

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
COLLEGE SAVINGS PROGRAM
SCHOLARS CHOICE FUND
AND
STABLE VALUE PLUS FUND
Denver, Colorado

FINANCIAL STATEMENTS
June 30, 2003

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
SCHOLARS CHOICE FUND
Denver, Colorado

FINANCIAL STATEMENTS
June 30, 2003 and 2002

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**COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
SCHOLARS CHOICE FUND**

FINANCIAL AUDIT

June 30, 2003

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Members of the Legislative Audit Committee:

This report contains the results of the financial audit of the Scholars Choice Fund of the Colorado Student Obligation Bond Authority d/b/a CollegeInvest as of June 30, 2003. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of the departments, institutions and agencies of State government.

Clifton Gunderson LLP

Greenwood Village, Colorado
October 7, 2003

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REPORT SUMMARY

COLORADO STUDENT OBLIGATION BOND AUTHORITY

d/b/a COLLEGEINVEST

SCHOLARS CHOICE FUND

FINANCIAL AUDIT

FISCAL YEAR ENDED JUNE 30, 2003

Purpose and Scope

The Office of the State Auditor, State of Colorado, engaged Clifton Gunderson LLP to conduct the financial audit of the Colorado Student Obligation Bond Authority d/b/a CollegeInvest (CollegeInvest) Scholars Choice Fund (Scholars Choice Fund) for the fiscal year ended June 30, 2003. 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 the Scholars Choice Fund financial statements of CollegeInvest as of the fiscal year ended June 30, 2003.

Audit Opinions and Reports

We expressed an unqualified opinion on CollegeInvest's Scholars Choice Fund financial statement, as of and for the fiscal year ended June 30, 2003.

Summary of Key Findings and Recommendations

There were no findings or recommendations reported for the year ended June 30, 2003.

Prior Year Finding No. 1 – Billings to Third Party

CollegeInvest has entered into a Financial Institution Services Agreement with Citigroup Global Markets Inc., formerly Salomon Smith Barney, Inc. (CGM), which outlines the services CGM is to provide the Scholars Choice Fund including investment management services, marketing services and administrative services. CollegeInvest is to bill CGM for a portion of expenses it incurs in administering the Scholars Choice Fund on a monthly basis. For the year ended June 30, 2002, we noted that the CollegeInvest was not billing in accordance with the terms of the agreement and recommended that CollegeInvest begin monthly billing of expenses to be reimbursed. For the year ended June 30, 2003, we noted that CollegeInvest is appropriately billing CGM. As monthly expenses do not necessarily exceed the threshold requiring billing to CGM, CollegeInvest is billing only when the expenses reach this threshold.

Required Communication

Management Judgments and Accounting Estimates. There were no significant accounting estimates of financial data which would be particularly sensitive and require substantial judgment by management.

Significant Audit Adjustments. There was one significant audit adjustments made for the year ended June 30, 2003.

An adjustment in the amount of \$24,889,828 was made to record the increase in fair value of investments at June 30, 2003.

CollegeInvest made this adjustment to fair value prior to the start of the audit. This adjustment has been reflected in these financial statements. However, it is not reflected in the State of Colorado's financial reporting system (COFRS) in accordance with the State Controllers office instructions.

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

**DESCRIPTION OF THE
COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
SCHOLARS CHOICE FUND**

Organization

The Colorado General Assembly established a student obligation bond program (Student Loan Program Funds), a post secondary education expense program (Prepaid Tuition Fund), and a section 529 college savings program (Scholars Choice and Stable Value Plus Fund), which are administered by the Colorado Student Obligation Bond Authority d/b/a CollegeInvest. The programs assist residents in meeting the expenses incurred in availing themselves of higher education opportunities.

Scholars Choice Fund

The Scholars Choice Fund (Fund) was established in October 1999 to provide families with an opportunity to save for future college education expenses. The Fund provides 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 Scholars Choice Fund had more than 160,000 active accounts as of June 30, 2003. Officials at CollegeInvest oversee the Fund but contract with a private financial service firm, Citigroup Global Markets Inc., formerly Salomon Smith Barney, Inc., to manage the Fund.

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

- **Age Based Option** – Contributions are invested in a series of 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 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 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.
- **Fixed Income Portfolio** – Contributions are invested in bond funds throughout the life of the account. This option seeks stable returns on fixed income investments.

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 Scholars Choice Fund. As a result, payments from the Scholars Choice Fund are not guaranteed in any way by the State, and are not considered to have created a debt or obligation of the State. Such payments are limited obligations, payable from the Scholars Choice Fund, but not from the other assets of CollegeInvest.



Independent Auditor's Report

Members of the Legislative Audit Committee:

We have audited the accompanying statement of fiduciary net assets of the Colorado Student Obligation Bond Authority d/b/a CollegeInvest, (a division of the Department of Higher Education, State of Colorado) Scholars Choice Fund (Scholars Choice Fund), as of June 30, 2003 and 2002, and the related statement of changes in fiduciary net assets. These financial statements are the responsibility of Colorado Student Obligation Bond Authority d/b/a CollegeInvest, Scholars Choice Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1 – Organization and Summary of Significant Accounting Policies, the financial statements of the Scholars Choice Fund 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 the Colorado Student Obligation Bond Authority d/b/a CollegeInvest, Scholars Choice Fund. They do not purport to, and do not present fairly, the financial position of the State of Colorado as of June 30, 2003, and the changes in its financial position and its cash flows, where applicable, for the year 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 Colorado Student Obligation Bond Authority d/b/a CollegeInvest, Scholars Choice Fund, as of June 30, 2003 and 2002, and the changes in net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2003 on our consideration of Colorado Student Obligation Bond Authority d/b/a CollegeInvest, Scholars Choice Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 7 to 10 is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. 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 basic financial statements taken as a whole. The supplementary information 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 Henderson LLP

Greenwood Village, Colorado
October 7, 2003

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
SCHOLARS CHOICE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003 AND 2002

This section of the Scholars Choice Fund's financial statements is a discussion and analysis of the financial performance of the Scholars Choice Fund (Fund) for the years ended June 30, 2003 and 2002 prepared by management. The Fund is an Internal Revenue Code (IRC) Section 529 college savings program. The Colorado Student Obligation Bond Authority d/b/a CollegeInvest (CollegeInvest), a division of the Department of Higher Education of the State of Colorado, administers the Fund, the Student Loan Program Funds, the Prepaid Tuition Fund and the Stable Value Plus Fund. The Fund is presented as a fiduciary fund (specifically, a private purpose trust fund) 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 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 the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets.

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

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

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 policy of the Fund. CollegeInvest has entered into an agreement with Citigroup Global Markets Inc., formerly Salomon Smith Barney, Inc. (CGM) to manage the Fund. CGM is a subsidiary of Citigroup Inc. CGM serves as the manager of the Fund through its affiliate, Smith Barney Asset Management Inc., which is part of Citigroup Asset Management (CAM), the asset management division of Citigroup Inc. The Fund offers five investment options in which participants may invest. These investment options are designed to help meet the investment goals of investors.

