2,436)**
Adjustment for early settlement of plan	**(127)**	**(2,831)**
Change in net position	**(58)**	**395**
Net position, beginning of year	**58**	(337)
Net position, end of year	**$ -**	$ **58**

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

CollegeInvest
Prepaid Tuition Fund
Statements of Cash Flows
Years Ended June 30, 2014 and 2013
(dollar amounts expressed in thousands)

	2014	2013
Cash Flows from Operating Activities:		
Cash receipts from advance payment contracts	**$ 29**	$ 194
Cash distributions for advance payment contracts	**(24,376)**	(3,768)
Cash payments to suppliers for goods and services	**(152)**	(183)
Cash payments to employees for service	**(82)**	(72)
Net cash used in operating activities	**(24,581)**	(3,829)
Cash Flows from Investing Activities:		
Redemptions of investments	**19,483**	3,090
Income received from investments	**1,771**	600
Net cash provided by investing activities	**21,254**	3,690
Cash Flows from Noncapital Financing Activities:		
Transfers from Student Loan Program Funds	**15**	97
Net cash provided by noncapital financing activities	**15**	97
Decrease in cash and cash equivalents	**(3,312)**	(42)
Cash and cash equivalents, beginning of period	**3,312**	3,354
Cash and cash equivalents, end of period	**$ -**	$ 3,312

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

CollegeInvest
Prepaid Tuition Fund

Statements of Cash Flows (continued)
Years Ended June 30, 2014 and 2013
(dollar amounts expressed in thousands)

		2014		2013
Reconciliation of operating loss to net cash used by operating activities:				
Operating loss before transfers and settlement adjustment	**$**	**(200)**	$	(2,533)
Adjustments to reconcile operating loss before transfers and adjustment for early settlement of plan to net cash used by operating activities:				
Income received from investments included in investing activities		**(29)**		(775)
Adjustment for early settlement of plan		**127**		2,831
Changes in operating assets and liabilities:				
Advance payment contract receivables		**292**		168
Accounts payable and accrued expenses		**(7)**		(3)
Due to/from Student Loan Program Funds		**6**		(34)
Contracts and benefits payable		**(24,770)**		(3,483)
Net cash used in operating activities	**$**	**(24,581)**	$	(3,829)
Noncash investing activity:				
Unrealized gains/(losses) on investments		**1,514**		(195)

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

CollegeInvest
Prepaid Tuition Fund
Notes to Financial Statements
June 30, 2014 and 2013

1. Organization and Summary of Significant Accounting Policies:

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

The Colorado General Assembly established a student obligation bond program (Student Loan Program Funds), a post secondary education expense program (Prepaid Tuition Fund), a college savings program (Scholars Choice, Direct Portfolio, Stable Value Plus and Smart Choice College Savings Funds), a scholarship trust program (CollegeInvest Early Achievers Scholarship Fund), a Nursing Teacher Loan Forgiveness program (Nursing Teacher Loan Forgiveness Fund), and a Financial Need Scholarship Fund, which are administered by CollegeInvest. This report contains only the Prepaid Tuition Fund (Fund). The mission of CollegeInvest is to be Colorado's higher education financing leader and to help Colorado families break down the financial barriers to college. The operations of the programs of CollegeInvest are accounted for under generally accepted accounting principles. CollegeInvest does not receive any of its funding from the State or any local government of the State and, therefore, retains its enterprise status under Section 20, Article X of the Colorado Constitution (TABOR).

Prepaid Tuition Fund

The Fund was established in 1997 to provide families with an opportunity to save for future college education expenses. The Fund offered an annual enrollment period for purchasers to buy prepaid tuition contracts until July 31, 2002. Effective August 1, 2002, the Fund ceased accepting new contracts. The contract terms were amended on February 20, 2003 and state that the annual increase in average tuition as defined below is limited to the lesser of 1) the percentage increase in actual average tuition at Colorado public colleges and universities, or 2) 5.5%. The Fund was permanently closed November 15, 2013.

