COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
PREPAID TUITION FUND
Denver, Colorado

FINANCIAL STATEMENT
June 30, 2003 and 2002

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COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
PREPAID TUITION FUND

FINANCIAL AUDIT

June 30, 2003

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Members of the Legislative Audit Committee:

This report contains the results of the financial audit of the Prepaid Tuition 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 6, 2003

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REPORT SUMMARY

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
PREPAID TUITION 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) Prepaid Tuition Fund (Prepaid Tuition 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 Prepaid Tuition 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 Prepaid Tuition Fund financial statement, as of and for the fiscal year ended June 30, 2003. The opinion included an explanatory paragraph describing the substantial operating losses incurred in fiscal year 2003 and other significant events that took place during the year.

Summary of Key Findings and Recommendations

FINDING NO. 1 – Actuarial and Financial Soundness

The Prepaid Tuition Fund has been dependent on a positive return on its investments and for contributions from CollegeInvest's Borrower Benefit Fund within the Student Loan Program Funds to meet its obligations. During the fiscal years ending June 30, 2003 and 2002, CollegeInvest transferred $7.7 million and $3.75 million, respectively, to the Prepaid Tuition Fund in order to maintain the actuarial soundness of the Fund.

CollegeInvest should work with the Board of Directors to continue to monitor the actuarial and financial soundness of the Fund in order to have timely action as appropriate.

FINDING NO. 2 – Cash Flow Statements

As part of the State of Colorado, it is necessary for the information within CollegeInvest's accounting system to be compatible with the State's accounting system (COFRS) in order to provide consistent reporting in the financial statements. During the fiscal years ending June 30, 2003 and 2002, the State Controller's Office, which is responsible for compiling the statewide financial statements, had difficulty reconciling the information needed for the preparation of the Statement of Cash Flows.

CollegeInvest and the State Controller's Office should work together to resolve discrepancies between the Statement of Cash Flows prepared by CollegeInvest and by the State Controller's Office.

PRIOR YEAR FINDING NO. 1 – Strategic Plan

CollegeInvest was to develop a strategic plan to address the lack of self-sufficiency of the Prepaid Tuition Fund. We were to review the plan to see if it included CollegeInvest's definition of "financial soundness" for the Fund, including benchmarks for determining financial soundness and a timeframe for meeting these benchmarks.

CollegeInvest has established its strategic plan that addresses the measures and criteria as well as the timeframes for evaluating the financial soundness of the Prepaid Tuition Fund. In developing the Fund's strategic plan, the following plan changes were executed:

- On August 1, 2002, the Prepaid Tuition Fund indefinitely closed the Fund to new investors.

- Contract terms were amended effective February 20, 2003 to modify the calculation of the value of annual tuition unit increases for distributions to be limited to the lesser of 1) the percentage increase in actual average tuition at Colorado public colleges and universities (as defined in the Program Disclosure Statement) or, 2) 5.5%.

Required Communication

Management Judgements and Accounting Estimates. The Fund records a significant accounting estimate of financial data which is the actuarily determined net present value of education expenses that will be paid in future years to students when they attend the college or university of their choice.

Audit Adjustments. There were three audit adjustments made during the completion of fieldwork.

- The first adjustment was to decrease contracts and benefits payable by $2,096,000 due to a revised actuarial report that was provided to CollegeInvest from a third party during audit fieldwork.

- The second adjustment was made to record additional salaries and indirect costs of $27,000 resulting from a change in the allocation of direct and indirect costs.

- The third adjustment was to record the increase in the fair value of investments of $2,007,991. CollegeInvest made this adjustment to fair value prior to the start of the audit. The 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 Controller’s 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.

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	7	CollegeInvest should work with the Board of Directors to continue to monitor the actuarial and financial soundness of the Fund in order to take timely action as appropriate.	CollegeInvest	Agree	November 2002
2	8	CollegeInvest should work with the State Controller's Office to resolve discrepancies between the Statement of Cash Flows prepared by CollegeInvest and by the State Controller's Office.	CollegeInvest	Agree	December 31, 2003

DESCRIPTION OF THE
COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
PREPAID TUITION 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. The programs assist residents in meeting the expenses incurred in availing themselves of higher education opportunities.

Colorado Prepaid Tuition Fund

The Prepaid Tuition Fund was established in 1997 to provide families with an opportunity to save for future college education expenses. The Prepaid Tuition Fund offered an annual enrollment period for purchasers to buy prepaid tuition contracts. The Prepaid Tuition Fund offers certain federal and state tax advantages to investors and is designed to keep pace with average tuition inflation in Colorado. A purchaser was able to buy tuition units based on current average tuition levels. The investment is valued and paid out at the lesser of 1) the percentage increase in actual average tuition or 2) 5.5%. A purchaser can use amounts paid from the Prepaid Tuition Fund to pay for eligible expenses at private and public colleges, universities and vocational schools throughout the United States.