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
SCHOLARS CHOICE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2003 AND 2002

Comparison of Current Year Results to Prior Year:

Condensed Statement of Fiduciary Net Assets as of June 30,
(dollar amounts expressed in thousands)

	<u>2003</u>	<u>2002</u>
Cash and investments	\$ 957,741	\$ 528,676
Receivables	<u>6,372</u>	<u>9,391</u>
Total assets	964,113	538,067
Total liabilities	<u>3,306</u>	<u>5,336</u>
Total fiduciary net assets, restricted	<u>\$ 960,807</u>	<u>\$ 532,731</u>

Overall fiduciary net assets increased by over \$428.1 million during the fiscal year ending June 30, 2003. The Fund had contributions of \$389.4 million for the fiscal year. This was a decrease of \$118.3 million from the prior fiscal year. Therefore, the Fund continues to grow but at a lower rate than the prior year. Fiduciary net assets grew 644% during the fiscal year ending June 30, 2002 primarily due to participant contributions, augmented by favorable tax changes and an amendment to the management agreement allowing for expansion of sales through financial professionals. This compares to fiduciary net assets growth of 80% during the fiscal year ending June 30, 2003. The reduction in the growth rate is also attributed to the overall financial markets which experienced mixed investment returns during the year. Receivables and liabilities consist primarily of contributions received, but not invested. These activities were at a lower level on June 30, 2003 than June 30, 2002 due to the decrease in overall activity of the Fund as noted above.

Condensed Statement of Changes in Fiduciary Net Assets for the Years Ended June 30,
(dollar amounts expressed in thousands)

	<u>2003</u>	<u>2002</u>
Net investment income (loss)	\$ 75,791	\$ (38,029)
Participant contributions	389,368	507,643
Reimbursement of operating expenses	<u>-</u>	<u>189</u>
Total additions	<u>465,159</u>	<u>469,803</u>
Benefits paid to participants and withdrawals	32,645	6,853
Administrative and service fees	4,438	1,640
Operating expenses	<u>-</u>	<u>189</u>
Total deductions	<u>37,083</u>	<u>8,682</u>
Net change in fiduciary net assets	428,076	461,121
Fiduciary net assets, beginning of year	<u>532,731</u>	<u>71,610</u>
Fiduciary net assets, end of year	<u>\$ 960,807</u>	<u>\$ 532,731</u>

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
SCHOLARS CHOICE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2003 AND 2002

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

Net investment income is comprised of dividends, interest income, and net realized and unrealized gains or losses from security transactions, net of investment fees. Market conditions for the fiscal year ending June 30, 2003 had the greatest impact with a positive overall market return compared to a negative overall market return for the year ending June 30, 2002. Net realized and unrealized gains on security transactions was \$61.3 million for the fiscal year ending June 30, 2003 and the net realized and unrealized loss on security transactions for the fiscal year ending June 30, 2002 was \$44.2 million. Dividend and interest income of \$15.8 million and \$7.0 million for 2003 and 2002, respectively, was the same as a percentage of average net assets for both years. Investment fees of \$1.3 million for 2003 were greater than 2002 by \$500,000, but were lower than 2002 as a percentage of average net assets. This is due to pricing efficiencies and economies of scale as the Fund matures.

Benefits paid to participants and withdrawals increased from \$6.9 million paid during fiscal year 2002 to \$32.8 million paid during fiscal year 2003. For fiscal year end 2003 they were 4.4% of average net assets as opposed to 2.3% for fiscal year end 2002. The Internal Revenue Service has regulations that allow investors to change their investment options within the Fund once each twelve months. These regulations also allow an investor to rollover his or her investment to another Section 529 plan one time each calendar year.

Administrative and service fees of \$4.4 million at June 30, 2003 and \$1.6 million at June 30, 2002 were consistent from prior year to current year at an average of 0.6% of average net assets for both years.

Economic Factors:

- ❖ Performance of individual participant accounts is dependent on risk factors associated with market-based investments. Refer to the Scholars Choice College Savings Program Disclosure Statement and Participation Agreement for a discussion of the various risk factors associated with the Fund.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
SCHOLARS CHOICE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2003 AND 2002**

Requests for Information:

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

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
SCHOLARS CHOICE FUND
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2003 AND 2002
(dollar amounts expressed in thousands)

	2003	2002
Fiduciary assets:		
Cash and cash equivalents	\$ 613	\$ 7
Investments, at fair value	957,128	528,669
Receivable for portfolio units sold	4,649	8,104
Dividends and interest receivable	1,647	1,098
Accounts receivable, other	<u>76</u>	<u>189</u>
Total fiduciary assets	964,113	538,067
Liabilities:		
Due to custodian	-	527
Payable for investments purchased	2,725	4,351
Service and administration fees payable	505	269
Due to Student Loan Program Funds	<u>76</u>	<u>189</u>
Total liabilities	3,306	5,336
Total fiduciary net assets, restricted	<u>\$960,807</u>	<u>\$532,731</u>

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

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
SCHOLARS CHOICE FUND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002
(dollar amounts expressed in thousands)

	<u>2003</u>	<u>2002</u>
Additions:		
Gross earnings on investments:		
Dividends	\$ 15,790	\$ 6,978
Net realized and unrealized gains (losses) from security transactions	<u>61,284</u>	<u>(44,219)</u>
	77,074	(37,241)
Less investment fees	<u>(1,283)</u>	<u>(788)</u>
Net investment income (loss)	75,791	(38,029)
Participant contributions	389,368	507,643
Reimbursement of operating expenses	<u>-</u>	<u>189</u>
Total additions	<u>465,159</u>	<u>469,803</u>
Deductions:		
Benefits paid to participants and withdrawals	32,645	6,853
Service fees	3,743	1,355
Administrative fees	695	285
Operating expenses	<u>-</u>	<u>189</u>
Total deductions	<u>37,083</u>	<u>8,682</u>
Net change in fiduciary net assets	428,076	461,121
Fiduciary net assets, beginning of year	<u>532,731</u>	<u>71,610</u>
Fiduciary net assets, end of year	<u>\$ 960,807</u>	<u>\$ 532,731</u>

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

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
SCHOLARS CHOICE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002

1. Organization and Summary of Significant Accounting Policies:

Pursuant to Colorado Revised Statutes 23-3.1-2 and 23-3.1-3, as amended, the Colorado Student Obligation Bond Authority d/b/a CollegeInvest (CollegeInvest) became a division of the Colorado Department of Higher Education (Department) of the State of Colorado as of May 26, 2000. The Executive Director of the Department has responsibility for oversight and management of CollegeInvest. In addition, CollegeInvest has a nine-person Board of Directors (Board) designated by the Governor and approved by the State Senate to serve four-year terms.

The Colorado General Assembly established a student obligation bond program (Student Loan Program Funds), a post secondary education expense program (Prepaid Tuition Fund), and a Section 529 college savings program (Scholars Choice and Stable Value Plus Fund) which are administered by CollegeInvest. The Scholars Choice Fund (Fund) is one of CollegeInvest's savings programs. The mission of CollegeInvest is to provide innovative, quality financial resources and services that enable all Coloradans to pursue higher education. The operations of the Fund are accounted for under generally accepted accounting principles 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.

Scholars Choice Fund

The Fund was established to provide families with an additional opportunity to save for future college education expenses. The Fund, which was formed during the 1999 legislative session, began operations on October 19, 1999. As a Section 529 plan under the Internal Revenue Code (IRC), the Fund offers certain federal and State tax advantages to investors. Prior to January 1, 2002, the primary tax advantages included tax deferral of investment earnings and distributions taxed at the student's tax rate if used for qualified higher education expenses. Effective January 1, 2002, the primary tax advantage to participants in the Fund is the ability to exclude from federal taxable income the earnings on any withdrawals prior to 2010 that are used for qualified higher education expenses, as that term is defined in Section 529 of the IRC. In addition, for tax years beginning on or after January 1, 2001, 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. In addition, if a participant is subject to Colorado income tax, earnings on qualified withdrawals are exempt.