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

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

Prepaid Tuition Fund (continued):

The Fund offered certain federal and state tax advantages to investors. A purchaser could use amounts contributed and earned in the Fund to pay eligible expenses at private and public colleges, universities and vocational schools throughout the United States.

A qualified withdrawal is a withdrawal made to pay qualified higher education expenses of the student. All withdrawals other than qualified withdrawals are considered non-qualified withdrawals. Non-qualified withdrawals are subject to a 10% penalty on earnings per Section 529 of the Internal Revenue Code. A non-qualified withdrawal is not subject to the 10% penalty only if the withdrawal is: (i) made on account of the death or disability of the student; (ii) made on account of a scholarship received by the student, to the extent that the withdrawal does not exceed the amount of the scholarship; or (iii) a nontaxable transfer to another account or to another Section 529 program on behalf of a student or for a different student who is a family member of the original student. A nonqualified withdrawal may also be subject to recapture in the event a deduction has been taken from Colorado taxable income. Rollovers to other Section 529 plans are considered an investment change and are allowed only once per calendar year. Rollovers as a result of the Fund's closure do not count as an investment change under this rule.

The Colorado Constitution and other State laws prohibit the State from providing its full faith and credit to obligations of other entities, such as the Fund. As a result, payments from the Fund were not guaranteed in any way by the State.

In accordance with the CRS 23-3.1-206.7(5)(d), CollegeInvest shall evaluate the actuarial soundness of the Prepaid Tuition Fund if, on the last day of the fiscal year, more than ten percent of the Fund is invested in common or preferred stock; corporate bonds, notes, or debentures that are convertible into common or preferred stock; or investment trust shares. As of June 30, 2013, investments of the Fund were 100% fixed income; however, an actuarial valuation was obtained to determine the benefit liability as of June 30, 2013, and to determine if the Fund was financially and actuarially sound. The CRS also states that if it is determined that the Fund is not financially sound, then the Fund may discontinue permanently or for a period of time may suspend a particular aspect of the Fund and the execution of additional contracts. Likewise, if it is determined that an excess amount exists in the Fund, CollegeInvest would calculate the portion of such excess that would be attributable on a pro rata basis to each tuition unit. As of June 30, 2013, the actuarial evaluation determined the Fund to be financially and actuarially unsound and, as a result, the Fund was permanently closed November 15, 2013.

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

Reporting Entity:

The Fund was established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. Purchaser payments and the earnings thereon are invested to meet the obligations for future higher education expenses of a named student under each contract. The payment of general and administrative expenses and other activities of the Fund necessary to fulfill its purposes are recorded within the Fund. There are no other funds of CollegeInvest combined with the Fund in the accompanying financial statements. In addition, the Fund is also presented as a proprietary fund in the State of Colorado Comprehensive Annual Financial report. Thus, the financial statements of the CollegeInvest Prepaid Tuition Fund are intended to present the financial position and the changes in financial position and cash flows of only that portion of the financial reporting entity, State of Colorado that is attributable to the transactions of CollegeInvest Prepaid Tuition Fund. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2014 and 2013, and the changes in its financial position, or, where applicable, its cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Budgets and Budgetary Accounting:

By statute, the Fund was continuously appropriated through user charges. Therefore, the budget is not legislatively adopted and a Statements of Revenues and Expenses – Budget to Actual is not a required part of these financial statements.

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

Basis of Accounting:

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and standards of the Governmental Accounting Standards Board (GASB).

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

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

Operating Revenues and Expenses:

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

Cash and Cash Equivalents:

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

Investments:

Investments are carried at fair value, which were primarily determined based on quoted market prices at June 30, 2013. There were no investments remaining as of June 30, 2014.

Advance Payment Contract Receivables:

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

Compensated Absences:

Compensated absences, known as general leave, includes vacation pay and sick pay for employees who are expected to retire and are included in due to student loan program funds line item on the Statements of Net Position. Compensated absences are based on an employee's length of service and are earned ratably during the term of employment. Vested and accumulated general leave that is expected to be liquidated by employees of the Fund is accrued and charged against current operations.

