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COLORADO STUDENT OBLIGATION BOND AUTHORITY

ANNUAL REPORT

JUNE 1979 THROUGH SEPTEMBER 30, 1980

COLORADO STUDENT OBLIGATION BOND AUTHORITY

Board of Directors

Louis P. Tanner, Chairman  
Myron M. Braden, Vice Chairman  
Frank Zaveral, Secretary-Treasurer  
Conrad L. Chavez  
Marguerite Larson Gauss  
Susan Griffiths  
J. Robert Young

Staff

Carl L. Wesemann, Executive Officer  
Judith Varadachar, Administrative Manager

## ACTIVITIES

### Purpose

This Annual Report of the Colorado Student Obligation Bond Authority (CSOBA) is submitted in accordance with Colorado Revised Statutes 1973, Section 23-3.1-221 which requires the Authority to keep an accurate account of all its activities and to report annually on these activities in the month of February to its members, to the Governor and to the State Auditor.

### Overview

The Colorado Student Obligation Bond Authority was created June 20, 1979 by an act of the state legislature. Its purpose, as stated in Senate Bill 52, is to "improve the access to and choice of higher education opportunities" for Colorado residents. It was determined by the Board of Directors of the Authority that the primary method for achieving this purpose would be to create and maintain a secondary market for Colorado guaranteed student loans by purchase of these loans from direct lenders, such as banks, savings and loans and credit unions. Funds for the operation of this secondary market were to be raised through the issuance of long-term tax-free revenue bonds. Unfortunately, the bond market has seen historic high interest rates and the Authority has been forced to examine alternate sources of financing.

While the Authority is presently unfunded, it expects to be funded by a short-term, tax-free revenue bond issue, and/or short-term bond anticipation notes by January 1981. Such funding will have to be secured by a large financial institution, like the Student Loan Marketing Association (SLMA), which would agree to buy loans from the Authority if necessary to assure the investor liquidity on his investment. Negotiations with SLMA are well under way.

Currently the Authority receives no financial help from the State. Its only assistance from the federal government will be in the indirect form of tax exemption, and from the monies which had formerly been paid to direct lenders: interest payments on student loans until they reach repayment status, as well as a "special allowance" based on a percentage of Treasury Bill rates.

#### Governance and Activities to Date

The Authority is governed by a seven-member Board of Directors, appointed for rotating terms by the Governor. The Board sets policies and procedures, which are then implemented by the Executive Officer. Since the Authority's beginning, the Board and staff have been preparing for the issuance of a tax-free revenue bond series, or alternate financing, the proceeds of which will be used to purchase student loans. This preparation has included not only

operational activities, such as selection of Lamm Stowe Braymer & Wisor as general counsel; selection of staff personnel; Smith Barney, Harris Upham, Kirchner Moore and Hanifen Imhoff as bond underwriters; Sherman & Howard as bond counsel; and Arthur Andersen as auditor. It included meeting with the public as well. A public hearing was held in May 1980 on access to student loans in Colorado and it was determined that access to and choice of higher education opportunities would be enhanced by the creation of a secondary market for Colorado guaranteed student loans. Also, various workshops for direct lenders were conducted in August throughout the State of Colorado in order to assess the problems and needs of direct lenders. A more detailed summary of activities is included at Appendix A.

#### Loan Purchase

Because the Authority will buy loans from direct lenders at par value, without requirements for average loan size or portfolio size, new lenders will be assured of the cash flow they need to continue in the program while remaining with internally set capital limitations. Thus, two aims are achieved. More private funds are used for student loans, relieving the taxpayer of this burden, and student's educational needs are met.

### Loan Servicing

In order to maintain control of the quality of loan servicing, the Authority will service its loans internally. It will be aided in this endeavor by the Loan Guarantee Division of the Colorado Department of Higher Education (CGSLP) and the Pennsylvania Higher Education Assistance Agency (PHEAA), a highly reputed servicing organization with offices in Harrisburg, Pennsylvania. A time-sharing computer terminal will be installed at the Authority's offices with access to the software and files in the main computer in Harrisburg. Authority personnel, however, will be solely responsible for all data input and system integrity.

