

**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, 2004

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

**FINANCIAL STATEMENTS**  
June 30, 2004 and 2003

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Chair

*Senator Norma Anderson*  
Vice-Chair

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*Representative Deanna Hanna*  
*Representative David Schultheis*  
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*Joanne Hill*  
State Auditor

*Sally Symanski*  
Deputy State Auditor

*Dianne Ray*  
Legislative Auditor

*Clifton Gunderson LLP*  
Contract Auditors

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**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
**d/b/a COLLEGEINVEST**  
**SCHOLARS CHOICE FUND**  
**FINANCIAL AUDIT**  
June 30, 2004

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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, 2004. 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  
November 12, 2004

6399 S. Fiddler's Green Circle  
Suite 100  
Greenwood Village, Colorado 80111  
tel: (303) 779-5710  
fax: (303) 779-0348

[www.cliftoncpa.com](http://www.cliftoncpa.com)

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## **REPORT SUMMARY**

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### **COLORADO STUDENT OBLIGATION BOND AUTHORITY**

**d/b/a COLLEGEINVEST**

### **SCHOLARS CHOICE FUND**

**FINANCIAL AUDIT**

**FISCAL YEAR ENDED JUNE 30, 2004**

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### **Purpose and Scope**

The Office of the State Auditor, State of Colorado, engaged Clifton Gunderson LLP to conduct the financial audit of the Colorado Student Obligation Bond Authority d/b/a CollegeInvest (CollegeInvest) Scholars Choice Fund (Scholars Choice Fund) for the fiscal year ended June 30, 2004. 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 basic financial statements of CollegeInvest as of the fiscal year ended June 30, 2004.

### **Audit Opinions and Reports**

We expressed an unqualified opinion on CollegeInvest's Scholars Choice Fund basic financial statements, as of and for the fiscal year ended June 30, 2004.

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

There were no findings or recommendations for the years ended June 30, 2004 and 2003.

## 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 were two audit adjustments made during the completion of fieldwork.

- To record the amount due to participants of \$242,000 for administrative fees collected in excess of actual expenses.
- An entry to reduce participant contributions and benefits paid to participants and withdrawals for approximately \$4,232,000 to adjust for broker to broker transfers. It was determined during our fieldwork that these accounts were overstated as a result of account transfers recorded as both participant contributions and withdrawals.

*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.

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

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## **Organization**

The Colorado General Assembly pursuant to Colorado Revised Statutes 23-3.1-2 and 23-3.1-3 established a student obligation bond program (Student Loan Program Funds), a post secondary education expense program (Prepaid Tuition Fund), and an Internal Revenue Code 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. 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.

## **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 199,000 active accounts as of June 30, 2004. 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 seven investment options. Investors are allowed to change their investment within the Fund once every twelve months. Below are the seven 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 50/50 Option** – Contributions are invested in a portfolio with a median degree of risk, with 50% invested in stocks and 50% invested in bonds.
- **Years-to-Enrollment Option** – Contributions are invested in a series of portfolios depending on the time to account for maturity, similar to the age based option, but with a more limited, lower risk, range of portfolios.
- **All Equity Option** – Contributions are invested in equity mutual funds throughout the life of the account. This option carries the highest potential for risk and return through its focus on the equity markets.
- **All Fixed Income Option** – Contributions are invested in bond funds throughout the life of the account. This option seeks stable returns on fixed income investments.
- **Equity 80% Option** – Contributions are invested 80% in equity mutual funds while maintaining 20% exposure to more stable returns of fixed income investments throughout the life of the account.
- **Fixed Income 80% Option** – Contributions are invested 80% in more stable returns of fixed income investments while maintaining 20% exposure to the long-term capital appreciation potential of equity mutual funds.

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 basic financial statements 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 and for the years ending June 30, 2004 and 2003, as listed in the table of contents. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 – Organization and Summary of Significant Accounting Policies, the financial statements of the 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, 2004 and 2003, and the changes in its financial position and its cash flows, where applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of Colorado Student Obligation Bond Authority d/b/a CollegeInvest, Scholars Choice Fund, as of June 30, 2004 and 2003, and the changes in net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2004 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 7 to 10 is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it.

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 Gunderson LLP*

Greenwood Village, Colorado  
November 12, 2004

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
**d/b/a COLLEGEINVEST**  
**SCHOLARS CHOICE FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2004 AND 2003**

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, 2004 and 2003 prepared by management. The Fund is an Internal Revenue Code (IRC) Section 529 college savings plan. 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 and the Stable Value Plus Fund are plans within the Section 529 college savings plan program of CollegeInvest (Program). 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 agreement with CGM expires on December 31, 2004. See subsequent events footnote. The Fund offers seven investment options in which participants may invest. These investment options are designed to help meet diverse investment goals of investors.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
**d/b/a COLLEGEINVEST**  
**SCHOLARS CHOICE FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

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

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

	<u>2004</u>	<u>2003</u>
Cash and investments	\$1,517,516	\$ 957,741
Receivables	<u>6,322</u>	<u>6,296</u>
Total fiduciary assets	1,523,838	964,037
Total liabilities	<u>5,026</u>	<u>3,230</u>
Total fiduciary net assets, held in trust	<u>\$1,518,812</u>	<u>\$ 960,807</u>

Overall fiduciary net assets increased by \$558.0 million or 58% during the fiscal year ending June 30, 2004. The Fund had contributions of \$483.2 million for the fiscal year. This was an increase of \$93.8 million from the prior fiscal year. Fiduciary net assets grew by \$428.1 million or 80% during the fiscal year ending June 30, 2003.

Receivables consist primarily of contributions received but not invested, and dividends and interest receivable. Receivables of contributions not invested are a result of differences between the trade date and settlement date of contributions. These receivables decreased \$881,000 or 19% from the prior year. Dividends and interest receivable increased by \$787,000, or 48% over the prior year's balance due primarily to an increase in the investment balance. Investments increased by \$560.0 million or 59% from June 30, 2003 to June 30, 2004.