As the trustee for the Fund, CollegeInvest has entered into an agreement with Citigroup Global Markets Inc. (CGM), a subsidiary of Citigroup Inc. to manage the Fund. CGM manages the fund through its affiliate, Smith Barney Asset Management Inc., which is part of Citigroup Asset Management (CAM), the asset management division of Citigroup Inc. The investment return for the Fund is based on the market performance of investments selected by its manager. Participants may invest in one or more of the following options:

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
SCHOLARS CHOICE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002

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

Scholars Choice Fund (continued)

- **Age-Based Portfolios:** 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, which offer greater growth potential but increased volatility, to more stable bond and money market funds as follows:

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

- **Balanced Portfolio:** Contributions are invested 50% in equity mutual funds and 50% in bond funds throughout the life of the investment (Portfolio #4). The Balanced Portfolio may be appropriate for account owners who wish to maintain a more consistent level of risk throughout the life of their investment.
- **Years to Enrollment Portfolios:** 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. This option may be suitable for adults planning to return to college or graduate school. These portfolios are identical to Portfolios 3 through 7 in the Age-based Portfolios.

Years to Enrollment	Portfolio #	Equity Funds	Fixed Income	Money Market Funds
10-12 years	3	60%	40%	0%
7-9 years	4	50%	50%	0%
4-6 years	5	40%	50%	10%
1-3 years	6	20%	55%	25%
Less than 1 year	7	10%	60%	30%

- **All Equity Portfolio:** Contributions are invested in equity mutual funds throughout the life of the account. Because of its focus on the equity markets, this option carries the highest return potential of the Scholars Choice options as well as the highest risk. It is only appropriate for account owners with longer time horizons who are comfortable with an increased level of risk while seeking higher long-term returns, or who use this option as part of an overall college savings strategy that includes less aggressive investments.

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
SCHOLARS CHOICE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002

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

Scholars Choice Fund (continued)

- Fixed Income Portfolio: Contributions are invested in bond funds throughout the life of the account. This option may be appropriate for account owners who are seeking the typically more stable returns of a fixed income investment, and who are willing to give up the long-term return potential that the stock market has historically offered. It may also be appropriate as part of an overall college savings strategy that includes more aggressive investments.

The Colorado Constitution and other State laws prohibit the State from providing its full faith and credit to obligations of entities such as the Fund. As a result, payments from the Fund 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 Fund, but not from the other assets of CollegeInvest, or the State. Similarly, investments in the Fund are not insured by the Federal Deposit Insurance Corporation, or any other State or federal government agency. Investments in the Fund are not deposits or other obligations of Citigroup Inc. or any depository institution or affiliate of Citigroup Inc.

Reporting Entity:

The Fund was established to account for operations as a private-purpose trust, 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 meet the obligations for future higher education expenses of a named student. 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 in the accompanying financial statements. Thus, the accompanying financial statements are not intended to present the financial position, results of operations, and cash flows of CollegeInvest as a whole in conformity with generally accepted accounting principles.

The Fund is comprised of nine active portfolios as of June 30, 2003. The accompanying financial statements report on the combined portfolios.

Basis of Accounting:

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles 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.

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
SCHOLARS CHOICE FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003 AND 2002

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

Investments and Revenue Recognition:

CAM has responsibility for investing the assets of each of the Fund'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 Statement, and the Portfolio selected for investment by the participant.

Security transactions 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, 2003 and 2002.

Participant Contributions:

The combined lifetime maximum amount of aggregate contribution for the Fund and all other Colorado Section 529 programs (including the Prepaid Tuition Fund and the Stable Value Plus Fund, which also are offered by CollegeInvest) for a particular student from all sources is \$235,000. The maximum lifetime contribution 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 contribution limit that differs from the \$235,000 contribution limit set under the Fund. In such event, participants may be required to reduce the contribution level by making non-qualified withdrawals, which could be subject to any applicable penalty and taxes.

Withdrawals:

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

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
SCHOLARS CHOICE FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003 AND 2002

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

Investment, Service and Administrative Fees:

CollegeInvest has entered into a service agreement (Agreement) with CAM, as amended on July 15, 2001, pursuant to which CGM is responsible for providing administrative, record keeping, marketing and investment management services to the Fund. The Agreement states that CAM will receive investment and service fees at an annual rate up to 0.99% of average daily net assets. During the fiscal years ending June 30, 2003 and 2002, the Fund paid investment fees of \$1.3 million and \$788,000, respectively. According to the Agreement, each participant bears certain ongoing fees that will vary with the Unit Classes the participant chooses. These direct fees provide for the costs associated with distribution, servicing and administration of the Unit Classes. Such direct fees reduce the value of the participant's account as incurred. Such fees are payable to CAM monthly, solely from the assets of the Fund. The Fund paid service fees of \$3.7 million and \$1.4 million for the fiscal years ending June 30, 2003 and 2002, respectively.

The Agreement states that CollegeInvest will receive an administration fee at an annual rate of up to 0.10% of average daily net assets. These fees represent charges to the Scholars Choice Fund for actual administrative costs of CollegeInvest. Such fees are payable to CollegeInvest monthly, solely from the assets of the Fund. During the fiscal year ending June 30, 2003, CollegeInvest collected \$560,000 of current year administrative fees and \$135,000 of prior year administrative fees.

Additionally, the Agreement states that CollegeInvest will receive reimbursement of actual operating expenses up to 0.20% of the average daily net assets. Such fees are payable to CollegeInvest monthly, solely from CAM. These expenses are recorded as operating expenses with a corresponding reimbursement of operating expenses for a net effect of zero to the Fund. Such operating expenses do not reduce participants' accounts. During the fiscal years ending June 30, 2003 and 2002, the Fund received reimbursement of \$-0- and \$189,000, respectively.

2. Cash, Cash Equivalents and Investments:

Cash and Cash Equivalents:

As contributions are received from participants, the cash is held in the Fund until such time as it may be invested in the Underlying Funds of the chosen investment Portfolios. Depending upon the timing of the cash receipts, there could be a few days delay between the actual receipt of cash and the investment made on behalf of the participant.

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
SCHOLARS CHOICE FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003 AND 2002

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

Investments:

In accordance with GASB Statement No. 3, as amended by GASB Statement No. 31, investments are categorized into the following three categories of credit risk:

Category 1 --- Investments that are insured or registered or investments which are held by CollegeInvest's agent in CollegeInvest's name.

Category 2 --- Investments that are uninsured or unregistered which are held by an agent or trust department in CollegeInvest's name.

Category 3 --- Investments that are uninsured or unregistered which are held by an agent or trust department but not in CollegeInvest's name.

The Board approves the investment policy for the Scholars Choice Fund. Generally, investments include money market funds and bond and equity mutual funds. With respect to these investments, the Scholars Choice Fund is subject to market risk, which represents the exposure to changes in the market, such as a change in interest rates or a change in price or principal value of a security. Credit risk is the exposure to the default of the issuer of the investment securities.

At June 30, 2003 and 2002, all of the Fund's investments were uncategorized because they are not evidenced by securities that exist in physical or book entry form. With respect to these investments, the Fund is subject to market risk, which represents exposure to changes in the market, such as changes in interest rates or changes in the price or principal value of a security.

3. Units:

The beneficial interests of each participant and beneficiary in the net assets of the portfolios 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 Fund. Contributions (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 CGM. 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. Withdrawals result in the redemption of units, based on the unit value next determined following CGM'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.

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
SCHOLARS CHOICE FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003 AND 2002

4. Retirement Plan:

Plan Description:

Virtually all of CollegeInvest's employees participate in the Combined State and School Division Trust Fund (CSSDTF), 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. Title 24, Article 51, of the Colorado Revised Statutes (CRS), as amended, assigns the authority to establish benefit provisions to the State Legislature. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-729-PERA(7372).

