REPORT OF

THE

STATE AUDITOR

COLORADO COLLEGE SAVINGS PROGRAMS

PERFORMANCE AUDIT
MARCH 2000

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March 10, 2000

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of Colorado's college savings programs. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. In addition, Section 23-3.1-221, C.R.S., allows the State Auditor to investigate the affairs of the Colorado Student Obligation Bond Authority and examine the properties and records of the Authority. Furthermore, we retained Callan Associates, an independent consulting firm, to evaluate investment results and the allocation of assets in the Prepaid Tuition Fund.

This report presents findings, conclusions, and recommendations, and responses of the Colorado Student Obligation Bond Authority.

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State Auditor

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This performance audit of the Colorado Prepaid Tuition and Scholars Choice programs was conducted under the authority of Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. In addition, Section 23-3.1-221, C.R.S., authorizes the State Auditor to investigate and examine the affairs of the Colorado Student Obligation Bond Authority (CSOBA) which oversees the programs. The audit was conducted in accordance with generally accepted auditing standards. The audit work was performed between January and March 2000.

This report contains findings and recommendations relating to the operations of the Prepaid Tuition and Scholars Choice programs. Additionally, the report contains the findings of a review of the Prepaid Tuition Fund's investment decisions and performance, conducted by Callan Associates, an independent investment consulting firm. We acknowledge the efforts and assistance extended by staff of CSOBA. The following summary provides highlights of the comments, recommendations, and responses contained in the report.

Overview

There are two separate college savings programs offered by CSOBA under the name CollegeInvest. The Prepaid Tuition program was started in 1997 and allows individuals to purchase tuition units which can be used to pay the average tuition cost at some time in the future. There are about 12,100 active Prepaid Tuition accounts as of February 2000. The program sells tuition units at a price based on the current average tuition of Colorado's public colleges and universities. The purchase price for a specified number of tuition units varies depending on the amount of time before the student enters college and whether units are paid for in a lump sum or on an installment plan. As of September 30, 1999 the Prepaid Tuition Fund had assets totaling $85 million, including about $41 million in receivables.

The Scholars Choice program was introduced in 1999 and allows individuals to open education savings accounts where their contributions are invested by professional money managers. Scholars Choice has more than 3,900 accounts as of March 2000. Officials at CSOBA administratively manage the Scholars Choice program, but contract with a private financial services firm to manage the investments of the participants. Both the Prepaid Tuition and Scholars Choice programs offer tax benefits. Neither of the programs is guaranteed in any way by the State of Colorado or the financial services manager.

For further information on this report, contact the Office of the State Auditor at (303) 866-2051.

The Rate Charged for Installment Contracts Exceeds the Increase in Tuition Prices

Prepaid Tuition accounts can be opened with either a lump sum payment or through an installment payment plan. Approximately 60 percent of the accounts in the Fund are installments contracts. Included in the price for installment contracts is a 7.25 percent effective annual charge for paying over time. This charge can result in individuals paying more into the Prepaid Tuition Fund than they will receive when the account beneficiary enters college. For example, an installment contract to be used in 2010 may be worth 6 percent less than what the purchaser paid over the life of the contract. **CSOBA should use a rate closer to the annual increase in tuition expenses in Colorado or consider other alternatives to the current plan to benefit the participants.**

Additional Rules Regarding the Stabilization Reserve Are Needed

To provide security for future increases in tuition rates, the Prepaid Tuition Fund has a stabilization reserve which totaled about $8.2 million as of September 30, 1999. This amount represents about 11 percent of the program's obligations. One source of funds for the stabilization reserve is a 10 percent charge included in the base price of Prepaid Tuition contracts.

CSOBA currently has no formalized goal for the amount in the stabilization reserve although CSOBA officials have indicated that a level of 50 percent of obligations is a general target. This level is anticipated to provide about a 95 percent probability that the Prepaid Tuition Fund will have sufficient funds to cover its future obligations. Currently proposed legislation would establish several requirements relative to the stabilization reserve, including the allocation of any identified excess to existing accounts on a pro-rata basis and distribution to account holders receiving payouts or refunds in the year after an excess of funds is identified. In addition to the provisions in the bill, we believe that **CSOBA should strengthen policies concerning: the notification of fund participants of any allocation of tuition units to their accounts, the provision of any type of refund to program participants who contributed to the excess but have already closed their accounts, and the reduction of future charges for the stabilization reserve once an excess has been identified.**