Receivables also include \$120,000 due from the Student Loan Program Funds as of June 30, 2004. This amount was for administrative fees collected by the Student Loan Program Funds on behalf of the Fund.

Liabilities consist of amounts payable for investments purchased, service and investment fees payable, due to participants and due to Student Loan Program Funds. Amounts payable for investments purchased increased by over \$1.3 million. Amounts payable for service and investment fees increased by \$276,000 due to the increase in net assets of the fund as these fees are a percentage of daily net assets. Amounts due to participants increased as a result of \$242,000 of administrative fees collected in excess of actual expenses during Fiscal Year 2004. See discussion of fees in footnote 1. As of June 30, 2003, the Fund owed the Student Loan Program Funds \$76,000 for expenses incurred that had been paid by the Borrower Benefit Fund of the Student Loan Program Funds.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
**d/b/a COLLEGEINVEST**  
**SCHOLARS CHOICE FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

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

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

	<u>2004</u>	<u>2003</u>
Net investment income	\$ 142,952	\$ 75,791
Participant contributions	<u>483,225</u>	<u>389,368</u>
Total additions	<u>626,177</u>	<u>465,159</u>
Benefits paid to participants and withdrawals	59,864	32,645
Administrative and service fees	<u>8,308</u>	<u>4,438</u>
Total deductions	<u>68,172</u>	<u>37,083</u>
Net change in fiduciary net assets before transfers	558,005	428,076
Fiduciary net assets, beginning of year	<u>960,807</u>	<u>532,731</u>
Fiduciary net assets, end of year	<u>\$1,518,812</u>	<u>\$ 960,807</u>

Net investment income is comprised of dividends, interest income, and net realized and unrealized gains from security transactions, net of investment fees. Net realized and unrealized gains on security transactions were \$120.2 million and \$61.3 million for the fiscal years ended June 30, 2004 and 2003, respectively. Market conditions for the fiscal year ending June 30, 2004 had the greatest impact on net investment income with a positive overall market return in addition to an overall increase in the investment balance held in the Fund. Dividends of \$24.9 million and \$15.8 million for 2004 and 2003, respectively, was 2%, as a percentage of average investments, for both years. Investment fees of \$2.1 million for 2004 were greater than 2003 by \$836,000. Investment fees as a percentage of average net assets were 0.17% for both years.

Participant contributions increased by \$93.8 million or 24% from \$389.4 million received during fiscal year 2003 to \$483.2 million received during fiscal year 2004.

Benefits paid to participants and withdrawals increased from \$32.6 million paid during fiscal year 2003 to \$59.9 million paid during fiscal year 2004. For fiscal year end 2004 these deductions were 5.2% of average net assets as compared to 4.4% for fiscal year end 2003. As the Fund matures it is likely there will be increases in participant withdrawals for higher education expenses. 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.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
**d/b/a COLLEGEINVEST**  
**SCHOLARS CHOICE FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

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

Administrative and service fees of \$8.3 million at June 30, 2004 and \$4.4 million at June 30, 2003 were consistent 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.

**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, 2004 AND 2003**  
**(dollar amounts expressed in thousands)**

	<b>Private-Purpose Trust Fund</b>	
	<b>2004</b>	<b>2003</b>
<b>Fiduciary assets:</b>		
Cash and cash equivalents	\$ 415	\$ 613
Investments, at fair value	1,517,101	957,128
Receivable for portfolio units sold	3,768	4,649
Dividends and interest receivable	2,434	1,647
Due from Student Loan Program Funds	120	-
<b>Total fiduciary assets</b>	<b>1,523,838</b>	<b>964,037</b>
<b>Liabilities:</b>		
Payable for investments purchased	4,079	2,725
Service and investment fees payable	705	429
Due to participants	242	-
Due to Student Loan Program Funds	-	76
<b>Total liabilities</b>	<b>5,026</b>	<b>3,230</b>
<b>Total fiduciary net assets, held in trust</b>	<b>\$1,518,812</b>	<b>\$960,807</b>

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, 2004 AND 2003**  
(dollar amounts expressed in thousands)

	<b>Private-Purpose Trust Fund</b>	
	<b>2004</b>	<b>2003</b>
<b>Additions:</b>		
Gross earnings on investments:		
Dividends	\$ 24,911	\$ 15,790
Net realized and unrealized gains from security transactions	120,160	61,284
	<b>145,071</b>	<b>77,074</b>
Less investment fees	( 2,119)	(1,283)
Net investment income	<b>142,952</b>	<b>75,791</b>
Participant contributions	<b>483,225</b>	<b>389,368</b>
<b>Total additions</b>	<b>626,177</b>	<b>465,159</b>
<b>Deductions:</b>		
Benefits paid to participants and withdrawals	59,864	32,645
Service fees	7,056	3,743
Administrative fees	1,252	695
<b>Total deductions</b>	<b>68,172</b>	<b>37,083</b>
<b>Net change in fiduciary net assets</b>	<b>558,005</b>	<b>428,076</b>
<b>Fiduciary net assets, beginning of year</b>	<b>960,807</b>	<b>532,731</b>
<b>Fiduciary net assets, end of year</b>	<b>\$ 1,518,812</b>	<b>\$ 960,807</b>

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, 2004 AND 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) is a division of the Colorado Department of Higher Education (Department) of the State of Colorado. The Executive Director of the Department has responsibility for oversight and management of CollegeInvest. In addition, CollegeInvest has a nine-person 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 (Program), Scholars Choice Fund and Stable Value Plus Fund, which are administered by CollegeInvest. The Scholars Choice Fund (Fund) is one of CollegeInvest's savings plans. The mission of CollegeInvest is to be Colorado's higher education financing leader and to help Colorado families break down the financial barriers to college. The operations of the 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. 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. If a participant is subject to Colorado income tax, earnings on qualified withdrawals are excluded from State taxable income. In addition, individuals, estates and trusts subject to Colorado income tax generally are entitled to a deduction to the extent of their Colorado taxable income for the year for contributions made to a State sponsored Section 529 plan, subject to recapture in subsequent years in which nonqualified withdrawals are made. Note that an otherwise nontaxable rollover to another Section 529 program that is not associated with the State will trigger recapture of the Colorado income tax deduction described above in the year of the rollover.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
**d/b/a COLLEGEINVEST**  
**SCHOLARS CHOICE FUND**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

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

*Scholars Choice Fund (continued)*

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 agreement with CGM expires on December 31, 2004. See subsequent event footnote. The investment return for the Fund is based on the market performance of investments. Investment options are selected by CollegeInvest based on recommendations from Smith Barney Asset Management, Inc.