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

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

Funding Policy:

Plan members and the State are required to contribute to the CSSDTF at a rate set by statute. Most employees contribute 8.0 percent of their gross covered wages to an individual account in the plan. During fiscal year 2003, the state contributed 10.04 percent of the employee's gross covered wages. Before January 1, 2003, 1.64 percent was allocated to the Health Care Trust Fund, and after January 1, 2003, 1.1 percent was allocated to the Health Care Trust Fund. Throughout the fiscal year, the amount needed to meet the match requirement established by the PERA Board was allocated to the Matchmaker program (See Note 5 below.) The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
SCHOLARS CHOICE FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003 AND 2002

4. Retirement Plan (continued):

The annual gross covered wages subject to PERA is the 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. The contribution requirements of plan members and their employers are established under Title 24, Article 51, Part 4 of the CRS, as amended, and may be amended, by the General Assembly.

CollegeInvest's contributions to the three programs described above for the fiscal years ending June 30, 2003, 2002 and 2001 were \$9,000, \$11,000 and \$6,000, respectively. These contributions met the contribution requirement for each year.

5. Voluntary Tax-deferred Retirement Plans:

Beginning on January 1, 2001, the Matchmaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. For calendar years 2001 and 2002, the match was 100 percent of up to 3 percent of the employee's gross covered wages paid during the month. For calendar year 2003, the match was 100 percent of up to 2 percent of employee's gross covered wages paid during the month. The PERA Board sets the level of the match annually based on the actuarial funding of the defined benefit pension plan. While the plan was not overfunded, the maximum one year change in the match rate is statutorily limited to one percent, and therefore, the match changed from 3 percent to 2 percent. PERA offers a voluntary 401k plan entirely separate from the defined benefit pension plan. The state offers a 457 deferred compensation plan and certain agencies and institutions of the state offer a 403b plan. Members who contribute to any of these plans also receive the state match.

6. Postretirement Health Care and Life Insurance Benefits:

Health Care Program

The Health Care Trust Fund (formerly known as 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. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During fiscal year 2003, the premium subsidy was \$115.00 for those with 20 years of service credit (\$230.00 for members under age 65), and it was reduced by 5 percent for each year of service fewer than 20. Medicare eligibility also affects the premium subsidy.

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
SCHOLARS CHOICE FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003 AND 2002

6. Postretirement Health Care and Life Insurance Benefits:

Health Care Program (continued)

The Health Care Trust Fund is maintained by an employer's contribution as discussed above in Note 4.

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. As of December 31, 2002 there were 35,418 enrollees in the plan.

Life Insurance Program

PERA provides its members access to two group life insurance plans offered by Prudential and Anthem Life (formerly known as Rocky Mountain Life). Members may join one or both plans, and they may continue coverage into retirement. Premiums are collected monthly by payroll deduction or other means.

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 judgements against the State except for employee medical claims. Property claims are not self-insured; rather the State has purchased insurance.

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

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
SCHOLARS CHOICE FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003 AND 2002

7. Risk Management (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 are as follows:

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

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

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

8. Net Assets:

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

All of the Fund’s fiduciary net assets of \$960.8 million and \$532.7 million as of June 30, 2003 and 2002, respectively, are net assets held by CollegeInvest on behalf of its investors in the Fund and therefore restricted.



Independent Auditor's Report

Members of the Legislative Audit Committee:

We have audited the accompanying statement of fiduciary net assets of the Colorado Student Obligation Bond Authority d/b/a CollegeInvest, (a division of the Department of Higher Education, State of Colorado) Scholars Choice Fund (Scholars Choice Fund), as of June 30, 2003 and 2002, and the related statement of changes in fiduciary net assets. These financial statements are the responsibility of Colorado Student Obligation Bond Authority d/b/a CollegeInvest, Scholars Choice Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1 – Organization and Summary of Significant Accounting Policies, the financial statements of the Scholars Choice Fund 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 the Colorado Student Obligation Bond Authority d/b/a CollegeInvest, Scholars Choice Fund. They do not purport to, and do not present fairly, the financial position of the State of Colorado as of June 30, 2003, and the changes in its financial position and its cash flows, where applicable, for the year 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 Colorado Student Obligation Bond Authority d/b/a CollegeInvest, Scholars Choice Fund, as of June 30, 2003 and 2002, and the changes in net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Clifton Henderson LLP

Greenwood Village, Colorado

October 7, 2003

SUPPLEMENTARY INFORMATION

Colorado Student Obligation Bond Authority
d/b/a CollegeInvest
Scholars Choice Fund
Supplementary Schedule - Combining Statement of Fiduciary Net Assets
June 30, 2003
(dollar amounts expressed in thousands)

	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	Portfolio 5	Portfolio 6	Portfolio 7	Fixed Income	Equity	Total
Assets:										
Cash and cash equivalents	\$ 199	\$ 151	\$ 47	\$ (15)	\$ 78	\$ (45)	\$ (14)	\$ (39)	\$ 251	\$ 613
Investments, at fair value	100,812	86,446	102,069	239,443	89,132	53,575	16,050	46,436	223,165	957,128
Receivable for portfolio units sold	736	422	363	1,034	584	198	67	215	1,030	4,649
Dividends and interest receivable	140	136	162	412	143	104	17	104	429	1,647
Accounts receivable, other	9	7	8	19	7	4	1	3	18	76
Total Fiduciary Assets	101,896	87,162	102,649	240,893	89,944	53,836	16,121	46,719	224,893	964,113
Liabilities:										
Payable for investments purchased	520	275	199	578	216	212	42	408	275	2,725
Service and administrative fees payable	51	44	53	126	49	28	9	23	122	505
Due to Student Loan Program Funds	9	7	8	19	7	4	1	3	18	76
Total Liabilities	580	326	260	723	272	244	52	434	415	3,306
Total Fiduciary Net Assets	\$ 101,316	\$ 86,836	\$ 102,389	\$ 240,170	\$ 89,672	\$ 53,592	\$ 16,069	\$ 46,285	\$ 224,478	\$ 960,807
Units Outstanding	10,350,879	8,304,553	9,825,126	21,390,310	8,317,004	4,704,347	1,383,794	3,738,099	27,653,517	
Unit Value	\$ 9.79	\$ 10.46	\$ 10.42	\$ 11.23	\$ 10.78	\$ 11.39	\$ 11.61	\$ 12.38	\$ 8.12	

See accompanying independent auditors' report.

Colorado Student Obligation Bond Authority
d/b/a CollegeInvest
Scholars Choice Fund
Supplementary Schedule - Combining Statement of Changes in Fiduciary Net Assets
For the fiscal year ended June 30, 2003
(dollar amounts expressed in thousands)

	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	Portfolio 5	Portfolio 6	Portfolio 7	Fixed Income	Equity	Total
Additions:										
Gross earnings on investments:										
Dividends	\$ 1,347	\$ 1,395	\$ 1,893	\$ 5,063	\$ 1,723	\$ 1,114	\$ 305	\$ 1,505	\$ 1,445	\$ 15,790
Net realized and unrealized loss from security transactions	6,401	6,210	6,420	15,386	4,700	1,842	367	1,346	18,612	61,284
	7,748	7,605	8,313	20,449	6,423	2,956	672	2,851	20,057	77,074
Less investment fees	(166)	(139)	(154)	(385)	(98)	(69)	(18)	(75)	(179)	(1,283)
Net investment income	7,582	7,466	8,159	20,064	6,325	2,887	654	2,776	19,878	75,791
Participant contributions	58,184	36,886	43,930	92,006	33,604	17,435	4,818	29,221	73,284	389,368
Total additions	65,766	44,352	52,089	112,070	39,929	20,322	5,472	31,997	93,162	465,159
Deductions:										
Benefits paid to participants and withdrawals	2,114	2,075	2,097	8,610	1,701	2,589	3,473	3,988	5,998	32,645
Administrative fees	73	61	74	178	64	38	12	31	164	695
Service fees	371	317	391	951	356	207	68	157	925	3,743
Total deductions	2,558	2,453	2,562	9,739	2,121	2,834	3,553	4,176	7,087	37,083
Portfolio exchanges, net	(20,129)	(1,683)	(3,842)	(295)	6,211	10,122	5,879	5,887	(2,150)	-
Net change in fiduciary net assets	43,079	40,216	45,685	102,036	44,019	27,610	7,798	33,708	83,925	428,076
Fiduciary net assets, at beginning of period	58,237	46,620	56,704	138,134	45,653	25,982	8,271	12,577	140,553	532,731
Fiduciary net assets, at end of period	<u>\$ 101,316</u>	<u>\$ 86,836</u>	<u>\$ 102,389</u>	<u>\$ 240,170</u>	<u>\$ 89,672</u>	<u>\$ 53,592</u>	<u>\$ 16,069</u>	<u>\$ 46,285</u>	<u>\$ 224,478</u>	<u>\$ 960,807</u>

See accompanying independent auditors' report.