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

Due to Student Loan Program Funds:

The Borrower Benefit Fund within the Student Loan Program Funds of CollegeInvest advances the Fund monies for operating expenses. Expenses paid from the Borrower Benefit Fund related to the Fund were allocated to and reimbursed by the Fund quarterly without interest.

Contracts and Benefits Payable/Expense:

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

Revenue Recognition:

Advance payment contracts are recorded gross with the cash or receivable offset by contracts and benefits payable with no effect on the change in net position. Interest charged to account holders for paying over time is recorded as contract income.

Expense Limitation:

The annual administrative expenses of the Fund (excluding contracts and benefits expense and amortization of software costs) are limited by the CRS 23-3.1-206.7(5)(e)(I) to 1% of the contract price. Due to closing the Fund in early fiscal year 2014, this limitation was not applicable. For the fiscal year ended June 30, 2013, the expenses subject to the 1% cap were $216,000, exceeding the cap by $97,000. A transfer was made from the Student Loan Program Funds for this amount in fiscal year 2013 to remain in compliance with the Statute. A transfer of $15,000 was made in fiscal year 2014 to cover final expenses in excess of the assets of the Fund.

Use of Estimates:

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

2. Cash Deposits and Investments:

Cash Deposits:

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

CollegeInvest deposits cash with the Colorado State Treasurer as required by CRS. The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. CollegeInvest reports its share of the treasurer's unrealized gains/losses based on its participation in the State Treasurer's pool. All of the State Treasurer's investments are reported at fair value, which is determined based on quoted market prices at June 30, 2013. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the pool. The unrealized gain or loss included in "Investment Income" reflects only the change in fair value during the current fiscal year.

As of June 30, 2014, CollegeInvest had completely liquidated its cash on deposit with the State Treasurer, due to closing the Fund. As of June 30, 2013, CollegeInvest had $3.1 million of cash on deposit with the State Treasurer, which represented approximately 0.04% of the total $7,260.8 million for market value of deposits in the State Treasurer's pool. Additional information on the Treasurer's pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report.

Cash and cash equivalents as of June 30 are as follows:

	2014	2013
	(dollar amounts expressed in thousands)	
State Treasurer's cash pool	**$** -	$ 3,122
Demand deposit accounts	-	190
Total cash and cash equivalents	**$** -	$ 3,312

Custodial Credit Risk – Cash Deposits:

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

2. Cash Deposits and Investments (continued):

Custodial Credit Risk – Cash Deposits (continued):

The carrying amount and bank balance of demand deposit accounts was $0 and $190,000 as of June 30, 2014 and 2013, respectively. All amounts were fully insured by the FDIC and, therefore, the Fund did not have any custodial credit risk on its cash deposits during fiscal year 2014 and as of June 30, 2013.

Investment Authority and Policy:

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

The table below identifies the investment types that were authorized for the Fund:

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

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

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

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

Custodial Credit Risk – Investments:

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

2. Cash Deposits and Investments (continued):

Custodial Credit Risk – Investments (continued):

securities are held by the counterparty in the Fund's name and, therefore, custodial credit risk is minimal.

Interest Rate Risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Fund managed exposure to interest rate risk was by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio was maturing or coming close to maturity as necessary to provide the cash flow and liquidity needed for operations. The Fund monitored the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The Fund had no specific limitations with respect to this metric. Since the Fund liquidated its fixed income investments in fiscal year 2014, the Fund had no exposure to interest rate risk as of June 30, 2014. The Fund had $2.2 million of corporate bonds subject to call options for the year ended June 30, 2013.

Investment Type	**2014** Fair Value	**2014** Weighted Average Maturity (in years)	2013 Fair Value	2013 Weighted Average Maturity (in years)
	(dollar amounts expressed in thousands)			
U.S. Agency Securities	$ -	-	$ 6,654	4.6
Corporate Debt	-	-	14,343	2.2
	$ -		$ 20,997	

Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This was measured by the assignment of a rating by a nationally recognized statistical rating organization. Federal National Mortgage Association ("FNMA" or "Fannie Mae") securities are not subject to credit risk and, therefore, are not included. Presented