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

- **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 50/50 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%

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
**d/b/a COLLEGEINVEST**  
**SCHOLARS CHOICE FUND**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

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

*Scholars Choice Fund (continued)*

- 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.
- All 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.
- Equity 80% Option: Contributions are invested 80% in equity mutual funds and 20% in fixed income investments (Portfolio #1). The investment objective of this option is to seek long-term capital appreciation through investments in equity mutual funds while maintaining 20% exposure to the relatively more stable returns of fixed income investments through investment in fixed income mutual funds. It is only appropriate for investors with longer time horizons, who have an ability to tolerate an increased level of risk while seeking long-term capital appreciation through an equity-oriented investment option, or who use this option as part of an overall college savings strategy that includes less aggressive investments.
- Fixed Income 80% Option: Contributions are invested 80% in fixed income investments and 20% in equity mutual funds (Portfolio #6). The investment objective of this option is to seek the relatively more stable returns of a fixed income investment through investments in fixed income mutual funds while maintaining 20% exposure to the long-term capital appreciation potential of investments in equity mutual funds. It may be appropriate for investors who seek a fixed income-oriented investment that has a small equity-oriented component, and who are willing to forego the long-term capital appreciation potential of a more equity-oriented investment, or who use this option as part of an overall college savings strategy that includes more equity-oriented 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.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
**d/b/a COLLEGEINVEST**  
**SCHOLARS CHOICE FUND**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

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

**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, 2004. 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.

**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, 2004 and 2003.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
**d/b/a COLLEGEINVEST**  
**SCHOLARS CHOICE FUND**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

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

**Participant Contributions:**

The combined lifetime maximum amount of aggregate contribution for the Fund and all other Colorado Section 529 plans (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 \$280,000. 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 \$280,000 contribution limit set under the Fund. No additional contributions may be made to an account if the balance limit is reached.

**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 plan on behalf of a student or for a different student who is a family member of the original student. A non-qualified withdrawal may also be subject to recapture in the event a deduction has been taken from Colorado taxable income.

**Investment, Service and Administrative Fees:**

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 percentage rate of average daily net assets. This rate will vary with the Unit Class the account owner chooses. During the fiscal years ending June 30, 2004 and 2003, the Fund paid investment fees of \$2.1 million and \$1.3 million, respectively. In addition, according to the Agreement, each participant bears certain ongoing service fees that will vary with the Unit Classes the participant chooses. These direct service fees provide for the costs associated with distribution, servicing and administration of the Unit Classes. Such direct service fees reduce the value of the participant's account as incurred. Such fees are payable to CAM monthly, solely from the assets of the Fund. The Fund paid service fees of \$7.1 million and \$3.7 million for the fiscal years ending June 30, 2004 and 2003, respectively.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
**d/b/a COLLEGEINVEST**  
**SCHOLARS CHOICE FUND**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

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

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. The Fund paid administration fees of \$1.3 million and \$0.7 million for the fiscal years ending June 30, 2004 and 2003, respectively. Of the \$1.3 million fees for the fiscal year ended June 30, 2004, \$242,000 was collected from participants in excess of actual expenses. This amount is restricted for future expenses of CollegeInvest in its capacity as administrator of the Fund. To the extent that fees collected from participants exceed the expenses of the plan, CollegeInvest shall 1) determine if such revenues are required to fund subsequent year expenses of the Program; 2) determine if such fees are required to fund prior years' unfunded expenses of the Program; or 3) reduce future fees of the plan participants for the next year.

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. CAM did not pay any operating expenses for the fiscal year ending June 30, 2004. CAM paid operating expenses of \$68,000 for the fiscal year ending June 30, 2003.

**Reclassifications:**

Certain amounts in the June 30, 2003 financial statements have been reclassified to conform to the current year's presentation.

**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. Cash and cash equivalents are held in trust by CAM as of June 30, 2004 and 2003.

**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:

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
**d/b/a COLLEGEINVEST**  
**SCHOLARS CHOICE FUND**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

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

**Investments (continued):**

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, 2004 and 2003, all of the Fund's investments were uncategorized because they are not evidenced by securities that exist in physical or book entry form.

	<b>Fair Value</b>	
	<b><u>2004</u></b>	<b><u>2003</u></b>
	(dollar amounts expressed in thousands)	
Smith Barney Large Capitalization Growth Fund	\$ <b>382,908</b>	\$238,176
Salomon Brothers Investors Value Fund	<b>382,247</b>	233,335
MFS Government Securities Fund	<b>228,978</b>	155,138
Smith Barney Investment Grade Bond Fund	<b>141,889</b>	93,673
Smith Barney Short-term Investment Grade Bond Fund	<b>130,801</b>	85,667
Smith Barney Small Cap Core Fund	<b>121,827</b>	73,895
AFG EuroPacific Growth Fund	<b>82,498</b>	50,174
Smith Barney Money Funds – Cash Portfolio	<b><u>45,953</u></b>	<u>27,070</u>
	<b><u>\$1,517,101</u></b>	<u>\$957,128</u>

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
**d/b/a COLLEGEINVEST**  
**SCHOLARS CHOICE FUND**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

**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.

**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 General Assembly. Changes to the plan require legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-729-PERA(7372), or by visiting [www.copera.org](http://www.copera.org).