The Colorado Constitution and other State laws prohibit the State from providing its full faith and credit to obligations of other entities, such as the Prepaid Tuition Fund. As a result, payments from the Prepaid Tuition Fund are not guaranteed in any way by the State, and are not considered to have created a debt or obligation of the State. Such payments are limited obligations, payable from the Prepaid Tuition Fund, but not from the other assets of the Authority. In accordance with State law, if it is determined that the Prepaid Tuition Fund is not actuarially sound as determined by an annual actuarial valuation, CollegeInvest may direct the distribution of available assets. If it is determined that the Prepaid Tuition Fund is not financially sound as determined by an annual audit, then the CollegeInvest may discontinue permanently or for a period of time may suspend that particular aspect of the Prepaid Tuition Fund and the execution of additional contracts. As of August 1, 2002, the Fund was closed to new investors.

FINDINGS AND RECOMMENDATIONS

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

FINDING NO. 1 – Actuarial and Financial Soundness

The Prepaid Tuition Fund is dependent upon a positive return on its investments, growth and/or future contributions from CollegeInvest's Borrower Benefit Fund within the Student Loan Program Funds to meet its obligations to investors. Statutes require that CollegeInvest determine the actuarial soundness of the Fund. According to Section 23-3.1-206.7(5)(d), C.R.S., CollegeInvest is required to contract with a private consultant to perform an actuarial evaluation of the Prepaid Tuition Fund. If CollegeInvest determines that the Fund is not actuarially sound, CollegeInvest may direct the State Treasurer to distribute the available assets in a manner permitted by state law. At the end of the fiscal year 2002, because of investment losses, CollegeInvest transferred $3.75 million to the Prepaid Tuition Fund from the Borrower Benefit Fund in order to maintain actuarial soundness of the Prepaid Tuition Fund.

In addition, under Section 23-3.1-206.7(8), C.R.S., CollegeInvest must determine the financial soundness of the Prepaid Tuition Fund. If CollegeInvest determines that the Fund is not financially sound, CollegeInvest may discontinue permanently or for a period of time the prepaid expense program or a particular aspect of the program.

In conjunction with the annual assessment of the Fund's financial soundness for the year ended June 30, 2002, the Board of Directors and Executive Director concluded that certain changes to the Fund's structure and financing were required. At the November 12, 2002 meeting, the Board made the following decisions:

- Indefinitely close the Fund to new contracts
- Revise cancellation terms after February 20, 2003
- The annual increase in average tuition is limited to the lesser of 1) the percentage increase in actual average tuition at Colorado public colleges and universities or 2) 5.5%

CollegeInvest reports that approximately 3,400 contract holders elected to rollover into another qualified Section 529 plan and approximately 3,100 contract holders elected to cancel their contracts during Fiscal Year 2003. This amounted to approximately $43.8 million in payments out of the Fund.

During Fiscal Year 2003, an additional $7.7 million was transferred from CollegeInvest's Borrower Benefit Fund to the Prepaid Tuition Fund in order to maintain the actuarial soundness of the Fund.

RECOMMENDATION NO. 1

CollegeInvest should work with the Board of Directors to continue to monitor the actuarial and financial soundness of the Fund in order to take timely action as appropriate.

COLLEGEINVEST'S RESPONSE

Agree. A similar finding was noted in the June 30, 2002 financial statements. We are still performing the same evaluating of this Fund as we have since its inception. We disagree that the finding needs to be repeated for a second year since there have not been any changes in CollegeInvest's oversight of the Fund since that time. As noted in CollegeInvest's response to the FY2002 Findings, the Board of Directors, in conjunction with the Executive Director, evaluates the financial status of the Prepaid Tuition Fund quarterly. In addition, the overall "financial soundness" is evaluated on an annual basis. This evaluation is based on the professional judgment of the Executive Director and the Board of Directors, and is dependent on a wide variety of factors. One of the key elements used in evaluating the Fund's status is the annual actuarial report prepared by Milliman USA. The conclusions reached in this report as well as other business factors deemed critical in the Boards professional judgment are discussed and reviewed. Based on this discussion, the Board determines the Fund's overall long-term financial viability.

FINDING NO. 2 – Cash Flow Statements

Pursuant to Section 23-3.1-202, C.R.S., on May 26, 2000 the Colorado Student Obligation Bond Authority d/b/a CollegeInvest (CollegeInvest) became a division of the Colorado Department of Higher Education. As part of the State, the CollegeInvest accounting system must be compatible with the state accounting system, the Colorado Financial Reporting System (COFRS), to provide consistent reporting between the State and CollegeInvest and ensure that financial statements can be reconciled. CollegeInvest provides a specialized service within the state government and therefore has unique types of transactions. This creates difficulties in "mapping" CollegeInvest's accounts to COFRS accounts for the Statement of Cash Flows, which is one of the required financial statements under governmental accounting standards. In addition, CollegeInvest prepares its Statement of Cash Flows on the basis of individual transactions however the State Controller's Office prepares the Statement of Cash Flows at the statewide level on the basis of account balances. As a result, the State Controller's Office, which is responsible for compiling the statewide financial statements, has had difficulty reconciling the Statement of Cash Flows prepared by CollegeInvest with the statewide Statement of Cash Flows.