Marketing Efforts by CSOBA Need to be Comprehensively Evaluated

CSOBA's marketing costs of $736,000 for the Prepaid Tuition Fund represent approximately 45 percent of the program's total operating costs in Fiscal Year 1999. Most of this money is spent during the enrollment period for the Fund, which covers less than three months. During the most recent enrollment period, CSOBA spent about $514,000 on marketing and promotional activities for the Prepaid Tuition Fund. Over the same period, CSOBA spent about $500,000 on marketing the Scholars Choice program. Despite this significant investment in marketing and promoting the two programs, CSOBA has not conducted a comprehensive evaluation of the efforts of its marketing consultant. This is especially important as the amount of money spent on marketing continues to increase and the number of Prepaid Tuition accounts opened has been declining. For example, the amount of marketing dollars spent per account opened increased from $186 in 1998 to $631 in the 1999 enrollment period. In addition to the marketing costs incurred by CSOBA, the private financial services firm responsible for managing investments in Scholars Choice is required to spend $1.5 million on in-state marketing of that program during the first contract year. **A comprehensive evaluation of marketing and promotional activities is needed to ensure that marketing funds are producing the desired results.**

The Enrollment Period for the Prepaid Tuition Program Should be Modified

Individuals may only open a Prepaid Tuition account during a limited enrollment period that has traditionally been at the end of the calendar year. CSOBA has had different enrollment period dates each year since the program began operating. The most recent enrollment period was the longest, covering 11 weeks. The Scholars Choice program does not have an enrollment period, allowing accounts to be opened at any time during the year. However, the two programs are jointly marketed which may cause some confusion among potential participants. Additionally, more competition from college savings programs in other states and the private sector may limit enrollment in the Prepaid Tuition program. To increase convenience for potential participants and to more effectively market the Prepaid Tuition program, **we recommend CSOBA modify the current enrollment period by establishing deadlines that are consistent from year to year, moving the period to a different time of year, or lengthening the period.**

Limits on Investments Need to Be Reviewed

Colorado statutes specify how monies in the Prepaid Tuition and Scholars Choice Funds may be invested. Section 23-3.1-216, C.R.S., states that no more than 60 percent of the book value of the Prepaid Tuition Fund may be invested in stocks or in corporate bonds, notes, or debentures that are convertible to stock. As of December 31, 1999, CSOBA had invested 71 percent of the investable assets of the Prepaid Tuition Fund in equities such as stocks or items convertible to stock. CSOBA management believes the allocation of its Prepaid Tuition assets complies with the statutes because CSOBA includes receivables in the total book value of the Fund. Since the receivables are not invested in stock, including them in the calculation inflates the proportion of the fund considered to be invested in items other than stock. This results in CSOBA placing a larger portion of its investable assets in stocks than was intended by the statutes, which may increase the risk to the Fund. **We recommend CSOBA work with the General Assembly to make changes to the current statutory language of Section 23-3.1-216, C.R.S., to clarify that no more than 60 percent of the investable assets of the Prepaid Tuition Fund may be invested in stocks or items convertible to stock.**

CSOBA Should Improve Its Asset Allocation

The investment review conducted by Callan Associates found that CSOBA's current allocation of assets in the Prepaid Tuition Fund is not as efficient as it could be. The current allocation involves greater risk and lower returns than if CSOBA implemented an allocation that is consistent with its current target allocation. As of December 31, 1999, the Prepaid Tuition Fund had a greater proportion of its assets invested in small and mid cap equities than its target policy (37 percent invested compared with its 10 percent target) and less in large cap and international equity (34 percent invested compared with its 55 percent target). Furthermore, the current domestic equity structure for the Prepaid Tuition Fund involves an overweight in mid-cap value stocks. **CSOBA should shift assets towards its target allocation and implement a domestic equity structure that is comparable to a broad market index and is neutral with respect to style and capitalization.**

Summary of CSOBA Responses:

CSOBA agrees with the recommendations in the audit report and indicated that for recommendations 4, 10, and 11, implementation has already occurred or is in progress. The Authority's complete responses to all recommendations may be found in the body of the report.