2. Cash Deposits and Investments (continued):

Credit Risk (continued):

below is the minimum rating required by (where applicable) the Fund's investment policy and the actual ratings for each investment type:

As of June 30, 2014:

Investment Type	Minimum Rating	Moody's Rating as of Year End Aa3	A1	A2	A3	Baa1	Baa2	Baa3	NR
		(dollar amounts expressed in thousands)							
Corporate Debt	[*]	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

As of June 30, 2013:

Investment Type	Minimum Rating	Moody's Rating as of Year End Aa3	A1	A2	A3	Baa1	Baa2	Baa3	NR
		(dollar amounts expressed in thousands)							
Corporate Debt	[*]	$ -	$ 1,019	$ -	$ 6,134	$ -	$ 4,709	$ 2,481	$ -

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

Concentrations of Credit Risk:

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The investment policy of the Fund contains limitations on the amount that can be invested in any one issuer, as noted above. Because they were explicitly guaranteed, FNMA and Federal Home Loan Mortgage Association ("FHLMA" or "Freddie Mac") securities were not subject to concentration of credit risk and, therefore, are not included.

2. Cash Deposits and Investments (continued):

Concentrations of Credit Risk (continued):

Investments in any one issuer that represent 5% or more of total the Fund investments as of June 30, 2014 and 2013, are as follows:

Issuer	Investment Type	**2014** Fair Value	2013 Fair Value
		(dollar amounts expressed in thousands)	
Goldman Sachs	Corporate Debt	**$** -	$ 3,548
Merrill Lynch & Co.	Corporate Debt	-	3,603
Citigroup	Corporate Debt	-	2,481
Wells Fargo	Corporate Debt	-	2,389
Pitney Bowes	Corporate Debt	-	1,106
SVB Financial Group	Corporate Debt	-	1,095

3. Advance Payment Contract Receivables:

Until August 1, 2002, purchasers entered into advance payment contracts for a number of tuition units. The Fund values and pays out tuition units based on future average tuition (as defined in the contract terms). The contracts were purchased with a one-time lump sum payment, a monthly payment plan, or a combination plan. The monthly payment plan allowed the purchaser to determine the monthly payment amount and the number of payments the purchaser wished to make. The combination plan allowed the purchaser to begin paying with a lump sum payment as his or her first monthly payment, followed by subsequent monthly payments. Monthly payment plans were generally for full term (from the contract date until at least three months before the scheduled first payout date), five years, or ten years. The monthly payment plans had a preset number of months based on the payout year. The full term monthly payment plans ranged from ten months remaining for payout year 2014 to 82 months remaining for payout year 2020. Contracts for monthly payment plans generally provided for payment of a contract base price and a charge for paying over time (at an approximate effective rate of 6.78%). Advance payment contract receivables were $0 and $292,000 as of June 30, 2014 and 2013, respectively. Since the Fund closed in fiscal year 2014, contract payments were being accepted only through September 30, 2013 and, therefore, only a small portion of the remaining $292,000 was collected and funded upon liquidation of units. The Fund collected approximately $162,000 in contract receivables and sustained $6,000 in cancellations during the fiscal year ended June 30, 2014.

4. Contracts and Benefits Payable:

The following table presents total contracts and benefits payable of the Fund as of June 30, 2013, including the obligation related to advance payment contract receivables, measured at the actuarial net present value (APV) of the future contracts and benefits expense. Based on an actuarial evaluation in April 2013, it was determined the plan was financially and actuarially unsound, and the plan closed effective November 15, 2013. The average tuition as of August 1, 2013, as calculated under the Fund's contract terms, times the number of outstanding units purchased, was paid to contract holders. Due to closing the Fund in fiscal year 2014, there is no Contracts and Benefits Payable as of June 30, 2014. As of June 30, 2013, the actuarial net present value was adjusted for early settlement of the plan.