### Outlook

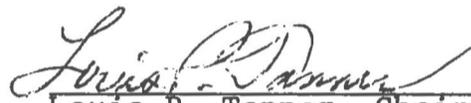
The CSOBA has been encouraged by the enthusiastic support of the state legislature and by the positive response of direct lenders to the program. By early 1981, it expects to be in full operation, thereby easing the taxpayer burden of student financing, and enhancing options for student educations.

### Recommendations

The enabling legislation set the maximum amount for which the Authority could issue bonds at \$50 million. Subsequent surveys of direct lenders, however, have revealed an even greater need for student loan funds than originally anticipated. In fact, the CGSLP had guaranteed 19,721 student loans in a dollar amount

of \$44 million by September 30, 1980. And they expect to have guaranteed \$76 million by June 1981. To meet this need, in September 1980 the Board recommended that an amendment to S.B. 52 be submitted to the legislature which will raise the Authority's debt ceiling to \$200 million. The Authority staff has begun to work with general counsel and the underwriting team to carry out this recommendation.

Respectfully submitted,

  
Louis P. Tanner, Chairman

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**FINANCIAL STATEMENT  
TOGETHER WITH  
AUDITOR'S REPORT**

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Denver, Colorado  
October

ARTHUR ANDERSEN & Co.  
DENVER, COLORADO

To the Board of Directors,  
Colorado Student Obligation Bond Authority:

We have examined the balance sheet of the COLORADO STUDENT OBLIGATION BOND AUTHORITY (a corporate body and a political subdivision of the State of Colorado) as of September 30, 1980, and the related statements of revenues, expenses and changes in fund balance and changes in financial position for the eleven-month period then ended (Note 1). Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Colorado Student Obligation Bond Authority as of September 30, 1980, and the results of its operations and the changes in its financial position for the eleven-month period then ended, in conformity with generally accepted accounting principles.

*Arthur Andersen & Co.*

Denver, Colorado,  
October 17, 1980.

COLORADO STUDENT OBLIGATION BOND AUTHORITY

BALANCE SHEET

AS OF SEPTEMBER 30, 1980

ASSETS:

Cash	\$ 329
Cash in savings account	1,162
Cash in money market account	60,000
	-----
Total cash and temporary cash investments	61,491
	-----
Accrued interest receivable	497
Prepaid rent	1,351
Office furniture and equipment, at cost less accumulated depreciation of \$74 (Note 2)	6,435
	-----
Total assets	<u>\$ 69,774</u>

LIABILITIES AND FUND BALANCE:

Notes payable to banks (Note 3)	\$ 88,000
Accounts payable	4,056
Accrued legal fees (Note 4)	7,186
Accrued payroll taxes	1,480
Interest payable	3,298
	-----
Total liabilities	104,020
	-----
Fund balance (deficit) unrestricted	(34,246)
	-----
Total liabilities and fund balance	<u>\$ 69,774</u>

The accompanying notes to financial statements  
are an integral part of this balance sheet.

COLORADO STUDENT OBLIGATION BOND AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES

FOR THE ELEVEN-MONTH PERIOD ENDED SEPTEMBER 30, 1980

REVENUES:		
Interest income		\$ 2,758
		-----
Total revenues		2,758
		-----
EXPENSES:		
Salaries and wages		9,850
Temporary secretarial services		1,771
Rental on office space		3,652
Office supplies		1,083
Telephone		1,072
Advertising		1,180
Insurance		245
Travel and entertainment		7,019
Legal fees (Note 4)		7,186
Interest on notes payable to banks		3,298
Depreciation (Note 2)		74
Other office expenses		574
		-----
Total expenses		37,004
		-----
REVENUES (UNDER) EXPENSES		(34,246)
FUND BALANCE, beginning of period		-
		-----
FUND BALANCE (DEFICIT), end of period		<u>\$(34,246)</u>

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

COLORADO STUDENT OBLIGATION BOND AUTHORITY

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE ELEVEN-MONTH PERIOD ENDED SEPTEMBER 30, 1980