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	18	Consider alternatives to the current payment plans for the Prepaid Tuition program.	Colorado Student Obligation Bond Authority	Agree	December 31, 2000
2	21	Modify the Prepaid Tuition program to offer tuition units that more accurately reflect the amount of the minimum required college expenses.	Colorado Student Obligation Bond Authority	Agree	December 31, 2000
3	24	Develop written policies for the distribution of future excess funds in the Prepaid Tuition Fund.	Colorado Student Obligation Bond Authority	Agree	October 1, 2000
4	25	Work with the General Assembly on legislation to improve tax advantages of the Prepaid Tuition and Scholars Choice programs.	Colorado Student Obligation Bond Authority	Implemented	-
5	31	Modify the agreement for marketing services to include performance benchmarks and systematically evaluate the marketing efforts for Prepaid Tuition and Scholars Choice.	Colorado Student Obligation Bond Authority	Agree	September 1, 2000
6	33	Work with the financial services contractor to negotiate a formal agreement covering the division of marketing activities and expenses for Scholars Choice.	Colorado Student Obligation Bond Authority	Agree	July 1, 2000
7	35	Modify the enrollment period for the Prepaid Tuition program, including the establishment of consistent deadlines.	Colorado Student Obligation Bond Authority	Agree	August 1, 2000

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
8	38	Modify the enrollment kit for Prepaid Tuition and Scholars Choice to include additional information for potential investors.	Colorado Student Obligation Bond Authority	Agree	April 1, 2000
9	44	Work with the General Assembly to make changes to Section 23-3.1-216, C.R.S., to limit invested assets in the Prepaid Tuition Fund to no more than 60 percent equities.	Colorado Student Obligation Bond Authority	Agree	March 2000
10	48	Shift the allocation of assets in the Prepaid Tuition Fund towards the target allocation identified in the Investment Policy Statement.	Colorado Student Obligation Bond Authority	Implemented	-
11	51	For the Prepaid Tuition Fund, implement a domestic equity structure that is comparable to a broad market index and is style neutral.	Colorado Student Obligation Bond Authority	Implemented	February 2000
12	52	Include in the investment policy a total target benchmark for invested assets that is suitable for measuring short-term and long-term performance of the Prepaid Tuition Fund.	Colorado Student Obligation Bond Authority	Agree	July 1, 2000
13	54	Pursue a fee structure for the Prepaid Tuition Fund that is fee-sensitive and competitive with other institutional investment programs.	Colorado Student Obligation Bond Authority	Agree	Fall 2000

Description of Colorado College Savings Programs

Overview

Colorado has two programs offered under the name CollegeInvest to help families and individuals prepare for future college expenses: the Prepaid Tuition program, which began operations in 1997, and Scholar's Choice, currently in its first year of operation. The programs are established under Colorado Revised Statutes (Sections 23-3.1-206.7 and 23-3.1-301, C.R.S., respectively) and provide federal tax benefits under Section 529 of the Internal Revenue Code. Both programs are administered by the Colorado Student Obligation Bond Authority (CSOBA), an authority created by statutes in 1979. The Authority offers programs designed to assist Colorado residents in meeting higher education expenses. Along with administering the Prepaid Tuition and Scholars Choice programs, CSOBA currently manages nearly $600 million in outstanding student loans. The Authority is overseen by a board of directors whose nine members are appointed by the Governor and confirmed by the State Senate to serve 4-year terms. Currently, CSOBA has 26 FTE, 5 of which are dedicated to the CollegeInvest college savings program.

Tax Benefits of the CollegeInvest Programs

In 1997, the federal tax law was modified to include advantages for state administered college savings plans, now commonly referred to as Section 529 plans. The new laws created advantages for both pre-existing state programs and for new state programs that have since been created. Two prominent benefits of Section 529 are the tax-deferred status of earnings on investments, and an estate planning allowance that lets the purchaser give up to $50,000 to an account at once, and avoid an excess gift penalty by calculating the gift as five tax-free $10,000 gifts spread over five years (26 U.S.C. Sec. 529). Both college savings programs are considered qualified Section 529 plans. Therefore, earnings from either program that are used to cover qualified expenses are federal tax deferred and are taxed at the beneficiary's (usually lower) rate at the time of distribution.