In preparing the Fiscal Year 2002 financial statements, the State Controller's Office discussed the discrepancies with CollegeInvest and created procedures that CollegeInvest should follow to correct the differences and avoid similar problems in Fiscal Year 2003. Part of these procedures involved creating new accounts in the CollegeInvest system to more closely parallel the COFRS system. In preparing the Fiscal Year 2003 Statement of Cash Flows, CollegeInvest followed the procedures but certain new types of transactions not mapped to COFRS created problems with the reconciliation. For example, the following are differences between the 2003 CollegeInvest Statement of Cash Flows, before any changes, and the Statement of Cash Flows from the State Controller's Office:

Classification on CollegeInvest Statement	**Over (under) State Controller's Statements**
Cash received from fees for services	(13,547,000)
Cash received from grants and contracts	12,288,000
Cash payments for suppliers	(3,292,000)
Cash flows from investing activities:	
Proceeds from sale/maturity of investments	(10,475,000)

Once the differences were initially identified, CollegeInvest and the State Controller's Office made adjustments to the classification of amounts to bring the two statements into agreement.

RECOMMENDATION NO. 2

CollegeInvest should work with the State Controller's Office to resolve discrepancies between the Statement of Cash Flows prepared by CollegeInvest and by the State Controller's Office by:

- Determining what additional accounts need to be created on the CollegeInvest accounting system to facilitate the mapping of accounts to COFRS
- Utilizing the new accounts in the development of the Statement of Cash Flows
- Testing the procedures by preparing and reconciling the Statement of Cash Flows for an interim period agreed upon with the State Controller's Office
- Upon resolution of discrepancies, document the procedures that should be used to prepare the Statement of Cash Flows, including information on how accounts map to COFRS

COLLEGEINVEST'S RESPONSE

Agree. CollegeInvest agrees that it should continue to refine its mapping of internal general ledger accounts to the COFRS system. Each time CollegeInvest identifies a discrepancy the accounts are corrected as soon as possible. As a result of the FY2003 compilation of financial statements, additional discrepancies were noted due to changes in the both the State's and CollegeInvest's treatment of certain line items. These discrepancies were corrected as of the December 31, 2003 COFRS entries.

In order to reduce the time spent by CollegeInvest reconciling the Statement of Cash Flows at year end, CollegeInvest will prepare an internal Statement of Cash Flows periodically and compare the internal Statement of Cash Flows to the State Controller's Office automated Statement of Cash Flows. We have worked out a process with the State Controller's Office to make adjustments as necessary..

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

Members of the Legislative Audit Committee:

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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 Prepaid Tuition Fund are intended to present the financial position, and results of operations and cash flows for only that portion of the financial reporting entity, State of Colorado, that is attributable to the transactions of the Colorado Student Obligation Bond Authority d/b/a CollegeInvest, Prepaid Tuition Fund. They do not purport to, and do not present fairly, the financial position of the State of Colorado as of June 30, 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 financial position of Colorado Student Obligation Bond Authority d/b/a CollegeInvest, Prepaid Tuition Fund, as of June 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2003 on our consideration of Colorado Student Obligation Bond Authority d/b/a CollegeInvest, Prepaid Tuition Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 Prepaid Tuition Fund has incurred substantial operating losses during the two years ended June 30, 2003 and 2002. During the year ended June 30, 2003, the Colorado Student Obligation Bond Authority d/b/a CollegeInvest, contributed $7.7 million of cash and paid for $252,000 of operating expenses of the Prepaid Tuition Fund. For the year ended June 30, 2002, $3.75 million of cash was transferred to the Prepaid Tuition Fund and $118,000 in computer utilization charges were forgiven. As of August 1, 2002, the Prepaid Tuition Fund no longer accepted new contracts. The Fund also revised its cancellation terms effective February 20, 2003 and also capped benefits at no more than a 5.5% increase in tuition per year. These cash transfers, payment of operating expenses, forgiveness of computer utilization charges and plan modifications were made in order to mitigate investment losses, contract cancellations and provide the Prepaid Tuition Fund sufficient assets to remain actuarially sound. The Prepaid Tuition Fund is dependent upon a positive return on its investments and/or future contributions from CollegeInvest to meet its obligations. See Notes 1 and 10 in Notes to Financial Statements.

The Management's Discussion and Analysis (MD&A) on pages 11 to 16 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 Gunderson LLP

Greenwood Village, Colorado
October 6, 2003

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

This section of the Prepaid Tuition Fund's financial statements is a discussion and analysis of the financial performance of the Prepaid Tuition Fund for the years ended June 30, 2003 and 2002. The Prepaid Tuition Fund is a qualified state tuition program pursuant to Internal Revenue Code (IRC) Section 529. 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 Prepaid Tuition Fund, the Student Loan Program Funds, the Scholars Choice Fund and the Stable Value Plus Fund. The Prepaid Tuition Fund is presented as a proprietary fund in the State of Colorado Comprehensive Annual Financial Report. CollegeInvest's Board of Directors (Board) approves the annual budget and the investment policy of the Prepaid Tuition Fund. Management of CollegeInvest is responsible for the financial statements, footnotes and this discussion. The management's discussion and analysis should be read in conjunction with the Prepaid Tuition Fund's financial statements.

Overview of the Financial Statements:

This annual report contains two sections – management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows.
The Statement of Net Assets presents information on all of the Prepaid Tuition 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 Prepaid Tuition Fund is improving or deteriorating.