As of June 30:

	2013	2012
APV of Future Contracts and Benefits Payable	$ 27,601	$ 28,253
Adjustment for early settlement of plan	(2,831)	-
Liquidation Value of Contracts and Benefits Payable	24,770	28,253
Total Assets Available for Future Contracts and Benefits are as follows:		
Cash deposits	$ 3,312	$ 3,354
Investments	20,997	23,893
Advance payment contract receivables	292	460
Interest receivable	228	246
Due from Student Loan Program Funds	6	-
Less:		
Accounts payable and accrued expenses	(7)	(10)
Total Assets Available for Future Contracts and Benefits Payable	$ 24,828	$ 27,916
Net Position	$ 58	$ (337)
Total Assets Available as a Percentage of Contracts and Benefits Payable	100%	99%

Due to closing the Fund in fiscal year 2014, there was no actuarial analysis performed as of June 30, 2014. The liquidation value of the liability was calculated by taking the actual number of tuition units purchased plus the number of units that could be purchased under installment contracts times the average tuition as of August 1, 2013. An adjustment was made to reduce the liability from the actuarially determined liability to the liquidation amount as of June 30, 2013.

5. Retirement Plans:

Plan Description:

Most of CollegeInvest's employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan administered by the Public Employees' Retirement Association (PERA). PERA was established by State statute in 1931. Responsibility for the organization and administration of the plan is placed with the PERA Board of Trustees. Changes to the plan require an actuarial assessment and legislation by the General Assembly. The State plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at P.O. Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting http://www.copera.org.

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

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

PERA members electing the PERA defined contribution plan are allowed an irrevocable election between the second and fifth year to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. However, making this election

5. Retirement Plans (continued):

Plan Description (continued):

subjects the member to rules in effect for those hired on or after January l, 2007, as discussed below. Employer contributions to both defined contribution plans are the same amount as the contributions to the PERA defined benefit plan.

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

- Hired before July 1, 2005 – age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with any years of service.
- Hired between January 1, 2007 and December 31, 2010 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with five years of service. For members with less than five years of service credit as of January 1, 2011, age and service requirements increase to those required for members hired between January 1, 2007 and December 31, 2010.
- Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, or age 65 with 5 years of service.
- Hired on or after January 1, 2017 – any age with 35 years of service, age 60 with 30 years of service, or age 65 with 5 years of service.

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

- Hired before January 1, 2007 – age 55 with a minimum of five years of service credit and age plus years of service equals 80 or more.
- Hired between January 1, 2007 and December 31, 2010 – age 55 with a minimum of five years of service credit and age plus years of service equals 85 or more. Age plus years of service requirements increase to 85 for members with less than five years of service credit as of January 1, 2011.

5. Retirement Plans (continued):

Plan Description (continued):

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

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

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

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

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

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

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

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.

5. Retirement Plans (continued):

Plan Description (continued):

Members who are disabled, who have five or more years of service credit, six months of which have 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, 2012, the temporary contribution rate increase of 2.5 percent for members in the State and Judicial Divisions to replace the 2.5 percent reduction in employer contributions effective for Fiscal Years 2010–11 and 2011–12 expired.

From July 1, 2013 to December 31, 2013, the State contributed 16.55 percent (19.25 percent for State troopers and 17.36 percent for the Judicial Branch) of the employee's salary. From January 1, 2014 through June 30, 2014, the state contributed 17.45 percent (20.15 percent for state troopers and 17.36 percent for the Judicial Branch). During all of Fiscal Year 2013–14, 1.02 percent of the employee's 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, 2013, the division of PERA in which the State participates has a funded ratio of 57.5 percent and a 60-year amortization period based on current contribution rates. The funded ratio on the market value of assets is slightly higher at 61.0 percent.

In the 2004 and 2010 legislative sessions, the General Assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional 0.5 percent of salary for calendar years 2006 and 2007, with subsequent year increases of 0.4 percent of salary through 2017, to a maximum of 5 percent (except for the Judicial Division whose AED contribution was frozen at the 2010 level).

5. Retirement Plans (continued):

Funding Policy (continued):

In the 2006 and 2010 legislative sessions, the General Assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one-half percentage point of total salaries for calendar years 2008 through 2017, to a maximum of 5 percent (except for the Judicial Division whose SAED contribution was frozen at the 2010 level). The SAED will be deducted from the amount otherwise available to increase State employees' salaries.