Colorado Student Obligation Bond Authority
d/b/a CollegeInvest
Scholars Choice Fund
Supplementary Schedule - Combining Schedule of Investments
June 30, 2003
(dollar amounts expressed in thousands)

	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	Portfolio 5	Portfolio 6	Portfolio 7	Fixed Income	Equity	Total
Underlying Funds:										
Smith Barney Investment Trust - Smith Barney										
Large Capitalization Growth Fund	\$ 25,608	\$ 21,952	\$ 20,671	\$ 48,616	\$ 13,642	\$ 5,737	\$ 800	\$ -	\$ 101,148	\$ 238,174
Salomon Brothers Investors Value Fund	24,809	21,311	20,218	47,955	13,303	5,477	799	-	99,463	233,335
Smith Barney Small Cap Core Fund, Inc.	15,290	8,833	10,514	12,211	4,494	-	-	-	22,554	73,896
The American Funds Group Euro Pacific Growth Fund	14,935	8,505	10,287	12,070	4,377	-	-	-	-	50,174
MFS Government Securities Fund	10,155	12,967	20,264	47,666	17,799	18,522	-	27,765	-	155,138
Smith Barney Investment Funds - Smith Barney										
Investment Grade Bond Fund	10,015	12,878	15,044	35,226	8,774	-	-	11,736	-	93,673
Smith Barney Funds, Inc. - Short-Term High Grade										
Bond Fund	-	-	5,071	35,699	17,799	10,568	9,596	6,935	-	85,668
Smith Barney Money Funds, Inc. - Cash Portfolio	-	-	-	-	8,944	13,271	4,855	-	-	27,070
 Total Investments, at fair value	 \$ 100,812	 \$ 86,446	 \$ 102,069	 \$ 239,443	 \$ 89,132	 \$ 53,575	 \$ 16,050	 \$ 46,436	 \$ 223,165	 \$ 957,128

See accompanying independent auditors' report.

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Report Control Number 1530C

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
STABLE VALUE PLUS FUND
Denver, Colorado

FINANCIAL STATEMENTS
June 30, 2003

**LEGISLATIVE AUDIT COMMITTEE
2004 MEMBERS**

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Chairman

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Vice-Chairman

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Contract Auditors

**COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
STABLE VALUE PLUS FUND**

FINANCIAL AUDIT

June 30, 2003

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Members of the Legislative Audit Committee:

This report contains the results of the financial audit of the Stable Value Plus Fund of the Colorado Student Obligation Bond Authority d/b/a CollegeInvest as of June 30, 2003. 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. The report represents our findings and recommendations and the responses of the Stable Value Plus Fund of the Colorado Student Obligation Bond Authority d/b/a CollegeInvest.

Clifton Gunderson LLP

Greenwood Village, Colorado
October 7, 2003

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REPORT SUMMARY

COLORADO STUDENT OBLIGATION BOND AUTHORITY

d/b/a COLLEGEINVEST

STABLE VALUE PLUS FUND

FINANCIAL AUDIT

FISCAL YEAR ENDED JUNE 30, 2003

Purpose and Scope

The Office of the State Auditor, State of Colorado, engaged Clifton Gunderson LLP to conduct the financial audit of the Colorado Student Obligation Bond Authority d/b/a CollegeInvest (CollegeInvest) Stable Value Plus Fund (Stable Value Plus Fund) for the five months ended June 30, 2003. 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 the Stable Value Plus Fund financial statements of CollegeInvest as of the period ended June 30, 2003.

Audit Opinions and Reports

We expressed an unqualified opinion on CollegeInvest's Stable Value Plus Fund financial statements, as of and for the period ended June 30, 2003.

Summary of Key Findings and Recommendations

FINDING NO. 1 – Calculation of Redemption Value of Units

CollegeInvest has published a Program Disclosure Statement which describes important aspects of the Stable Value Plus Fund and the risks of investing in the Fund. According to the Program Disclosure Statement when a distribution is requested by the investor, the value will be calculated based on the date subsequent to the day the withdrawal request form is received by CollegeInvest. For the period ended June 30, 2003, we noted CollegeInvest is calculating the value of the distributions on the date the monies are distributed which may be up to 14 days after the distribution request is received.

While this results in a benefit to the participants because they receive the advantage of the additional interest, we recommend CollegeInvest change its procedures to conform to the Program Disclosure Statement's Policy or amend the Statement to reflect current practice.

Required Communication

Management Judgments and Accounting Estimates. There were no significant accounting estimates of financial data which would be particularly sensitive and require substantial judgment by management.

Significant Audit Adjustments. One audit adjustment was made for the period ended June 30, 2003 in the amount of \$240,690 to record a transfer from the Borrower Benefit Fund within the Student Loan Program Funds to cover the Fund's startup costs and excess operating costs.

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

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	6	CollegeInvest should change its procedures to conform to the Program Disclosure Statement's policy or amend the Statement to reflect current practice.	CollegeInvest	Partially Agree	March 2004

**DESCRIPTION OF THE
COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
STABLE VALUE PLUS FUND**

Organization

The Colorado General Assembly established a student obligation bond program (Student Loan Program Funds), a post secondary education expense program (Prepaid Tuition Fund), and a Section 529 college savings program (Scholars Choice Fund and Stable Value Plus Fund), which are administered by the Colorado Student Obligation Bond Authority d/b/a CollegeInvest (CollegeInvest). The programs assist residents in meeting the expenses incurred in availing themselves of higher education opportunities. The Executive Director of the Colorado Department of Higher Education has responsibility for oversight and management of CollegeInvest. In addition, CollegeInvest has a nine person Board of Directors (Board) designated by the Governor and approved by the State Senate to serve four year terms.

Stable Value Plus Fund

The Stable Value Plus Fund (Fund) began accepting contributions in February 2003 to provide families with an opportunity to save for future college education expenses. The Fund provides 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. “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 Stable Value Plus Fund had more than 1,600 active accounts as of June 30, 2003. CollegeInvest is the trustee and the administrator of the Fund and Travelers Insurance Company (Travelers) 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 a 0.99% administrative fee. This net rate of return is currently 4.01%. Investments in the Fund are guaranteed solely by Travelers.

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 Stable Value Plus Fund. As a result, payments from the Stable Value Plus Fund are not guaranteed in any way by the State and are not considered to have created a debt or obligation of the State. Such payments are limited obligations, payable from the Stable Value Plus Fund, but not from the other assets of CollegeInvest.

FINDINGS AND RECOMMENDATIONS

We have completed our audit of the financial statements of CollegeInvest for the period ended June 30, 2003. In connection with our audit, we have the following comment and recommendation for improvement.