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

The Statement of Cash Flows reports the Prepaid Tuition Fund's cash flows from operating, non-capital financing, capital and related financing, and investing activities.

Analysis of Financial Activities:

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

Analysis of Financial Activities (continued):

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

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

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

CollegeInvest utilizes a Borrower Benefit Fund (within the Student Loan Program Funds of CollegeInvest) for payment of general and administrative expenses and other activities necessary to fulfill the purposes of the various funds, including the Prepaid Tuition Fund. These expenses and activities have been allocated to the respective Funds.

Comparison of Current Year Results to Prior Year:

Condensed Statement of Net Assets as of June 30, (dollar amounts expressed in thousands)	**2003**	2002
Cash and investments	**$31,293**	$64,662
Advance payment contract receivables	**8,671**	27,065
Interest receivable and due from Student Loan Program Funds	**287**	338
Total assets	**40,251**	92,065
Accounts payable, accrued expenses and amounts due to Student Loan Program Funds	**28**	473
Contracts and benefits payable	**37,920**	90,963
Total liabilities	**37,948**	91,436
Net assets restricted for contracts and benefits	**$ 2,303**	$ 629

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

Cash and investments decreased by approximately $33.4 million, primarily due to a change in contract terms that was effective February 20, 2003. Contract holders were given a 90 day period to elect to remain in the Fund or to cancel their contract under previous contract terms. Approximately 6,500 contract holders elected to rollover into another qualified Section 529 plan or cancelled their contract during the year. This totaled approximately $43.8 million in payments out of the Fund. Distributions for tuition payments totaled approximately $3.7 million. Additionally, inflows from contract holders equaled $6.0 million and transfers from the Borrower Benefit Fund within the Student Loan Program Funds of CollegeInvest amounted to $7.7 million. The transfer of $7.7 million from the Borrower Benefit Fund within the Student Loan Program Funds was the result of the Board of Director's decision to assist the Prepaid Tuition Fund. In addition, during the fiscal year ending June 30, 2003, the Borrower Benefit Fund funded $252,000 of the Prepaid Tuition Fund's general and administrative expenses. The Borrower Benefit Fund has no obligation to make contributions to the Prepaid Tuition Fund in the future. Contract holder payments came from monthly installment payments. As of June 30, 2003, there were 5,200 contracts remaining in the Prepaid Tuition Fund, of which 2,300 contracts are installment payment contracts.

Advance payment contract receivables decreased by approximately $18.4 million. The decrease was primarily a result of contract cancellations. In addition, monthly installment payments and accounts refinancing from installment to paid in full status reduced the receivable.

Interest receivable decreased from 2002 by $215,000 due to the reduction of U.S. Treasury Inflation Protection Securities (TIPS) held as an investment at June 30, 2003 as a result of the payout of approximately $43.8 million in distributions to participants.

Accounts payable, accrued expenses and due to Student Loan Program Funds decreased due to a decrease in activity. See corresponding decrease in other expenses discussed below.

The decrease to contracts and benefits payable of $53.0 million was primarily due to the cancellations noted above. However, the liability decreased by approximately $3.9 million due to an decrease in the net present value of future tuition payments for current contracts remaining in the Prepaid Tuition Fund.

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

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

	2003	2002
Contract income	**$ 1,366**	$ 1,951
Net investment income and realized gains (losses)	**2,031**	(6,174)
Net appreciation (depreciation) in fair value of investments	**(308)**	4,645
Total operating revenues	**3,089**	422
Contracts and benefits expense	**8,623**	3,536
Other expenses	**744**	1,132
Total operating expenses	**9,367**	4,668
Net operating loss before transfers	**(6,278)**	(4,246)
Transfer from Student Loan Program Funds	**7,952**	3,868
Net assets, beginning of year	**629**	1,007
Net assets, end of year	**$ 2,303**	$ 629

Contract income decreased by $585,000 due primarily to a reduction in the number of participants making installment contract payments which decreased by approximately 4,000 from 6,300 as of June 30, 2002 to 2,300 as of June 30, 2003. Contract income will fluctuate from year to year based on the number of installment contracts and payments made. See Note 1 in the notes to financial statements.

Net investment income decreased due to a combination of factors as follows:

	2003	2002
Interest income	$ 886	$ 1,322
Dividend income	265	134
Realized gain (loss) on investments	880	(7,630)
Net investment income and realized gains (losses)	$ 2,031	$(6,174)

Interest income is comprised primarily of interest on TIPS. Interest income decreased by $436,000 to $886,000 due to the sale of $16.2 million in securities during the fiscal year ended June 30, 2003. Therefore, a partial year of interest on this portion of the investments was included in 2003 compared to a full year in 2002.

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

Dividend income doubled in fiscal year ending 2003 due to an increase in the amount of dividends declared by mutual funds that are held in the Prepaid Tuition Fund.

During the fiscal year ending June 30, 2003, the Prepaid Tuition Fund liquidated $38.8 million of mutual funds and TIPS in order to pay contract holders that were transferring to other Section 529 savings plans or canceling contracts. This resulted in a net realized gain. During the fiscal year ending June 30, 2002, underperforming mutual funds were sold and monies were invested in funds that were deemed more suitable to meeting the investment goals of the Prepaid Tuition Fund, resulting in a net realized loss. In addition, investments were aligned according to a new asset allocation of 5% small capitalization stock funds, 15% international capitalization stock funds, 40% large capitalization stock funds and 40% TIPS.