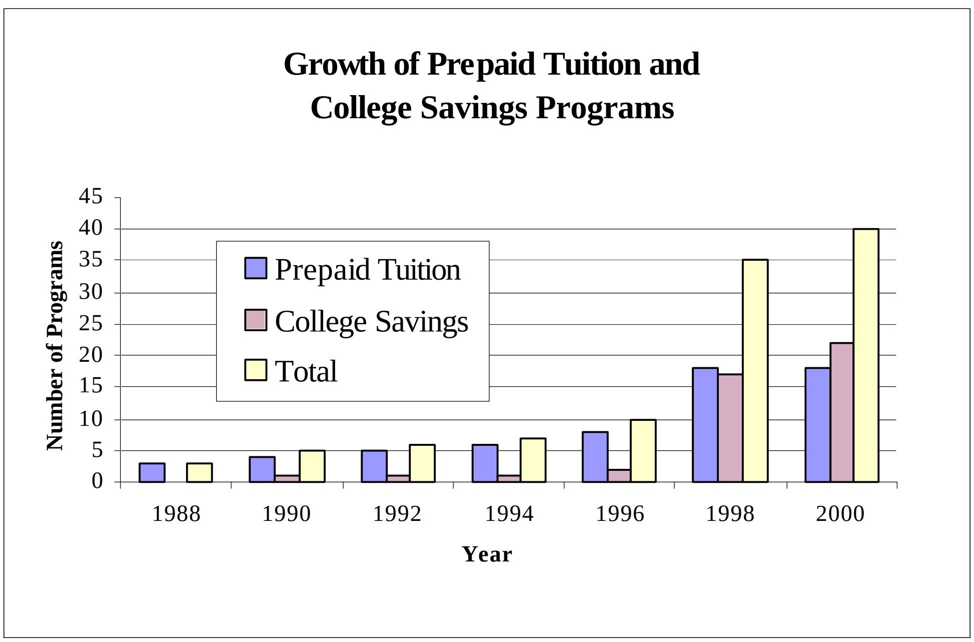
Federal statutes dictate that Section 529 plans must:

- Be administered by a department or agency of state government or an instrumentality of a state;

- Be managed without input or control from the purchaser, once the accounts have been established;
- Be used to pay for qualified college costs including tuition, fees, books, and room and board;
- Defer federal taxes on investment income until disbursement, and then be taxed at the beneficiary's rate;
- Ensure control of the account is maintained by the purchaser, rather than the beneficiary.

In addition to the benefits available to all Section 529 plans, Colorado law provides for earnings on both the Prepaid Tuition and Scholars Choice programs to be state tax exempt as long as the funds are used for qualified educational expenses.

Today, over 40 states operate or are planning some form of prepaid tuition or college savings plan. Currently, only Colorado, Massachusetts and Virginia offer their residents both options. The following chart shows the growth of prepaid tuition and college savings programs in the U.S. from 1988 through 2000.



Source: Information from the State College Savings Plans Network.

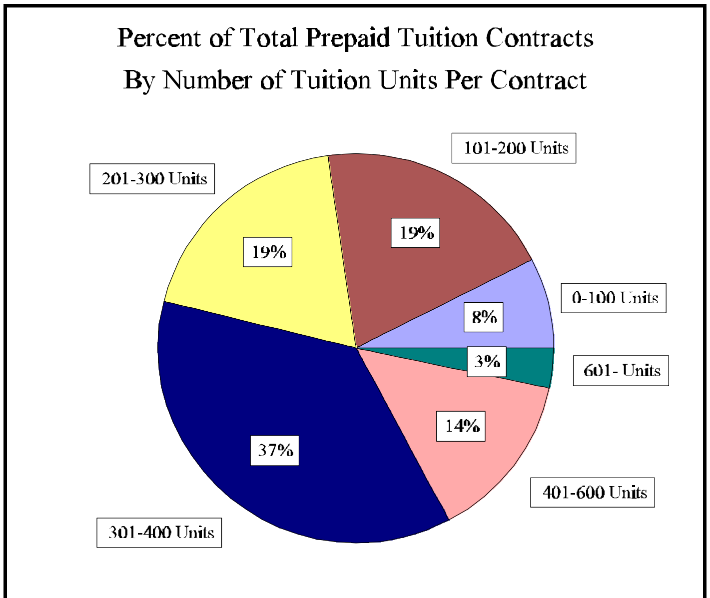
In addition to the state programs, there are other options available for individuals and families to save for college educations. A short list of other options is included in Appendix A.

The Prepaid Tuition Program

The Prepaid Tuition program allows individuals to purchase tuition units which can be used in the future to pay for qualified college costs at public and private institutions of higher education around the country. Each tuition unit is equivalent to 1 percent of the average annual cost of tuition at Colorado public colleges and universities. Therefore, 100 units equals the average cost of one year's tuition. At the time the tuition units are used, the value of a unit will be equivalent to 1 percent of the average tuition costs at that time. Distributions are made directly to institutions of higher education.

The purchase price for a specified number of tuition units varies depending on the amount of time before the account matures and whether units are paid for in a lump sum or on an installment plan. The program offers a variety of monthly installment plans, ranging from 1 year to almost 18 years in length. Tuition units are purchased under a contract between the account holder and CSOBA which specifies the account beneficiary (the student), the payment terms, and the first payout date (usually the first year of college attendance). Purchasers may withdraw the funds for non-educational purposes after the first payout date, but will pay a 10 percent federally-mandated penalty on the earnings.