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 state troopers are eligible for retirement benefits at different ages and years of service. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
**d/b/a COLLEGEINVEST**  
**SCHOLARS CHOICE FUND**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

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

**Funding Policy (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% of their gross covered wages to an individual account in the plan. During fiscal years 2004 and 2003, the state contributed 10.15% and 10.04%, respectively, of the employee's gross covered wages. Before January 1, 2003, 1.64% of the total contribution was allocated to the Health Care Trust Fund, and after January 1, 2003, 1.1% of the total contribution was allocated to the Health Care Trust Fund. Through May 31, 2004, 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.

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 Fund to the three programs described above for the fiscal years ending June 30, 2004, 2003 and 2002 were \$30,000, \$9,000 and \$11,000, respectively. These contributions met the contribution requirement for each year.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
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**SCHOLARS CHOICE FUND**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

**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% of up to 3% of the employee's gross covered wages paid during the month. For calendar year 2003, the match was 100% of up to 2% of employee's gross covered wages paid during the month. For calendar year 2004, the match was 100% of up to 1% of employee's gross covered wages paid during the month. The PERA Board sets the level of the match with 2% of gross salary plus 50% of any reduction in the overall contribution rate due to overfunding of the pension plan available for the match. While the plan was not overfunded in the current year, the maximum one-year change in the match rate is statutorily limited to 1%, and therefore, the match changed from 2% to 1% on January 1, 2004. Legislation passed in the 2004 session of the General Assembly terminated the match for pay periods ending after May 31, 2004. The match will resume when the actuarial values of the defined benefit plan assets are 110% of actuarially accrued plan liabilities.

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, if available.

**6. Postretirement Health Care and Life Insurance Benefits:**

Health Care Program

PERACare (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 Trust Fund (HCTF). 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 General Assembly.

The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During fiscal year 2004, 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% 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 4.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
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**SCHOLARS CHOICE FUND**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

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

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, 2003, there were 37,067 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.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
**d/b/a COLLEGEINVEST**  
**SCHOLARS CHOICE FUND**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

**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, 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.

**8. Net Assets:**

All of the Fund's fiduciary net assets of \$1.5 billion and \$960.8 million as of June 30, 2004 and 2003, respectively, are net assets held in trust on behalf of investors in the Fund.

**9. Subsequent Events:**

- ❖ Effective July 1, 2004, the Colorado Student Obligation Bond Authority's legal name was changed to CollegeInvest in its governing Statute.
- ❖ The Agreement between CollegeInvest and CGM was scheduled to expire on December 31, 2004. On October 4, 2004, CollegeInvest entered into a management services contract with CGM to provide services related to the management and offering of a CollegeInvest sponsored advised-client sold Section 529 college savings plan. The contract expires on June 1, 2009, with the possibility of, at CollegeInvest's discretion, two two-year extensions. This new contract replaces the existing contract, which offered both a direct-client and advised-client Section 529 college savings plan. Under the new agreement, CollegeInvest is directing the transfer of all assets and accounts of participants enrolled in the plan directly through the mail or internet, to a new direct-participant plan offered by CollegeInvest and managed by The Vanguard Group and Upromise Investments, Inc. The transfer of these accounts and assets was completed on October 23, 2004.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
**d/b/a COLLEGEINVEST**  
**SCHOLARS CHOICE FUND**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

**9. Subsequent Events (continued):**

- ❖ CollegeInvest entered into a management services contract with The Vanguard Group and Upromise Investments, Inc, on October 4, 2004, to provide services related to the management and offering of a CollegeInvest sponsored direct-client sold Section 529 college savings plan. The contract expires on June 30, 2009, with the possibility of, at CollegeInvest's discretion, two two-year extensions. The plan will invest participant contributions primarily in passively-managed Vanguard index funds. Any fees due to CollegeInvest accrue daily, and are paid monthly to CollegeInvest.

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

Members of the Legislative Audit Committee:

We have audited the basic financial statements of the Colorado Student Obligation Bond Authority, d/b/a CollegeInvest, Scholars Choice Fund as of and for the year ended June 30, 2004, and have issued our report thereon dated November 12, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

**Compliance and Other Matters**

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

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  
November 12, 2004

## **SUPPLEMENTARY INFORMATION**

**Colorado Student Obligation Bond Authority**  
**d/b/a CollegeInvest**  
**Scholars Choice Fund**  
**Supplementary Schedule - Combining Schedule of Fiduciary Net Assets**  
**June 30, 2004**  
**(dollar amounts expressed in thousands)**

	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	Portfolio 5	Portfolio 6	Portfolio 7	Fixed Income	Equity	Total
<b>Assets:</b>										
Cash and cash equivalents	\$ 233	\$ (15)	\$ (10)	\$ (50)	\$ (34)	\$ (106)	\$ 76	\$ 56	\$ 265	\$ 415
Investments, at fair value	178,838	148,249	158,160	356,109	143,635	94,515	27,371	41,571	368,653	1,517,101
Receivable for portfolio units sold	936	172	221	622	318	138	4	53	1,304	3,768
Dividends and interest receivable	230	217	236	583	221	179	30	92	646	2,434
Due from Student Loan Program Funds	13	11	13	29	12	7	2	4	29	120
<b>Total Fiduciary Assets</b>	<b>180,250</b>	<b>148,634</b>	<b>158,620</b>	<b>357,293</b>	<b>144,152</b>	<b>94,733</b>	<b>27,483</b>	<b>41,776</b>	<b>370,897</b>	<b>1,523,838</b>
<b>Liabilities:</b>										
Due to custodian	63	(63)	-	-	-	-	-	-	-	-
Payable for investments purchased	690	348	268	819	243	59	33	150	1,469	4,079
Service and investment fees payable	78	65	72	164	71	47	15	17	176	705
Due to participants	27	23	26	58	23	14	4	8	59	242
<b>Total Liabilities</b>	<b>858</b>	<b>373</b>	<b>366</b>	<b>1,041</b>	<b>337</b>	<b>120</b>	<b>52</b>	<b>175</b>	<b>1,704</b>	<b>5,026</b>
<b>Total Fiduciary Net Assets</b>	<b>\$ 179,392</b>	<b>\$ 148,261</b>	<b>\$ 158,254</b>	<b>\$ 356,252</b>	<b>\$ 143,815</b>	<b>\$ 94,613</b>	<b>\$ 27,431</b>	<b>\$ 41,601</b>	<b>\$ 369,193</b>	<b>\$ 1,518,812</b>
Units Outstanding	<u>15,558,033</u>	<u>12,367,845</u>	<u>13,505,287</u>	<u>28,947,421</u>	<u>12,380,146</u>	<u>8,045,630</u>	<u>2,323,556</u>	<u>3,410,410</u>	<u>37,824,550</u>	
Unit Value	<u>\$ 11.53</u>	<u>\$ 11.99</u>	<u>\$ 11.72</u>	<u>\$ 12.31</u>	<u>\$ 11.62</u>	<u>\$ 11.76</u>	<u>\$ 11.81</u>	<u>\$ 12.20</u>	<u>\$ 9.76</u>	