Overall, the Prepaid Tuition Fund's one year investment portfolio performance for the fiscal year ending June 30, 2003 was 10.0% while the performance for the fiscal year ending June 30, 2002 was a negative 2.9%.

The significant increase in the Contracts and Benefits Expense is due primarily to the cancellations that resulted from the change in contract terms. Contract holders received the greater of average tuition of $26.29 per unit or the amount they contributed if they cancelled their contract prior to February 20, 2003. This resulted in amounts paid that were greater than the net present value of the future tuition increases in the contracts and benefits liability. Subsequent to February 20, 2003, if a contract is canceled prior to its first scheduled disbursement date, contract holders receive the lesser of 1) a pro rata share of assets in the Fund; 2) the amount contributed; or 3) average tuition as defined in the contract. Contract holders that remain in the Prepaid Tuition Fund until their first scheduled distribution date will earn tuition increases each year at the lesser of 1) the percentage increase in actual average tuition at Colorado public colleges and universities, or 2) 5.5%. The minimum tuition increase earned is a cumulative 4.0% per annum. Therefore, for the fiscal year ended June 30, 2003, the Prepaid Tuition Fund used a tuition growth assumption of 5.5% per annum, the tuition increase limit under the new contract terms. For the fiscal year ended June 30, 2002, the actuarial assumptions for tuition growth were 5.0% for four years and 5.5% for all future years thereafter.

CollegeInvest has reduced the operating expenses of the Prepaid Tuition Fund by $388,000 or 34.0% from last year and continues to reduce spending. However, even with these reductions the Borrower Benefit Fund funded $252,000 of expenses due to the limitation of general and administrative expenses to 1% of contract value, as contract value decreased significantly during the year due to the cancellations and rollovers noted above.

Economic Factors and Future Years' Rates:

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

- The Prepaid Tuition Fund's new contract terms limit the annual percentage increases in average tuition for distributions to the lesser of 1) the percentage increase in actual average tuition of Colorado public universities, or 2) 5.5% with a minimum cumulative return of 4% per annum. Average tuition as computed under these contract terms increased from $26.29 per unit as of August 1, 2002 to $27.74 per unit as of August 1, 2003, a 5.5% increase.

- Future stock and bond market returns are all estimated based on past performance and forecasted rates of return.

- During the year ended June 30, 2003, the Borrower Benefit Fund within the Student Loan Program Funds contributed $7.7 million to the Prepaid Tuition Fund and funded $252,000 of general and administrative expenses. This is considered a voluntary contribution and may not be available in future years. If it is determined by CollegeInvest that the Prepaid Tuition Fund is not actuarially sound, as determined by an annual actuarial valuation, CollegeInvest may direct the distribution of available assets. If it is determined that the Prepaid Tuition Fund is not financially sound, then the Prepaid Tuition Fund may discontinue permanently or for a period of time may suspend that particular aspect of the Prepaid Tuition Fund.

Requests for Information:

This report is designed to provide a general overview of the Prepaid Tuition 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
PREPAID TUITION FUND
STATEMENT OF NET ASSETS
JUNE 30, 2003 AND 2002
(dollar amounts expressed in thousands)

	2003	2002
Assets:		
Current assets:		
Cash deposits	**$ 4,534**	$ 9,836
Investments	**26,759**	54,826
Advance payment contract receivables	**1,500**	4,389
Interest receivable	**123**	338
Due from Student Loan Program Funds	**164**	-
Total current assets	**33,080**	69,389
Noncurrent assets:		
Advance payment contract receivables	**7,171**	22,676
Total noncurrent assets	**7,171**	22,676
Total assets	**40,251**	92,065
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	**28**	126
Due to Student Loan Program Funds	**-**	347
Contracts and benefits payable	**2,100**	2,500
Total current liabilities	**2,128**	2,973
Noncurrent liabilities:		
Contracts and benefits payable	**35,820**	88,463
Total noncurrent liabilities	**35,820**	88,463
Total liabilities	**37,948**	91,436
Net assets restricted for contracts and benefits	**2,303**	629
Total net assets	**$ 2,303**	$ 629

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

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

	2003	2002
Operating revenues:		
Contract income	**$ 1,366**	$ 1,951
Net investment income and realized gains (losses)	**2,031**	(6,174)
Net appreciation (depreciation) in fair value of investments	**(308)**	4,645
Total operating revenues	**3,089**	422
Operating expenses:		
Contracts and benefits expense	**8,623**	3,536
General and administrative expenses	**421**	562
Marketing	**-**	210
Salaries and benefits	**175**	189
Professional services	**148**	171
Total operating expenses	**9,367**	4,668
Operating income(loss) before transfers	**(6,278)**	(4,246)
Transfer from the Student Loan Program Funds	**7,952**	3,868
Change in net assets	**1,674**	(378)
Net assets, beginning of year	**629**	1,007
Net assets, end of year	**$ 2,303**	$ 629

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

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
PREPAID TUITION FUND
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002
(dollar amounts expressed in thousands)