SOURCES OF CASH:	
Notes payable to banks	\$ 88,000
Increase in accounts payable and other liabilities	12,722
Increase in interest payable	3,298
	-----
Total sources of cash	104,020
	-----
APPLICATIONS OF CASH:	
Operations-	
Revenues (under) expenses	(34,246)
Add expenses not requiring cash-	
Depreciation	74
	-----
Total used in operations	(34,172)
Purchase of office furniture and equipment	(6,509)
(Increase) in interest receivable and other assets	(1,848)
	-----
Total applications of cash	(42,529)
	-----
INCREASE IN CASH AND TEMPORARY CASH INVESTMENTS	61,491
CASH BALANCE, November 1, 1979	-
	-----
CASH BALANCE, September 30, 1980	\$ 61,491

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

COLORADO STUDENT OBLIGATION BOND AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1980

(1) AUTHORIZING LEGISLATION

The Colorado Student Obligation Bond Authority (the "Authority") is a corporate body and a political subdivision of the State established pursuant to Title 23, Article 3.1, Part 2, Colorado Revised Statutes, 1973, as amended. The Authority was established in June 1979, and commenced operations in November 1979, thus the financial information presented is only for the eleven-month period of operations.

The Authority was created for the purpose of providing additional funds to increase the availability of student obligations. The intention of the Authority is to assist residents in meeting the expenses incurred in availing themselves of higher educational opportunities. At September 30, 1980, the Authority was authorized to issue its bonds, notes and other obligations in the aggregate amount of \$50,000,000 which shall not be deemed to constitute a debt of the State of Colorado.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Authority has adopted the following accounting policies:

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting, whereas the accounts are maintained on the cash basis.

Office Furniture and Equipment

Office furniture and equipment are carried at cost, less accumulated depreciation. Costs of major additions and improvements are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation on office furniture and equipment is computed on the straight-line basis using an estimated range of lives of six to ten years.

(3) NOTES PAYABLE TO BANKS

The Authority has entered into two borrowing arrangements to provide the necessary funds for operations prior to receiving bond proceeds. The Authority has a \$75,000 note payable dated May 6, 1980, due with 9.50% interest per annum within 12 months of issuance. In addition, the Authority has a line of credit for short-term borrowing in the amount of \$35,000 with interest at 12% per annum. The Authority had drawings under the agreement totaling \$13,000 at September 30, 1980.

(4) LEGAL SERVICES

The Authority had incurred \$7,186 of legal fees as of September 30, 1980. The payment for these services is contingent upon the Authority having a successful bond offering.

APPENDIX A

Review of CSOBA Activity from June 20, 1979 to September 30, 1980

- 6/20/79: CSOBA established by Colorado Senate Bill 52
- 8/29/79: Governor's Board appointments finalized
- 11/28/79: First organizational meeting -- Election of officers, Louis Tanner - Chairman; Myron Braden - Vice Chairman
- 1/8/80: Governor's Board appointments confirmed by Colorado Senate
- 1/28/80: Selection of General Counsel, Dee Wisor of Lamm, Edstrom & Stowe (now Lamm Stowe Braymer & Wisor, P.C.)
- 2/25/80: Adoption of Bylaws; election of Secretary-Treasurer Frank Zaveral; decision to authorize up to \$50 million of student obligation bonds when need is determined
- 4/28/80: General Counsel decision that CSOBA qualifies for tax-exempt status; resolution authorizing \$75,000 note to Firstbank of Westland; decision to sign lease for 7000 Broadway
- 5/27/80: Public hearing held on access to student loans in Colorado
- 6/23/80: Resolution that there is insufficient access to student loans in Colorado and that the Authority bond issue would alleviate this insufficiency; officers reelected at annual meeting; decision to hire Executive Officer Carl Wesemann
- 7/23, 7/24/80: Presentations by underwriter applicants
- 7/28/80: Selection of Smith Barney, Harris Upham, Kirchner Moore, Hanifen Imhoff & Samford (now Hanifen Imhoff) team as bond underwriters; selection of Sherman Howard as bond counsel
- 8/27, 8/28/80: Public meetings with direct lenders
- 9/8/80: Selection of auditor, Arthur Andersen; beginning of search for trustee for bond issue
- 9/22/80: Decision to ask legislature for increase in bond amount; decision to have our own personnel servicing organization and purchase computer software support from a non-profit corporation such as Pennsylvania Higher Education Assistance Agency