The first enrollment period for the Prepaid Tuition program was held in the fall of 1997. Enrollment periods have been held in the fall of each year since, and the program currently maintains about 12,100 contracts averaging 327 tuition units each. The following chart shows the breakdown of contracts by number of units per contract.



Source: Analysis of data provided by CSOBA.

According to the Authority's financial statements, the Prepaid Tuition Fund had about $85 million in total assets, including receivables of about $41 million, as of September 30, 1999.

The Authority manages investments in the Prepaid Tuition Fund based on advice from an independent investment consultant and an actuarial firm with expertise in prepaid tuition programs. The legislation establishing the Fund directs that no more than 60 percent may be invested in equity investments (stocks) with the remainder invested in fixed income instruments (bonds).

Scholars Choice

Scholars Choice was introduced in 1999 and is contractually managed by a private financial services firm. Scholars Choice accounts can be opened at any time during the year. Fund contributions are deposited in one of several portfolios which vary based on their degree of risk. At the time an account is established, the purchaser must select from three investment plans; once an investment plan has been chosen, the purchaser may not change plans or direct the investments in any way. The plan options are as follows:

- 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, with 80 percent invested in stock funds and 20 percent in bonds, to lower risk portfolios, with 10 percent invested in stocks, 60 percent in bonds, and 30 percent in money market funds.

- Balanced Option: Contributions are invested in a portfolio with a median degree of risk, with 50 percent invested in stocks and 50 percent in bonds.

- Years-to-Enrollment Option: Contributions are invested in a series of portfolios depending on the time to account maturity, similar to the age based option, but with a more limited, lower risk, range of portfolios.

Neither CSOBA nor its contractor has an obligation to provide any rate of return on investments in Scholars Choice - return rates will follow the market. As of February 29, 2000, there were 3,946 Scholars Choice accounts with 34 percent held by Colorado residents. The accounts are further broken down as follows: 67 percent are invested in the Age Based Option, 25 percent in the Balanced Option, and 8 percent in the Years-to-Enrollment Option. The total asset value of the accounts is about $22.6 million.

Key Similarities and Differences of the Prepaid Tuition and Scholars Choice Programs

Both the Prepaid Tuition program and Scholars Choice were designed to help families save for future college expenses. Because of their shared goal, the programs are similar in a number of respects, including the following:

- Account funds can be used nationwide at higher education institutions.
- Account funds can be used to pay for qualified education expenses, including tuition, fees, room and board, books, supplies, and required equipment.
- Account holders can be parents, grandparents, relatives, friends, or the individual student.
- There are no residency requirements for account holders.
- As Section 529 plans, earnings are federal tax deferred. Earnings are also state tax exempt for Colorado residents.
- The programs are not guaranteed by the State of Colorado.
- The accounts do not guarantee admission to any post-secondary institution or affect the residency status of the student.

There are also important differences between the programs, as described in the table below.

Differences Between Colorado's Prepaid Tuition and Scholars Choice Programs	
Prepaid Tuition	**Scholars Choice**
CSOBA is contractually obligated to return investments at a rate equal to the change in average tuition.	There are no guarantees on investment returns.
Investment returns are based on average tuition increases at Colorado public colleges and universities.	Investment returns are based on the market performance of investments in the different portfolios.
CSOBA manages the fund with the assistance of an investment consultant.	Investments are managed by a private financial services firm.
Funds in accounts are not available for non-qualified withdrawals until the account reaches maturity.	Funds are available for non-qualified withdrawals, subject to a penalty, at any time.
A maximum of 6,500 tuition units can be purchased for any beneficiary. Total investments in CollegeInvest cannot exceed $150,000 per beneficiary. The minimum investment is $25 per month or a $1,000 lump sum.	Investments in Scholars Choice, alone or combined with Prepaid Tuition, cannot exceed $150,000 per beneficiary. The minimum initial investment is $50; subsequent deposits must be at least $15.
Prepaid Tuition is essentially a defined benefit plan, meaning participants know in advance that they will receive a specified benefit at the time their account matures.	Scholars Choice is similar to a defined contribution plan, meaning that investors choose the amount they wish to contribute and the value of the account at maturity is not pre-defined but is based on investment earnings.
Source: Analysis of information provided by CSOBA.	