	2003	2002
Cash Flows from Operating Activities:		
Cash receipts from advance payment contracts	**$ 5,995**	$ 13,481
Cash distributions for advance payment contracts	**(47,972)**	(2,156)
Cash payments to suppliers for goods and services	**(1,192)**	(569)
Cash payments to employees for service	**(175)**	(189)
Net cash provided (used) by operating activities	**(43,344)**	10,567
Cash Flows from Investing Activities:		
Redemptions (purchases) of investments	**28,724**	(7,802)
Income received from investments	**1,366**	1,853
Net cash provided (used) by investing activities	**30,090**	(5,949)
Cash Flows from Non-Capital Financing Activities:		
Transfers from Student Loan Program Funds	**7,952**	3,868
Net cash provided by non-capital financing activities	**7,952**	3,868
Increase (decrease) in cash and cash equivalents	**(5,302)**	8,486
Cash and cash equivalents, beginning of period	**9,836**	1,350
Cash and cash equivalents, end of period	**$ 4,534**	$ 9,836

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

COLORADO STUDENT OBLIGATION BOND AUTHORITY
d/b/a COLLEGEINVEST
PREPAID TUITION FUND
STATEMENT OF CASH FLOWS (continued)
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002
(dollar amounts expressed in thousands)

	2003	2002
Reconciliation of net income (loss) to net cash provided by operating activities:		
Operating income (loss) before transfers	**$ (6,278)**	$ (4,246)
Items reflected as investing activities:		
Income received from investments	**(1,366)**	(1,853)
Loss (gain) on sale of investments	**(880)**	7,965
Adjustments to reconcile net income to net cash provided by operating activities:		
Net (appreciation) depreciation of fair value of investments	**223**	(4,438)
Changes in operating assets and liabilities:		
Advance payment contract receivables	**18,394**	1,595
Interest receivable	**215**	(6)
Accounts payable and accrued expenses	**(98)**	39
Due to Student Loan Program Funds	**(511)**	263
Contracts and benefits payable	**(53,043)**	11,248
Net cash provided (used) by operating activities	**$ (43,344)**	$ 10,567

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

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

1. Organization and Summary of Significant Accounting Policies:

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

The Colorado General Assembly established a student obligation bond program (Student Loan Program Funds), a post secondary education expense program (Prepaid Tuition Fund), 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 programs of CollegeInvest are accounted for under generally accepted accounting principles. CollegeInvest receives no grants from, and is not otherwise financially assisted by, the State or any local government of the State. CollegeInvest is an enterprise under Section 20, Article X of the Colorado Constitution.

Prepaid Tuition Fund

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

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

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

Prepaid Tuition Fund (continued)

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

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

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

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

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

Prepaid Tuition Fund (continued)

In accordance with the Colorado Revised Statutes 23-3.1-206.7(5)(d), if it is determined by CollegeInvest that the Prepaid Tuition Fund is not actuarially sound, as determined by an annual actuarial valuation, CollegeInvest may direct the distribution of available assets. If it is determined that the Prepaid Tuition Fund is not financially sound, then the Prepaid Tuition Fund may discontinue permanently or for a period of time may suspend a particular aspect of the Prepaid Tuition Fund and the execution of additional contracts. Likewise, if it is determined that an excess amount exists in the Prepaid Tuition Fund, CollegeInvest would calculate the portion of such excess that would be attributable on a pro rata basis to each tuition unit. As of August 1, 2002, the Prepaid Tuition Fund suspended execution of new contracts. In addition, contract terms were amended on February 20, 2003.

Reporting Entity:

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

Budgets and Budgetary Accounting:

By statute, the Prepaid Tuition Fund is continuously appropriated through user charges. Therefore, the budget is not legislatively adopted and a Statement of Revenues and Expenses – Budget to Actual is not a required part of these financial statements. Total budgeted expenses for the Prepaid Tuition Fund for the fiscal year ended June 30, 2003 were $4.4 million, compared to actual expenses of $11.4 million due to the cancellations that resulted from the change in contract terms.

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

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 Prepaid Tuition Fund has applied pronouncements issued on or before November 30, 1989 by the Financial Accounting Standards Board, the Accounting Principles Board, and the Committee on Accounting Procedure, except for pronouncements that conflict with or contradict those of the GASB.

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

Cash and Cash Equivalents:

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

Investments:

Investments are carried at fair value, which are primarily determined based on quoted market prices at June 30, 2003 and 2002.

Advance Payment Contract Receivables:

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

Due from Student Loan Program Funds:

For the year ending June 30, 2003, the Borrower Benefit Fund within the Student Loan Program Funds funded $252,000 of general and administrative expenses of the Prepaid Tuition Fund as the Fund incurred expenses in excess of the expense limitation discussed later in Note 1 to the Financial Statements.

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

Compensated Absences:

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

Due to Student Loan Program Funds:

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

Contracts and Benefits Payable/Expense:

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

Transfers from Student Loan Program Funds:

During the fiscal year ended June 30, 2003, the Borrower Benefit Fund within the Student Loan Program Funds transferred $7.7 million as a contribution to the Prepaid Tuition Fund and funded $252,000 of general and administrative expenses. The funding of expenses was due to the fact that the Fund incurred expenses in excess of the expense limitation discussed later in Note 1 to the financial statements. The Borrower Benefit Fund within the Student Loan Program Funds is not obligated to make contributions to the Prepaid Tuition Fund currently or in future years.