See accompanying independent auditor's report

**Colorado Student Obligation Bond Authority**  
**d/b/a CollegeInvest**  
**Scholars Choice Fund**  
**Supplementary Schedule - Combining Schedule of Changes in Fiduciary Net Assets**  
**For the fiscal year ended June 30, 2004**  
**(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	\$ 2,310	\$ 2,479	\$ 3,085	\$ 7,684	\$ 2,836	\$ 1,735	\$ 487	\$ 1,852	\$ 2,443	\$ 24,911
Net realized and unrealized loss from security transactions	18,888	13,143	12,607	20,196	6,314	892	2	(2,182)	50,300	120,160
	21,198	15,622	15,692	27,880	9,150	2,627	489	(330)	52,743	145,071
Less investment fees	(266)	(261)	(252)	(581)	(167)	(113)	(30)	(113)	(336)	(2,119)
Net investment income	20,932	15,361	15,440	27,299	8,983	2,514	459	(443)	52,407	142,952
Participant contributions	95,353	47,930	50,843	99,089	41,331	22,435	7,941	12,430	105,873	483,225
Total additions	116,285	63,291	66,283	126,388	50,314	24,949	8,400	11,987	158,280	626,177
Deductions:										
Benefits paid to participants and withdrawals	4,261	4,150	4,713	11,775	3,569	5,651	7,360	7,468	10,917	59,864
Service fees	805	570	744	1,686	704	421	131	221	1,774	7,056
Administrative fees	139	119	134	300	119	73	21	43	304	1,252
Total deductions	5,205	4,839	5,591	13,761	4,392	6,145	7,512	7,732	12,995	68,172
Portfolio exchanges, net	(33,004)	2,973	(4,827)	3,455	8,221	22,217	10,474	(8,939)	(570)	-
Net change in fiduciary net assets before transfers	78,076	61,425	55,865	116,082	54,143	41,021	11,362	(4,684)	144,715	558,005
Fiduciary net assets, beginning of year	101,316	86,836	102,389	240,170	89,672	53,592	16,069	46,285	224,478	960,807
Fiduciary net assets, end of year	\$ 179,392	\$ 148,261	\$ 158,254	\$ 356,252	\$ 143,815	\$ 94,613	\$ 27,431	\$ 41,601	\$ 369,193	\$ 1,518,812

See accompanying independent auditor's report

**Colorado Student Obligation Bond Authority**  
**d/b/a CollegeInvest**  
**Scholars Choice Fund**  
**Supplementary Schedule - Combining Schedule of Investments**  
**June 30, 2004**  
(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 Large Capitalization Growth Fund	\$ 44,704	\$ 37,017	\$ 31,701	\$ 71,658	\$ 21,580	\$ 9,547	\$ 1,359	\$ -	\$ 165,342	\$ 382,908
Salomon Brothers Investors Value Fund	44,598	36,970	31,647	71,085	21,502	9,422	1,379	-	165,644	382,247
MFS Government Securities Fund	17,736	22,110	31,351	71,113	28,626	33,094	-	24,948	-	228,978
Smith Barney Investment Grade Bond Fund	17,938	22,119	23,608	53,451	14,357	-	-	10,416	-	141,889
Smith Barney - Short-Term Investment Grade Bond Fund	-	-	7,787	52,870	28,630	18,869	16,438	6,207	-	130,801
Smith Barney Small Cap Core Fund	27,270	15,178	16,243	18,133	7,336	-	-	-	37,667	121,827
AFG EuroPacific Growth Fund	26,592	14,855	15,823	17,799	7,429	-	-	-	-	82,498
Smith Barney Money Funds - Cash Portfolio	-	-	-	-	14,175	23,583	8,195	-	-	45,953
Total Investments, at fair value	<u>\$ 178,838</u>	<u>\$ 148,249</u>	<u>\$ 158,160</u>	<u>\$ 356,109</u>	<u>\$ 143,635</u>	<u>\$ 94,515</u>	<u>\$ 27,371</u>	<u>\$ 41,571</u>	<u>\$ 368,653</u>	<u>\$ 1,517,101</u>

See accompanying independent auditor's report.

**The electronic version of this report is available on the Web site of the  
Office of the State Auditor  
[www.state.co.us/auditor](http://www.state.co.us/auditor)**

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

**Please refer to the Report Control Number below when requesting this report.**

**Report Control Number 1606C**

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

**FINANCIAL STATEMENTS**  
June 30, 2004 and 2003

**LEGISLATIVE AUDIT COMMITTEE  
2005 MEMBERS**

*Representative Val Vigil*  
Chair

*Senator Norma Anderson*  
Vice-Chair

*Representative Fran Coleman*  
*Representative Deanna Hanna*  
*Representative David Schultheis*  
*Senator Stephanie Takis*  
*Senator Jack Taylor*  
*Representative Al White*

**Office of the State Auditor Staff**

*Joanne Hill*  
State Auditor

*Sally Symanski*  
Deputy State Auditor

*Dianne Ray*  
Legislative Auditor

*Clifton Gunderson LLP*  
Contract Auditors

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

**FINANCIAL AUDIT**

June 30, 2004

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

**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, 2004. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of the departments, institutions and agencies of State government.