FINDING NO. 1 – Calculation of Redemption Value of Units

CollegeInvest has published a Program Disclosure Statement which describes important aspects of the Stable Value Plus Fund and the risks of investing in the Fund. According to the Program Disclosure Statement when a distribution is requested by the investor, the value will be calculated based on the date subsequent to the day the withdrawal request form is received by CollegeInvest. For the period ended June 30, 2003, we noted CollegeInvest is calculating the value of the distributions on the date the monies are distributed which may be up to 14 days after the distribution request is received. While this results in a benefit to the participants because they receive additional interest, the practice is not consistent with the policy.

RECOMMENDATION

CollegeInvest should change its procedures to conform to the Program Disclosure Statement's policy or amend the Statement to reflect current practice.

COLLEGEINVEST'S RESPONSE

Partially agree. There is an interpretative issue that CollegeInvest agrees should be clarified. The Program Disclosure Statement reads "The number of units to be redeemed by CollegeInvest will be based on the Net Asset Value next determined following CollegeInvest's receipt of a withdrawal request in good order".

CollegeInvest's current processing policy is to determine and process withdrawal requests weekly. This is in compliance with the Program Disclosure Statement requirement that "we will promptly process directions for withdrawals and will generally direct payment of withdrawals within fifteen days after receiving a properly completed Withdrawal Form".

To clarify the policy, CollegeInvest will amend its Program Disclosure Statement in March 2004 to reflect current practice as follows:

CollegeInvest will process withdrawal requests within 15 calendar days of the date a proper withdrawal request is received by CollegeInvest. The number of units to be redeemed by CollegeInvest will be based on the value on the date preceding the date of the disbursement.



Independent Auditor's Report

Members of the Legislative Audit Committee:

We have audited the accompanying statement of fiduciary net assets of the Colorado Student Obligation Bond Authority d/b/a CollegeInvest, (a division of the Department of Higher Education, State of Colorado) Stable Value Plus Fund (Stable Value Plus Fund), as of June 30, 2003, and the related statement of changes in fiduciary net assets for the period ended June 30, 2003. These financial statements are the responsibility of Colorado Student Obligation Bond Authority d/b/a CollegeInvest, Stable Value Plus Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1 – Organization and Summary of Significant Accounting Policies, the financial statements of the Stable Value Plus Fund are intended to present the financial position, and results of operations for only that portion of the financial reporting entity of the Department of Higher Education, State of Colorado that is attributable to the transactions of the Colorado Student Obligation Bond Authority d/b/a CollegeInvest, Stable Value Plus Fund. They do not purport to, and do not present fairly, the financial position of the State of Colorado as of June 30, 2003 and the changes in its financial position and its cash flows, where applicable, for the year 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 Colorado Student Obligation Bond Authority d/b/a CollegeInvest, Stable Value Plus Fund, as of June 30, 2003, and the changes in net assets for the period then ended in conformity with accounting principles generally accepted in the United States of America.

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Greenwood Village, Colorado 80111
tel: (303) 779-5710
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In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2003 on our consideration of Colorado Student Obligation Bond Authority d/b/a CollegeInvest, Stable Value Plus Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 13 is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it.

Clifton Henderson LLP

Greenwood Village, Colorado
October 7, 2003

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
STABLE VALUE PLUS FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

This section of the Stable Value Plus Fund's financial statements is a discussion and analysis of the financial performance of the Stable Value Plus Fund (Fund) from inception in February 2003 through June 30, 2003. The Fund is an Internal Revenue Code (IRC) Section 529 college savings program. The Colorado Student Obligation Bond Authority d/b/a CollegeInvest (CollegeInvest), a division of the Department of Higher Education of the State of Colorado, administers the Fund, in addition to the Student Loan Program Funds, the Prepaid Tuition Fund and the Scholars Choice Fund. The Fund is presented as a fiduciary fund (specifically, a private purpose trust fund) 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 Fund's financial statements.

Overview of the Financial Statements presented as follows:

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 and the Statement of Changes in Fiduciary Net Assets.

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

The Statement of Changes in Fiduciary Net Assets presents information that reflects how the Fund's net assets changed during the period from inception to June 30, 2003. 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 Fund began accepting participant contributions on February 1, 2003. Therefore, the accompanying financial statements include activities for five months. 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 policy of the Fund. CollegeInvest has entered into a funding agreement (Agreement) with Travelers Insurance Company (Travelers), a wholly-owned subsidiary of Citigroup Inc., to provide a guarantee on the principal and earnings of the Fund. The Fund offers an investment return based on an interest rate that is reset annually by Traveler's each January 1st.

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
STABLE VALUE PLUS FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2003

Analysis of Financial Activities (continued):

Under the Agreement, Travelers has agreed that the annual interest rate calculated each year will not be less than the greater of (i) the minimum nonforfeiture rate for annuity contracts established by Colorado law, or (ii) 2.00%. The Colorado minimum net nonforfeiture rate for annuity contracts is 1.5%, effective August 6, 2003. The minimum investment return on accounts in the fund could be as low as 1.01%, or the current minimum annual rate of 2.00% less the CollegeInvest administrative fee of .99%. However, for the five months ended June 30, 2003, Travelers agreed to pay an annual rate of 5.0% less the CollegeInvest administrative fee of 0.99% for a net annual rate of 4.01%.

Current Year Results:

Condensed Statement of Fiduciary Net Assets as of June 30,
(dollar amounts expressed in thousands)

2003

Cash and investments	\$ 13,091
Accounts payable and other liabilities	<u>69</u>
Total fiduciary net assets, restricted	<u>\$ 13,022</u>

Overall, fiduciary net assets grew by over \$13 million during the first five months of the program. The Fund had contributions of \$12.9 million and net investment income of \$200,000 for the five months ended June 30, 2003.

Accounts payable and other liabilities consists primarily of amounts received from participants but not yet invested with Travelers as of June 30, 2003.

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
STABLE VALUE PLUS FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2003

Current Year Results (continued):

Condensed Statement of Changes in Fiduciary Net Assets for the Five Months Ended June 30,
(dollar amounts expressed in thousands)

	<u>2003</u>
Investment income	\$ 200
Participant contributions	<u>12,892</u>
 Total additions	 <u>13,092</u>
 Benefits paid to participants and withdrawals	 31
Start up expenses	168
Administrative fees	<u>112</u>
 Total deductions	 <u>311</u>
Net change in fiduciary net assets	
Before transfers	12,781
Transfer from Student Loan Program Funds	241
Fiduciary net assets, beginning of year	<u>-</u>
Fiduciary net assets, end of year	\$ <u><u>13,022</u></u>

Net investment income is comprised primarily of interest income. Interest income was based on a 5.0% annual interest rate paid by Travelers on participant contributions for the calendar year 2003.

Benefits paid to participants and withdrawals were for distributions of assets to pay higher education expenses. In addition, the Internal Revenue Service has regulations which allow an investor to rollover their investment to another Section 529 plan one time each calendar year.

Start-up expenses consist primarily of legal fees, consulting services, printing and salaries and benefits to establish the Stable Value Plus college savings program. The Borrower Benefit Fund of the Student Loan Program Funds paid \$167,913 on behalf of the Stable Value Plus Fund for these expenses. These expenses may be recovered from the Stable Value Plus Fund through the 0.99% administrative fee and repaid to the Borrower Benefit Fund at a future date if the Fund sustains sufficient assets to repay the monies.