Revenue Recognition:

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

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

Expense Limitation:

The annual administrative expenses of the Prepaid Tuition Fund (excluding contracts and benefits expense and amortization of software costs) is limited by the Colorado Revised Statutes 23-3.1-206.7(5)(e)(I) to 1% of the contract commitment. During the fiscal year ended June 30, 2003, expenses incurred in connection with the administration of the Prepaid Tuition Fund exceeded the limitation by $252,000. This excess was funded by the Borrower Benefit Fund within the Student Loan Program Funds. For the fiscal year ended June 30, 2002, the Prepaid Tuition Fund was in compliance with this requirement.

Use of Estimates:

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

2. Cash Deposits and Investments:

Cash Deposits:

All cash deposits are held by a bank as agent for the Prepaid Tuition Fund. Payments and cash receipts are deposited to demand deposit accounts daily. Monies in the demand deposit accounts are insured by federal depository insurance for the first $100,000. Deposits in excess of the $100,000 limit are collateralized subject to the provisions of the State's Public Deposit Protection Act (PDPA) for monies held within the State.

Cash deposits as of June 30 are as follows:

	2003	2002
	(dollar amounts expressed in thousands)	
State Treasurer's cash pool	**$ 4,520**	$ 9,815
Demand deposit accounts – insured by FDIC	**14**	21
Total Cash Deposits	**$ 4,534**	$ 9,836

The carrying amount and bank balance of demand deposit accounts was $14,000 and $14,000 as of June 30, 2003 and $21,000 and $21,000 as of June 30, 2002, respectively.

2. Cash Deposits and Investments (continued):

Investment Authority:
Under the Colorado Revised Statutes 23-3.1-216, the State of Colorado Treasury has responsibility for the investment of the Prepaid Tuition Fund's monies, based on the advice and the recommendation of the Board, and with the following investment limitations:

- The aggregate amount of monies invested in corporate stocks or corporate bonds, notes or debentures that are convertible into stock cannot exceed 60% of the market value of invested assets.

- No investment in common or preferred stock (or both) of any corporation can exceed 5% of the market value of invested assets.

- The fund cannot acquire more than 5% of the outstanding stock or bonds of any single corporation.

The above limitations and the Prepaid Tuition Fund's diversification over several asset classes are intended to reduce the overall investment risk exposure. The Prepaid Tuition Fund was not in violation of these limitations as of June 30, 2003 and 2002.

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 Prepaid Tuition Fund. Generally, investments include direct obligations of the U.S. government, money market funds and equity mutual funds. With respect to these investments, the Prepaid Tuition 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.

2. Cash Deposits and Investments (continued):

Investments (continued):

Investments in mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Investments are stated at fair value.

Investments as of June 30 are as follows:

	Category of Credit Risk			**2003**	2002
	No. 1	No. 2	No. 3	**Total Fair Value**	Total Fair Value
	(dollar amounts expressed in thousands)				
U.S. government securities	$ 10,612	$ -	$ -	**$ 10,612**	$ 28,015
Plus uncategorized investments -					
Mutual funds				**15,928**	26,236
Money market funds				**219**	575
Total Investments	$ 10,612	$ -	$ -	**$ 26,759**	54,826

3. Advance Payment Contract Receivables:

Until August 1, 2002, purchasers entered into advance payment contracts for a number of tuition units. The Prepaid Tuition Fund values and pays out tuition units based on future average tuition (as defined in the contract terms) to the designated student when he or she attends a college of his or her choice. The contracts were purchased with a one-time lump sum payment, a monthly payment plan, or a combination plan. The monthly payment plan allowed the purchaser to determine the monthly payment amount and the number of payments the purchaser wished to make. The combination plan allowed the purchaser to begin paying with a lump sum payment and his or her first monthly payment, followed by subsequent monthly payments. Monthly payment plans are generally for full term (from the contract date until at least three months before the scheduled payout date), five years, or ten years. The full term monthly payment plan has a preset number of months based on the payout year. The full term monthly payment plans range from 33 months for payout year 2005 to 201 months for payout year 2019. Contracts for monthly payment plans generally provide for payment of a contract base price and a charge for paying over time (at an approximate effective rate of 6.78%). Advance payment contract receivables are $8.7 million and $27.1 million as of June 30, 2003 and 2002, respectively. CollegeInvest expects to collect approximately $1.5 million in contract receivables during the fiscal year ended June 30, 2004. The remaining $7.2 million is expected to be collected over the next 16 years.

4. Contracts and Benefits Payable:

The following table presents total contracts and benefits payable of the Prepaid Tuition Fund, including the obligation related to advance payment contract receivables, measured at the actuarial net present value (APV) of the future contracts and benefits expense. The valuation method reflects the present value of estimated contracts and benefits expenses that will be paid in future years and is adjusted for the effects of projected tuition increases and cancellations of certain contracts. Net assets represent assets available to meet the Prepaid Tuition Fund's contracts and benefits payable obligations. See the Actuarial Valuation Report of the Prepaid Tuition Fund as of June 30, 2003 for further information and details.