*Clifton Gunderson LLP*

Greenwood Village, Colorado  
September 3, 2004

*6399 S. Fiddler's Green Circle  
Suite 100  
Greenwood Village, Colorado 80111*  
tel: (303) 779-5710  
fax: (303) 779-0348

[www.cliftoncpa.com](http://www.cliftoncpa.com)

Offices in 13 states and Washington, DC



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## **REPORT SUMMARY**

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**COLORADO STUDENT OBLIGATION BOND AUTHORITY  
d/b/a COLLEGEINVEST  
STABLE VALUE PLUS FUND  
FINANCIAL AUDIT  
FISCAL YEAR ENDED JUNE 30, 2004**

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### **Purpose and Scope**

The Office of the State Auditor, State of Colorado, engaged Clifton Gunderson LLP to conduct the financial audit of the Colorado Student Obligation Bond Authority d/b/a CollegeInvest (CollegeInvest) Stable Value Plus Fund (Stable Value Plus Fund) for the year ended June 30, 2004. 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 basic financial statements of CollegeInvest as of and for the fiscal year ended June 30, 2004.

### **Audit Opinions and Reports**

We expressed an unqualified opinion on CollegeInvest's Stable Value Plus Fund basic financial statements, as of and for the fiscal year ended June 30, 2004.

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

There were no findings or recommendations for the year ended June 30, 2004.

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

The audit report for the year ended June 30, 2003 included one recommendation. The recommendation was implemented during fiscal year 2004.

## **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.* No significant audit adjustments were made for the fiscal year ended June 30, 2004.

*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.

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

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**Organization**

The Colorado General Assembly, pursuant to Colorado Revised Statutes 23-3.1-2 and 23-3.1-3, established a student obligation bond program (Student Loan Program Funds), a post secondary education expense program (Prepaid Tuition Fund), and an Internal Revenue Code 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 2,000 active accounts as of June 30, 2004. 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 calculated on the average daily net assets of the Fund. This net rate of return is currently 3.06%. 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.

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## DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS

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The following audit recommendation was from the financial audit of the Colorado Student Obligation Bond Authority d/b/a CollegeInvest Stable Value Plus for the five months ended June 30, 2003.

**Recommendation**

CollegeInvest should change its procedures regarding the calculation of redemption value of units to conform to the Program Disclosure Statement's policy or amend the Statement to reflect current practice.

**Disposition**

Implemented April 2004



## Independent Auditor's Report

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements 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 and for the year ended and the five months ended June 30, 2004 and June 30, 2003, as listed in the table of contents. 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 audits.

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

As discussed in Note 1 – Organization and Summary of Significant Accounting Policies, the financial statements of the 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, 2004 and 2003 and the changes in its financial position and its cash flows, where applicable, for the year ended June 30, 2004 and the five months ended June 30, 2003, 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, 2004 and 2003, and the changes in net assets for the year ended June 30, 2004 and the five months ended June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2004, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 8 to 12 is not a required part of the financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it.

*Clifton Henderson LLP*

Greenwood Village, Colorado  
September 3, 2004

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
**d/b/a COLLEGEINVEST**  
**STABLE VALUE PLUS FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2004 AND 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, 2004. The Fund is an Internal Revenue Code (IRC) Section 529 college savings plan. 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 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 Fund began accepting participant contributions on February 1, 2003. Therefore, the accompanying financial statements include activities for twelve months for the fiscal year ended June 30, 2004, and five months for the period ended June 30, 2003. 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 1.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY  
d/b/a COLLEGEINVEST  
STABLE VALUE PLUS FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2004 AND 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 Colorado minimum nonforfeiture interest rate for annuity contracts (currently 1.5%), or (ii) 2.00%. 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 calendar year ending December 31, 2004, Travelers agreed to pay an annual rate of 4.05% less the CollegeInvest administrative fee of .99% for a net annual rate of 3.06%. From inception of the Agreement through December 31, 2003, Travelers paid 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)

	<u>2004</u>	<u>2003</u>
Cash and investments	\$ 17,872	\$ 13,091
Total liabilities	<u>223</u>	<u>69</u>
Total fiduciary net assets, held in trust	<u>\$ 17,649</u>	<u>\$ 13,022</u>

Overall, fiduciary net assets grew by more than \$4.6 million during the fiscal year ended June 30, 2004. The Fund had contributions of \$5.8 million and net investment income of \$700,000 for the fiscal year ended June 30, 2004 as compared to contributions of \$12.9 million and net investment income of \$200,000 for the five months ended June 30, 2003.

Total liabilities includes a payable for investments purchased which consists of amounts received from participants but not yet invested with Travelers. Total liabilities also includes Due to Student Loan Program Funds which consists of operating expenses paid by the Borrower Benefit Fund of the Student Loan Program Funds on behalf of the Stable Value Plus Fund that have not been reimbursed as of June 30, 2004 and 2003. The Fund utilizes the Borrower Benefit Fund for payment of operating expenses throughout the year. These expenses are reimbursed to the Borrower Benefit Fund on a periodic basis.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
**d/b/a COLLEGEINVEST**  
**STABLE VALUE PLUS FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

**Current Year Results (continued):**

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

	<u>2004</u>	<u>2003</u>
Participant contributions	\$ 5,759	\$ 12,892
Investment income	<u>700</u>	<u>200</u>
Total additions	<u>6,459</u>	<u>13,092</u>
Benefits paid to participants and withdrawals	1,681	31
Start up expenses	-	168
Administrative fees and operating expenses	<u>157</u>	<u>112</u>
Total deductions	<u>1,838</u>	<u>311</u>
Net change in fiduciary net assets before transfers	4,621	12,781
Transfer from the Student Loan Program Funds	6	241
Fiduciary net assets, beginning of period	<u>13,022</u>	<u>-</u>
Fiduciary net assets, end of period	<u>\$ 17,649</u>	<u>\$ 13,022</u>

Participant contributions decreased by \$7.1 million or 55.3% from the fiscal year ended June 30, 2003 to the fiscal year ended June 30, 2004. The Fund began operations in February 2003. Effective February 20, 2003, the Prepaid Tuition Fund of CollegeInvest changed its contract terms. This resulted in a high number of cancellations for the Prepaid Tuition Fund during Fiscal Year 2003. The Stable Value Plus Fund received a large number of rollovers from the Prepaid Tuition Fund at that time. This is the primary reason for the higher amount of contributions in fiscal year 2003.