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
STABLE VALUE PLUS FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2003

Current Year Results (continued):

Administrative fees are for recordkeeping and administrative expenses to operate the program. The administrative fee is limited, by the Agreement with Travelers, to 0.99% of daily net assets. For the five months ended June 30, 2003, the administrative expenses of CollegeInvest exceeded 0.99% and the Borrower Benefit Fund of the Student Loan Program Funds paid \$72,777 to cover the actual expenses in excess of the administrative fee. These expenses may be recovered from the participants of the Stable Value Plus Fund through the 0.99% administrative fee and repaid to the Borrower Benefit Fund at a future date if the Fund sustains sufficient assets to repay the monies. In total, the amount transferred from the Borrower Benefit Fund to the Stable Value Plus Fund to cover start up costs and excess administrative expenses was \$240,690 for the five months ended June 30, 2003.

Economic Factors:

- ❖ The rate set each year by Travelers may increase or decrease at the reset date according to current economic conditions. The rate will not be less than the greater of (i) the minimum nonforfeiture rate for annuity contracts established by Colorado law, or (ii) 2.0%. The Colorado minimum net nonforfeiture rate for annuity contracts is 1.5% effective August 6, 2003. It is scheduled to change to 3.0% effective July 1, 2006, but there is no assurance that the Colorado legislature will not further amend the minimum nonforfeiture rate.
- ❖ CollegeInvest is required to discontinue the Agreement with Travelers in the event that the financial strength credit ratings of Travelers shall be lowered to ratings of less than the lowest "A" category of at least two nationally recognized rating agencies. Travelers has the right to discontinue the Agreement only under limited circumstances, including a default by CollegeInvest or material changes to the Program. In the event that the Agreement is discontinued by CollegeInvest for a default by or the insolvency of Travelers, all amounts under the agreement will be immediately payable by Travelers. In the case of discontinuance for any other reason, Travelers may choose to pay out all amounts held under the Agreement to CollegeInvest in a lump sum payment or in annual installments (up to four) over a period not to exceed three years and 60 days. As of June 30, 2003, Travelers had credit ratings from Standard & Poor's of AA and Moody's Investors service of Aa1 which met the credit rating requirement under the terms of the Agreement.
- ❖ The Program is guaranteed solely by Travelers. Investments in the Fund are not guaranteed by CollegeInvest, the State of Colorado, the Federal government, Citigroup Inc., any affiliate of Travelers or any other person or entity. The Travelers commitment to the Fund is based on its ability to pay its obligation, which is not secured by any collateral.

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
STABLE VALUE PLUS FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2003

Current Year Results (continued):

- ❖ If the Fund does not reach a sufficient level of assets to support the administrative expenses incurred by CollegeInvest, the Agreement and the Fund may be discontinued at any time.

Requests for Information:

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

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
STABLE VALUE PLUS FUND
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2003
(Dollar amounts expressed in thousands)

	2003
Fiduciary assets:	
Cash and cash equivalents	\$ 73
Investments, at fair value	<u>13,018</u>
Total fiduciary assets	<u>13,091</u>
Liabilities:	
Payable for investments purchased	66
Service and administration fees payable	<u>3</u>
Total liabilities	<u>69</u>
Total fiduciary net assets, restricted	<u><u>\$ 13,022</u></u>

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

**COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
STABLE VALUE PLUS FUND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FIVE MONTHS ENDED JUNE 30, 2003
(Dollar amounts expressed in thousands)**

	2003
Additions:	
Participant contributions	\$ 12,892
Interest income	196
Fee income	<u>4</u>
Total additions	<u>13,092</u>
Deductions:	
Benefits paid to participants and withdrawals	31
Start up expenses	168
Administrative fees	<u>112</u>
Total deductions	<u>311</u>
Net change in fiduciary net assets before transfers	12,781
Transfer from the Student Loan Program Funds	241
Fiduciary net assets, beginning of period	<u>-</u>
Fiduciary net assets, end of period	\$ <u><u>13,022</u></u>

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

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
STABLE VALUE PLUS FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

1. Organization and Summary of Significant Accounting Policies:

Pursuant to Colorado Revised Statutes 23-3.1-2 and 23-3.1-3, as amended, the Colorado Student Obligation Bond Authority d/b/a CollegeInvest (CollegeInvest) became a division of the Colorado Department of Higher Education (Department) of the State of Colorado as of May 26, 2000. The Executive Director of the Department has responsibility for oversight and management of CollegeInvest. In addition, CollegeInvest has a nine-person Board of Directors (Board) designated by the Governor and approved by the State Senate to serve four-year terms.

The Colorado General Assembly established a student obligation bond program (Student Loan Program Funds), a post secondary education expense program (Prepaid Tuition Fund), and a Section 529 college savings program (Scholars Choice Fund and Stable Value Plus Fund) which are administered by CollegeInvest. The mission of CollegeInvest is to provide innovative, quality financial resources and services that enable all Coloradans to pursue higher education. The operations of the Fund are accounted for under generally accepted accounting principles 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.

Stable Value Plus Fund

The Fund was established to provide families with an additional opportunity to save for future college education expenses. The Fund began operations on February 1, 2003. As a Section 529 plan under the Internal Revenue Code (IRC), the Fund offers certain federal and State tax advantages to investors. The primary tax advantage to participants in the Fund is the ability to exclude from federal taxable income the earnings on any withdrawals prior to 2010 that are used for qualified higher education expenses, as that term is defined in Section 529 of the IRC. In addition, for tax years beginning on or after January 1, 2001, 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. Similar to the federal rule, if a participant is subject to Colorado income tax, earnings on qualified withdrawals are exempt.

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
STABLE VALUE PLUS FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003

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

On January 15, 2003, CollegeInvest entered into an agreement with Travelers to provide a net rate of return to investors, currently 4.01%, based on an overall 5.0% rate of return less the CollegeInvest administrative fee of 0.99%. Under the Agreement, the rate of return will be reset annually each January 1st. Travelers has agreed that the annual interest rate calculated each year will not be less than the greater of (i) the minimum nonforfeiture rate for annuity contracts established by Colorado law, or (ii) 2.00%. The Colorado minimum net nonforfeiture rate for annuity contracts is 1.5%, effective August 6, 2003. The minimum investment return on accounts in the Fund could be as low as 1.01%, or the current minimum annual rate of 2.00% less the CollegeInvest administrative fee of .99%.

The maximum limit currently established for aggregate contributions to the Fund during calendar year 2003 is \$20 million. CollegeInvest may discontinue the Agreement at any time. In the event of such discontinuance, CollegeInvest shall direct the investment of Fund assets to alternate investments as permitted by the Agreement and the investment policy of the Fund. 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.

The Colorado Constitution and other State laws prohibit the State from providing its full faith and credit to obligations of entities such as the Fund. As a result, payments from the Fund 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 participant's individual accounts in the Fund, but not from the other assets of CollegeInvest, or the State. Similarly, investments in the Fund are not insured by the Federal Deposit Insurance Corporation, or any other State or federal government agency. Investments in the Fund are not deposits or other obligations of Citigroup Inc. or any depository institution or Traveler's.

Reporting Entity:

The Fund was established to account for operations as a private-purpose trust, 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 Fund necessary to fulfill its purposes are recorded within the Fund. There are no other funds of CollegeInvest combined in the accompanying financial statements. Thus, the accompanying financial statements are not intended to present the financial position, results of operations, and cash flows of CollegeInvest as a whole in conformity with generally accepted accounting principles.

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
STABLE VALUE PLUS FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003

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

Basis of Accounting:

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles 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.

Investments and Revenue Recognition:

CollegeInvest has responsibility for transferring the assets of the participants to Travelers in accordance with the Agreement. Investments in the underlying Fund are valued at the closing net asset value per share on every 14th and 28th day of each month. Interest income is credited to participant accounts daily. Distributions from the Fund are recorded on the date of withdrawal.