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

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

The Fund's contributions to PERA and/or the State-defined contribution plan for the fiscal years ended June 30, 2014, 2013 and 2012, were $10,000, $9,000 and $5,000, respectively. These contributions met the contribution requirement for each year.

6. Other Retirement Plans:

Defined Contribution Plan:

The PERA Defined Contribution Retirement Plan was established January 1, 2006 as an alternative to the defined benefit plan. All employees, with the exception of certain higher education employees, have the option of participating in the plan. At July 1, 2009, the State's administrative functions for the defined contribution plan were transferred to PERA. New member contributions to the plan vest from 50 percent to 100 percent evenly over five years. Participants in the plan are required to contribute 8 percent (10 percent for state troopers) of their salary. The temporary contribution rate increase to 10.5 percent (12.5 percent for State Troopers) effective in Fiscal Years 2010–11 and 2011–12 expired on July 1, 2012. At December 31, 2013, the plan had 4,719 participants.

6. Other Retirement Plans (continued):

Deferred Compensation Plan:

The PERA Deferred Compensation Plan (457) was established July 1, 2009 as a continuation of the State's deferred compensation plan that 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 2013, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution) to a maximum of $17,500. The reduction for the 8 percent PERA contribution reflects the expiration of the temporary contribution rate increase to 10.5 percent effective in Fiscal Years 2010–11 and 2011–12. Participants who are age 50 and older and are contributing the maximum amount allowable were allowed to make an additional $5,500 contribution in 2013, for total contributions of $23,000. Contributions and earnings are tax deferred. At December 31, 2013, the plan had 17,462 participants.

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

7. Other Postemployment Benefits:

Health Care Program:

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the program and the Health Care Fund; the program was converted to a trust fund in 1999. The plan is a cost-sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for health care coverage. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its Comprehensive Annual Financial Report, which may be obtained by writing PERA at P.O. Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting http://www.copera.org.

After the PERA subsidy, the benefit recipient pays the balance of the premium through an automatic deduction from the monthly retirement benefit. Monthly premium costs for participants depend on the health care plan selected, the PERA subsidy amount, Medicare eligibility, and the number of persons covered. Effective July 1, 2000, the maximum monthly subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare;

7. Other Postemployment Benefits (continued):

Health Care Program (continued):

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 contributions as discussed above in Note 5. Beginning July 1, 2004, State agencies/institutions are required to contribute 1.02 percent of gross covered wages to the Health Care Trust Fund. The Fund contributed $600, $400 and $400 as required by statute in Fiscal Years 2013–14, 2012–13, and 2011–12, 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, 2013, there were 53,041 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2013, the Health Care Trust Fund had an unfunded actuarial accrued liability of $1.26 billion, a funded ratio of 18.8 percent, and a 30-year amortization period.

8. Risk Management:

Self-Insurance:

The State of Colorado currently self-insures its agencies, officials, and employees for the risks of losses to which they are exposed. That includes general liability, motor vehicle liability, and worker's compensation. The State Risk Management Fund is a restricted General Fund used for claims adjustment, investigation, defense, and authorization for the settlement and payment of claims or 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 a third party administrator, Broadspire Services (Broadspire), to administer its plan. The State reimburses Broadspire for the current cost of claims paid and related administrative expenses.

8. Risk Management (continued):

Self-Insurance (continued):

CollegeInvest participates in the State 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 re-evaluated 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, CRS are as follows:

Liability	Limits of Liability
General and Automobile	Each person $350,000
	Each occurrence $990,000

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

Furniture and Equipment:

The State of Colorado carries a $15,000 deductible replacement policy on all state owned furniture and equipment. For each loss incurred, CollegeInvest is responsible for the first $5,000 of the deductible and the State of Colorado is responsible for the next $10,000 of the deductible. Any loss in excess of $15,000 is covered by the insurance carrier up to replacement cost.

9. Net Position:

Restricted net position includes net position that is restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Net position is restricted for the purpose of meeting future payments for higher education expenses as stipulated by the CRS 23-3.1-206.7(5)(a) and as agreed to in the advance payment contracts.