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 calendar year 2003 and 4.05% for calendar year 2004. Investment income increased by \$500,000 due to an increase in investments as compared to the prior year, as well as twelve months of income during the fiscal year ended June 30, 2004 as compared to five months for the period ended June 30, 2003.

Benefits paid to participants were primarily 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. Participants may also withdraw account balances for nonqualifying expenses. Nonqualifying withdrawals are subject to a 10% penalty on nonqualifying earnings per Section 529 of the Internal Revenue

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
**d/b/a COLLEGEINVEST**  
**STABLE VALUE PLUS FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

**Current Year Results (continued):**

Code. Benefits paid to participants and withdrawals increased by more than \$1.6 million during the fiscal year ended June 30, 2004 as compared to the prior period due to the longer length of the period and participants beginning to withdraw assets to pay for higher education expenses.

Start-up expenses for the five months ended June 30, 2003, consist primarily of legal fees, consulting services, printing and salaries and benefits to establish the Stable Value Plus college savings plan. For the period ended June 30, 2003, 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.

Administrative fees are for recordkeeping and administrative expenses to operate the program. The administrative fee is limited, by the Agreement with Travelers, up to 0.99% of daily net assets. For the fiscal year ended June 30, 2004, and 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 \$5,975 and \$72,777, respectively, 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 for the fiscal year ended June 30, 2004 and for the five months ended June 30, 2003 was \$5,975 and \$240,690, respectively.

**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 Colorado minimum nonforfeiture interest rate for annuity contracts (currently 1.5%), or (ii) 2.0%. The Colorado minimum net nonforfeiture rate for annuity contracts is set by the Colorado legislature and may be amended per Statute.
  
- ❖ 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

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
**d/b/a COLLEGEINVEST**  
**STABLE VALUE PLUS FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

**Current Year Results (continued):**

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, 2004, 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.
- ❖ 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, 2004 AND 2003**  
(Dollar amounts expressed in thousands)

	<b>Private-Purpose Trust Fund</b>	
	2004	2003
<b>Fiduciary assets:</b>		
Cash and cash equivalents	\$ 219	\$ 73
Investments, at fair value	<u>17,653</u>	<u>13,018</u>
<b>Total fiduciary assets</b>	<u><b>17,872</b></u>	<u>13,091</u>
 <b>Liabilities:</b>		
Accounts payable	3	6
Payable for investments purchased	76	60
Due to Student Loan Program Funds	<u>144</u>	<u>3</u>
<b>Total liabilities</b>	<u><b>223</b></u>	<u>69</u>
<b>Total fiduciary net assets, held in trust</b>	<u><b>\$ 17,649</b></u>	<u>\$ 13,022</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 YEAR ENDED JUNE 30, 2004 AND**  
**THE FIVE MONTHS ENDED JUNE 30, 2003**  
(Dollar amounts expressed in thousands)

	<b>Private-Purpose Trust Fund</b>	
	2004	2003
<b>Additions:</b>		
Participant contributions	\$ 5,759	\$ 12,892
Interest income	692	196
Fee income	8	4
<b>Total additions</b>	<b>6,459</b>	<b>13,092</b>
<b>Deductions:</b>		
Benefits paid to participants and withdrawals	1,681	31
Start up expenses	-	168
Administrative fees	151	39
Operating expenses	6	73
<b>Total deductions</b>	<b>1,838</b>	<b>311</b>
<b>Net change in fiduciary net assets before transfers</b>	<b>4,621</b>	<b>12,781</b>
<b>Transfer from the Student Loan Program Funds</b>	<b>6</b>	<b>241</b>
<b>Fiduciary net assets, beginning of period</b>	<b>13,022</b>	<b>-</b>
<b>Fiduciary net assets, end of period</b>	<b>\$ 17,649</b>	<b>\$ 13,022</b>

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, 2004 AND 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) is a division of the Colorado Department of Higher Education (Department) of the State of Colorado. The Executive Director of the Department has responsibility for oversight and management of CollegeInvest. In addition, CollegeInvest has a nine-person 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 be Colorado's higher education financing leader and to help Colorado families break down the financial barriers to college. 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. If a participant is subject to Colorado income tax, earnings on qualified withdrawals are excluded from State taxable income. In addition, individuals, estates and trusts subject to Colorado income tax generally are entitled to a deduction to the extent of their Colorado taxable income for the year for contributions made to a State sponsored Section 529 plan, subject to recapture in subsequent years in which nonqualified withdrawals are made. Note that an otherwise nontaxable rollover to another Section 529 program that is not associated with the State will trigger recapture of the Colorado income tax deduction described above in the year of the rollover.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
**d/b/a COLLEGEINVEST**  
**STABLE VALUE PLUS FUND**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

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

On January 15, 2003, CollegeInvest entered into an agreement with Travelers (the Agreement) to provide a net rate of return to investors. Under the Agreement, the rate of return is reset annually each January 1<sup>st</sup>. Travelers has agreed that the annual interest rate calculated each year will not be less than the greater of (i) the Colorado minimum nonforfeiture interest rate for annuity contracts (currently 1.5%), 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%. For the period from inception through December 31, 2003, the annual rate was 5.0% less the CollegeInvest administrative fee of 0.99% for a net annual rate of 4.01%. For the period from January 1, 2004 through December 31, 2004, the annual rate is 4.05%, less the CollegeInvest administrative fee of .99% for a net annual rate of 3.06%

Under the Agreement, the total maximum contributions to the Fund for the calendar year 2003 was \$20 million, with no limit on contributions to the plan in subsequent years. 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 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, 2004 AND 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 purchased weekly and are valued at the closing net asset value per share on the date of transfer to Travelers. Interest income is credited to participant accounts daily. Distributions from the Fund are valued on the date immediately preceding the date that a payment is made by CollegeInvest in satisfaction of a withdrawal request.