Investments are carried at fair value which equals cost plus guaranteed interest earned as of June 30, 2003.

Participant Contributions:

The combined lifetime maximum amount of aggregate contribution for the Fund and all other Colorado Section 529 programs (including the Prepaid Tuition Fund, which also is offered by CollegeInvest) for a particular student from all sources is \$235,000. The maximum lifetime contribution 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, they may require or permit a maximum contribution limit that differs from the \$235,000 contribution limit set under the Fund. In such event, participants may be required to reduce the contribution level by making non-qualified withdrawals, which could be subject to any applicable penalty and taxes.

Withdrawals:

A qualified withdrawal is a withdrawal made to pay qualified higher education expenses of the student. Non-qualified withdrawals are subject to a 10% penalty on earnings per Section 529 of the IRC. A non-qualified withdrawal is not subject to the 10% penalty only if the withdrawal is: (i) made on account of the death or disability of the student; (ii) made on account of a scholarship received by the student, to the extent that the withdrawal does not exceed the amount of the scholarship; or (iii) a non-taxable transfer to another account or to another Section 529 program on behalf of a student or for a different student who is a family member of the original student.

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
STABLE VALUE PLUS FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003

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

Investment and Administrative Fees:

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

The 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. For the five months ended June 30, 2003, start-up and administrative expenses of CollegeInvest exceeded 0.99% and the Borrower Benefit Fund of the Student Loan Program Funds transferred \$240,690 to cover the expenses in excess of the maximum fee. Of this amount \$167,913 was incurred by CollegeInvest for start up costs. The \$240,690 may be recovered from the participants of the Stable Value Plus Fund through the administrative fee, subject to the 0.99% limit, at a future date if the Fund sustains sufficient assets to repay the monies. In addition, such fees may be changed in the future.

2. Cash, Cash Equivalents and Investments:

As contributions are received from participants, CollegeInvest holds the cash in the Fund until such time as it may be transferred and invested with Travelers. Contributions will be invested with Travelers within 30 days of receipt by CollegeInvest. Any interest earned on contributions prior to investment with Travelers will accrue to CollegeInvest and will be used to defray administrative expenses.

Investments:

In accordance with GASB Statement No. 3, as amended by GASB Statement No. 31, investments are categorized into the following three categories of credit risk:

Category 1 --- Investments that are insured or registered or investments which are held by CollegeInvest's agent in CollegeInvest's name.

Category 2 --- Investments that are uninsured or unregistered which are held by an agent or trust department in CollegeInvest's name.

Category 3 --- Investments that are uninsured or unregistered which are held by an agent or trust department but not in CollegeInvest's name.

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
STABLE VALUE PLUS FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003

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

The Board approves the investment policy for the Stable Value Plus Fund. Generally, investments include any funding agreement, guaranteed interest contract, guaranteed investment contract, annuity contract, repurchase agreement or other similar investment which is 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 of the nationally recognized rating agencies which regularly rate the ability of such investment providers to pay claims. Credit risk is the exposure of default by Travelers.

At June 30, 2003, all of the Fund's investments were uncategorized because they are not evidenced by securities that exist in physical or book entry form. With respect to these investments, the Fund is subject to credit risk, which represents exposure to risks of default by Travelers.

3. Units:

Amounts contributed to the Fund will purchase units at the net asset value calculated on the business day immediately preceding the date the contributions are invested with Travelers. The beneficial interests of each participant and beneficiary in the net assets of the Fund are represented by units. Contributions to and redemptions from the Fund are subject to terms and limitations defined in the participation agreement between the participant and the Fund. 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 funds become available. Withdrawals result in the redemption of units, based on the unit value next determined following CollegeInvest's receipt of the 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.

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
STABLE VALUE PLUS FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003

4. Retirement Plan:

Virtually all of CollegeInvest's employees participate in the Combined State and School Division Trust Fund (CSSDTF), 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. Title 24, Article 51 of the Colorado Revised Statutes (CRS), as amended, assigns the authority to establish benefit provisions to the State Legislature. The State plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-729-PERA(7372).

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

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

Funding Policy:

Plan members and the State are required to contribute to the CSSDTF at a rate set by statute. Most employees contribute 8.0 percent of their gross covered wages to an individual account in the plan. During fiscal year 2003, the state contributed 10.04 percent of the employee's gross covered wages. Before January 1, 2003, 1.64 percent was allocated to the Health Care Trust Fund, and after January 1, 2003, 1.1 percent was allocated to the Health Care Trust Fund. Throughout the fiscal year, the amount needed to meet the match requirement established by the PERA Board was allocated to the Matchmaker program (See Note 5 below.) The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
STABLE VALUE PLUS FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003

4. Retirement Plan (continued):

The annual gross covered wages subject to PERA is the 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. The contribution requirements of plan members and their employers are established under Title 24, Article 51, Part 4 of the CRS, as amended, and may be amended, by the General Assembly.

CollegeInvest's contributions on behalf of the Stable Value Plus Fund to the three programs described above for the five months ended June 30, 2003 was \$3,000. This contribution met the contribution requirement for the year.

5. Voluntary Tax-deferred Retirement Plans:

Beginning on January 1, 2001, the Matchmaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. For calendar years 2001 and 2002, the match was 100 percent of up to 3 percent of the employee's gross covered wages paid during the month. For calendar year 2003, the match was 100 percent of up to 2 percent of employee's gross covered wages paid during the month. The PERA Board sets the level of the match annually based on the actuarial funding of the defined benefit pension plan. While the plan was not overfunded, the maximum one year change in the match rate is statutorily limited to one percent, and therefore, the match changed from 3 percent to 2 percent. PERA offers a voluntary 401k plan entirely separate from the defined benefit pension plan. The state offers a 457 deferred compensation plan and certain agencies and institutions of the state offer a 403b plan. Members who contribute to any of these plans also receive the state match.

6. Postretirement Health Care and Life Insurance Benefits:

Health Care Program

The HealthCare Trust Fund (formerly known as 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. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During fiscal year 2003, the premium subsidy was \$115.00 for those with 20 years of service credit (\$230.00 for members under age 65), and it was reduced by 5 percent for each year of service fewer than 20. Medicare eligibility also affects the premium subsidy.

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6. Postretirement Health Care and Life Insurance Benefits (continued):

The Health Care Trust Fund is maintained by an employer's contribution as discussed above in Note 4.

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. As of December 31, 2002 there were 35,418 enrollees in the plan.

Life Insurance Program

PERA provides its members access to two group life insurance plans offered by Prudential and Anthem Life (formerly known as Rocky Mountain Life). Members may join one or both plans, and they may continue coverage into retirement. Premiums are collected monthly by payroll deduction or other means.

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 judgements against the State except for employee medical claims. Property claims are not self-insured; rather the State has purchased insurance.

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

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

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7. Risk Management (continued):

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

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

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

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

As of June 30, 2003, no claims have been brought against the Stable Value Plus Fund.

8. Net Assets:

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

The Fund had restricted fiduciary net assets of \$13.0 million as of June 30, 2003, as net assets are held in Trust on behalf of investors in the Fund.



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

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

Members of the Legislative Audit Committee:

We have audited the financial statements of Colorado Student Obligation Bond Authority, d/b/a CollegeInvest, Stable Value Plus Fund as of and for the period ended June 30, 2003, and have issued our report thereon dated October 7, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether Colorado Student Obligation Bond Authority, d/b/a CollegeInvest, Stable Value Plus Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Clifton Henderson LLP

Greenwood Village, Colorado
October 7, 2003

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Office of the State Auditor
www.state.co.us/auditor**

**A bound report may be obtained by calling the
Office of the State Auditor
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