As of June 30:	**2003**	2002
	(dollar amounts expressed in thousands)	
APV of Future Contracts and Benefits Payable	**$ 37,920**	$ 90,963

Total Assets Available for Future Contracts and Benefits Payable are as follows:

Cash deposits	**$ 4,534**	$ 9,836
Investments	**26,759**	54,826
Advance payment contract receivables	**8,671**	27,065
Interest receivable	**123**	338
Due from Student Loan Program Funds	**164**	-
Less		
Accounts payable and accrued expenses	**(28)**	(126)
Due to Student Loan Program Funds	**-**	(347)
Total Assets Available for Future Contracts and Benefits Payable	**$ 40,223**	$ 91,592
Excess Assets	**$ 2,303**	$ 629
Excess Assets as a Percentage of Contracts and Benefits Payable	**106%**	101%

4. Contracts and Benefits Payable (continued):

The following assumptions developed by management were used in the actuarial valuation as of June 30, 2003 and 2002. These assumptions are based on historical data both for the State and national trends.

Investment rates	The investment yield assumption is based on estimates of the yields that will be available on the investment portfolio and cash. From inception through June 30, 2002, the investment yield assumption was 7.5% per annum. For the fiscal year ended June 30, 2003, the investment yield assumption was 6.5%. For the period from inception to June 30, 2003, the annualized yield on cash and investments has been 2.6% and the annualized yield on advance payment contract receivables has been 6.78%.
Tuition increases	Tuition increases are based on the current best estimate of future tuition increases for Colorado public four-year colleges and universities in existence at such time plus the State community colleges. For the period from inception to June 30, 2002, the assumption for tuition increases had been 5.0% per year for four years and 5.5% per year thereafter. In accordance with the amended contract terms which limit tuition increases to 5.5% per year, starting July 1, 2003, the tuition increases assumption is 5.5% per year. For the period from inception to June 30, 2003, the annualized tuition increases for Colorado public four-year colleges and universities in existence at this time plus the State community colleges has been 5.1%.

The following schedule of the estimated distribution of contracts and benefits payments does not convey the same information as the actuarial net present value of future contracts and benefits presented on the previous page. The actuarial net present value represents management's estimate of assets required today so that all participants will be paid in the future. The following schedule of the estimated distribution of contracts and benefits payments shows future benefit payments using an expected long-term annualized rate of tuition growth of 5.5% per annum. The schedule also assumes that any contract that has reached its matriculation date will be distributed evenly over four years.

4. Contracts and Benefits Payable (continued):

	Total (dollar amounts expressed in thousands)
2004	$ 2,200
2005	2,600
2006	3,100
2007	3,500
2008	3,800
2009-2013	19,900
2014-2018	18,200
2019-2023	5,800
Total Estimated Contracts and Benefits Distributions	**$ 59,100**

5. 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.

5. Retirement Plan (continued):

Plan Description (continued):

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 7 below). The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

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 Prepaid Tuition Fund to the three programs described above for the fiscal years ending June 30, 2003, 2002 and 2001 were $13,000, $10,000 and $21,000, respectively. These contributions met the contribution requirement for each year.

6. 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.

7. Postretirement Health Care and Life Insurance Benefits:

<u>Health Care Program</u>

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.

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

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

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

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.

8. Risk Management:

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

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

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

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

Liability	Limits of Liability
General & Automobile	Each person $150,000 Each occurrence $600,000

8. Risk Management (continued):

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 CollegeInvest is responsible for the first $1,000 of the deductible and the State of Colorado is responsible for the next $14,000 of the deductible. Any loss in excess of $15,000 is covered by the insurance carrier up to replacement cost.

9. Net Assets:

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

The Prepaid Tuition Fund had restricted net assets of $2.3 million and $629,000 as of June 30, 2003 and 2002, respectively. Net assets are restricted for the purpose of meeting future payments for higher education expenses as stipulated by the Colorado Revised Statutes 23-3.1-206.7(5)(a) and as agreed to in the advance payment contracts.

10. Economic Dependency on Market Fluctuations:

The Prepaid Tuition Fund incurred substantial operating losses before transfers during the two years ended June 30, 2003 and 2002, primarily due to investment losses and contract cancellations. During the year ended June 30, 2003, the Prepaid Tuition Fund's investment performance was better than the prior two years. However, due to the amount of cancellations and rollovers during the year, the Borrower Benefit Fund within the Student Loan Program Funds transferred $7.7 million to the Prepaid Tuition Fund during the year ended June 30, 2003 to mitigate the losses incurred and to provide the Fund with sufficient assets to remain actuarially sound. This was in addition to a transfer of $3.75 million during the fiscal year ended June 30, 2002 to mitigate investment losses. The Borrower Benefit Fund has no obligation to provide additional transfers in the future. The Prepaid Tuition Fund is dependent on increases in net assets through investment income and/or future contributions to meet its obligations.

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, Prepaid Tuition Fund as of and for the year ended June 30, 2003, and have issued our report thereon dated October 6, 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, Prepaid Tuition Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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, Prepaid Tuition Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the 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 Gunderson LLP

Greenwood Village, Colorado
October 6, 2003

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303-869-2800

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