Investments are carried at fair value which equals cost plus guaranteed interest earned as of June 30, 2004 and 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 and the Scholars Choice Fund, which also are offered by CollegeInvest) for a particular student from all sources is \$280,000. 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 \$280,000 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. No additional contributions may be made to an account if the balance limit is reached.

**Reclassifications:**

Certain amounts in the June 30, 2003 financial statements have been reclassified to conform to the current year's presentation.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
**d/b/a COLLEGEINVEST**  
**STABLE VALUE PLUS FUND**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

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

**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. A nonqualified withdrawal may also be subject to recapture in the event a deduction has been taken from Colorado taxable income.

**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 of administering the Fund as defined by Statute. For the fiscal year ended June 30, 2004, and 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 \$5,975 and \$240,690, respectively, to cover the expenses in excess of the maximum fee. Of this amount \$167,913 was incurred by CollegeInvest for start up costs. The total of \$246,665 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. The following table summarizes the transfers:

	<u>2004</u>	<u>2003</u>
Start-up expenses	\$ -	\$ 167,913
Administrative and operating expenses	<b>157,094</b>	112,125
Administrative fees collected	<u>(151,119)</u>	<u>(39,348)</u>
Transfer from Borrower Benefit Fund	<u>\$ 5,975</u>	<u>\$240,690</u>

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
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**STABLE VALUE PLUS FUND**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

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

All cash deposits are held by a bank. 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. Collected balances are transferred daily into money market funds.

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. The Fund had deposits and investments that were not yet transferred to Travelers of \$76,000 and \$60,000 as of June 30, 2004 and 2003, respectively.

The Fund had cash deposits and investments of \$143,000 and \$13,000 as of June 30, 2004 and 2003, respectively, that were not yet transferred to the Borrower Benefit Fund to reimburse the Borrower Benefit Fund for operating expenses paid on behalf of the Fund.

Cash deposits as of June 30 are as follows:

	<u>2004</u>	<u>2003</u>
(dollar amounts expressed in thousands)		
Demand deposit account	\$ 4	\$ 5
Money market	<u>215</u>	<u>68</u>
Total cash deposits	<u>\$ 219</u>	<u>\$ 73</u>

The carrying amount and bank balance of demand deposit accounts of \$4,000 and \$4,000 as of June 30, 2004 and \$5,000 and \$5,000 as of June 30, 2003, were fully insured by the FDIC.

**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.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

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

**Investments (continued):**

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 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, 2004 and 2003, all of the Fund's investments were held by Traveler's pursuant to the Agreement (see Note 1). The investments are 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, including contributions received by electronic transfer, will purchase units at the net asset value calculated on the business day immediately preceding the date the contributions are invested with 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. Withdrawals result in the redemption of units, based on the unit value determined on the date immediately preceding the date that a payment is made by CollegeInvest in satisfaction of a withdrawal request. Unit values for the Fund are determined daily. There are no distributions of net investment gains or net investment income to the participants or beneficiaries.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004 AND 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 General Assembly. Changes to the plan require legislation by the General Assembly. The State plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-729-PERA(7372) or by visiting [www.copera.org](http://www.copera.org).

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 years 2004 and 2003, the state contributed 10.15 percent and 10.04 percent, respectively, of the employee's gross covered wages. Before January 1, 2003, 1.64 percent of the total contribution was allocated to the Health Care Trust Fund, and after January 1, 2003, 1.1 percent of the total contribution was allocated to the Health Care Trust Fund. Through May 31, 2004, 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**  
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**JUNE 30, 2004 AND 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 year ended June 30, 2004, and the five months ended June 30, 2003 was \$5,000 and \$3,000, 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 members' 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 the employee's gross covered wages paid during the month. For calendar year 2004 through May 31, 2004, the match was 100 percent of up to 1 percent of the employee's gross covered wages paid during the month. The PERA Board sets the level of the match with two percent of gross salary plus fifty percent of any reduction in the overall contribution rate due to overfunding of the pension plan available for the match. While the plan was not overfunded in the current year, the maximum one-year change in the match rate is statutorily limited to one percent, and therefore, the match changed from 2 percent to 1 percent. Legislation passed in the 2004 session of the General Assembly terminated the match for pay periods ending after May 31, 2004. The match will resume when the actuarial value of the defined benefit plan assets are one hundred ten percent of actuarially accrued plan liabilities.

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, if available.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
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**JUNE 30, 2004 AND 2003**

**6. Postretirement Health Care and Life Insurance Benefits:**

Health Care Program

PERACare (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 Trust Fund (HCTF). 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 General Assembly.

The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During fiscal years 2004 and 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 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, 2003 there were 37,067 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.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

**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.

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.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY**  
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**STABLE VALUE PLUS FUND**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004 AND 2003**

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

Furniture and Equipment

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

As of June 30, 2004, no claims have been brought against the Stable Value Plus Fund.

**8. Net Assets:**

All of the Fund's fiduciary net assets of \$17.6 million and \$13.0 million as of June 30, 2004 and 2003, respectively, are net assets held in trust on behalf of investors in the Fund.

**9. Subsequent Event:**

Effective July 1, 2004, the Colorado Student Obligation Bond Authority's legal name was changed to CollegeInvest in its governing Statute.

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

Members of the Legislative Audit Committee:

We have audited the basic financial statements of the Colorado Student Obligation Bond Authority, d/b/a CollegeInvest, Stable Value Plus Fund as of and for the year ended June 30, 2004, and have issued our report thereon dated September 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

**Compliance and Other Matters**

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

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  
September 3, 2004

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