The Fund had a net position of $0 as of June 30, 2014, due to closing the Fund. The Fund had a restricted net position of $58,000 as of June 30, 2013.

BKD LLP
CPAs & Advisors

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

Members of the Legislative Audit Committee:

We have audited, 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 basic financial statements of CollegeInvest Prepaid Tuition Fund (the Fund) (a division of the Department of Higher Education, State of Colorado), which comprise the statement of financial position as of June 30, 2014, and the related statements of revenues, expenses and change in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 4, 2014, which contained a paragraph emphasizing matters regarding the financial statements.

Internal Control Over Financial Reporting

Management of the Fund is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Fund's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A *deficiency in internal* control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Fund's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Denver, Colorado
December 4, 2014

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Independent Auditor's Communication to Legislative Audit Committee

Members of the Legislative Audit Committee

As part of our audit of the financial statements of CollegeInvest Prepaid Tuition Fund (Prepaid Tuition Fund) as of and for the year ended June 30, 2014, we wish to communicate the following to you.

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America and the Standards Applicable to Financial Audits Contained in *Government Auditing Standards* Issued by the Comptroller General of the United States

An audit performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction.

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

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

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Prepaid Tuition Fund's significant accounting policies are described in Note 1 of the audited financial statements.

Alternative Accounting Treatments

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

- No matters are reportable

Management Judgments and Accounting Estimates

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

- No matters are reportable

Financial Statement Disclosures

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

- Closure of Prepaid Tuition Fund

Audit Adjustments

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

Areas in which adjustments were proposed include the following:

Proposed Audit Adjustments Recorded
- No matters are reportable

Proposed Audit Adjustments Not Recorded
- Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.

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

During the course of the audit, we made the following observations regarding the Prepaid Tuition Fund's application of accounting principles:

- Closure of Prepaid Tuition Fund

Disagreements with Management

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

- No matters are reportable

Consultation with Other Accountants

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

- No matters are reportable

Significant Issues Discussed with Management

Prior to Retention

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

- No matters are reportable

During the Audit Process

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

- Financial statement disclosures related to the early settlement of the fund

Difficulties Encountered in Performing the Audit

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

- No matters are reportable

Other Material Written Communications

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

- Management representation letter

* * * * *

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

BKD, LLP

Denver, Colorado
December 4, 2014

CollegeInvest - Prepaid Tuition Fund

ATTACHMENT

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

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets				
Non-Current Assets				
Current Liabilities				
Non-Current Liabilities				
Current Ratio				
Total Assets				
Total Liabilities				
Total Net Assets				
Operating Revenues	(33,000)		(33,000)	
Operating Expenses	233,000	11,000	244,000	4.72%
Nonoperating Revenues (Exp)	(142,000)		(142,000)	
Change in Net Assets	58,000	11,000	69,000	18.97%

Client: CollegeInvest - Prepaid Tuition Fund

Period Ending: June 30, 2014

Major Enterprise Fund

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Description	Financial Statement Line Item	Factual (F), Judgmental (J) Projected (P)	Assets: *Current* DR (CR)	Assets: *Non-Current* DR (CR)	Liabilities: *Current* DR (CR)	Liabilities: *Non-Current* DR (CR)	Operating Revenues DR (CR)	Operating Expenses DR (CR)	Nonoperating Revenues (Exp) DR (CR)	Net Assets DR (CR)	Net Effect on Following Year: *Change in Net Assets* DR (CR)	Net Effect on Following Year: *Net Assets* DR (CR)
Reversal of PY overaccrual of settlement liability due to closing of the fund		F	0	0	0	0	0	11,000	0	(11,000)	0	0
			0	0	0	0	0	0	0	0	0	0
			0	0	0	0	0	0	0	0	0	0
			0	0	0	0	0	0	0	0	0	0
			0	0	0	0	0	0	0	0	0	0
			0	0	0	0	0	0	0	0	0	0
Total passed adjustments			0	0	0	0	0	11,000	0	(11,000)	0	0

Impact on Change in Net Assets	**11,000**
Impact on Net Assets	**0**