Audit Scope

In general, the focus of this audit was on the Prepaid Tuition program because it has been in existence since 1997 while Scholars Choice was not established until 1999. For this reason, the review of investment returns and asset allocation addresses only the Prepaid Tuition Fund. However, some areas we reviewed, such as CSOBA's expenses for program administration and marketing, included both programs.

Financial Activities

Chapter 1

Prepaid Tuition Program Revenues and Expenditures

Although the Prepaid Tuition program is administered by the Colorado Student Obligation Bond Authority (CSOBA), which is a state authority, the program receives no state funding. Rather, it operates as an enterprise fund, generating all revenues from operations and investments. Most of the operating revenues for the Prepaid Tuition program are from fees charged to account holders to cover operating expenses and the cost of paying over time. In Fiscal Year 1999 these fees and charges totaled nearly $6.1 million or just over 75 percent of the program's total revenues. Aside from the amounts payable to contract holders, the largest expense of the program is marketing which makes up about 45 percent of operational expenses. The table on the following page shows the revenues and expenses of the program for Fiscal Year 1999.

Prepaid Tuition Fund Revenues and Expenses	
REVENUES	**10/1/98 - 9/30/99**
From Contract Purchasers	
Contract Fees (contract maint. & prog. operations fees)	$2,854,423
Interest (cost of paying over time)	$2,968,827
Application Fee ($50)	$201,109
Other Fees & Payments (late, NSF, cancellation)	$50,983
Total Revenue from Contract Purchasers	**$6,075,342**
From Investments	
Interest and Dividends	$538,658
Realized Gain on Investments	$153,707
Unrealized Gain on Investments	$1,249,346
Total Revenue from Investments	**$1,941,711**
TOTAL REVENUES	**$8,017,053**
EXPENSES	
Operational Expenses	
Compensation	$124,055
Administration (postage, computer maint., printing, etc.)	$203,726
Prof. Svcs. (auditors, actuary, invest. consult., legal)	$168,840
Amortization of Computer System	$202,000
Indirect Costs	$208,000
Marketing (advertising, consultant, teleservicing, etc.)	$736,463
Total Operational Expenses	**$1,643,084**
Contracts and Benefit Expense*	**$3,997,861**
TOTAL EXPENSES	**$5,640,945**

Source: Analysis of documents provided by CSOBA.

* The "Contracts and Benefit Expense" represents the annual increase in the amount payable to contract holders, as determined each year by CSOBA's actuaries.

We collected information on operational costs from six other states with Prepaid Tuition programs, all of which had total program assets of over $150 million. We found operating costs in those states ranged from less than 0.3 percent of the program's assets to about 1.4 percent of assets. With total assets of about $85 million as of September 30, 1999, CSOBA spent just over this range at about 1.9 percent of assets for Prepaid Tuition. For Scholars Choice, administration and management costs are paid through fees that are set at no more than 1.29 percent annually.

Prepaid Tuition Contracts

CSOBA uses tuition units as the basis for the prepaid tuition program. One tuition unit is equal to one percent of one year of the average tuition at Colorado's four year public colleges and universities and the state community colleges. One year of average tuition is represented by 100 tuition units with four years equaling 400 tuition units. Purchasers may contract to buy as many tuition units as they wish, depending on their goals, up to a maximum of 6,500 per beneficiary.

CSOBA calculates the average tuition for the Prepaid Tuition program by adding (1) the sum of the year's resident, undergraduate, general full-time tuition at all Colorado public four-year colleges and universities, to (2) the average full-time tuition at the state community colleges. Full-time tuition equates to the tuition charged for fifteen credit hours for each of two semesters. The total of (1) and (2) above is then divided by the number of Colorado public four-year colleges and universities plus one for the state community colleges.

Contract Pricing and Payment Plans

Participants in the Prepaid Tuition program can select from several payment options including a lump sum payment at the time a contract is initiated or monthly payments through an installment contract. The most common installment contracts are for 5 years, 10 years, or full-term, which means payments are made until just before the beneficiary enrolls in college.

The price for any type of contract is generally based on the current average of tuition costs at Colorado's public two- and four-year institutions. Prices vary based on the length of time before the first payment from the account will be made and the length of time over which payments are spread (for an installment contract). When an account holder establishes an installment contract, the price paid each month is locked in at the then-current rate and will not increase regardless of changes in investment earnings or tuition prices. The following table shows examples of 1999-2000 enrollment prices for various payment plans.

Examples of 1999-2000 Prepaid Tuition Prices for Contract Options

1st Payout Date	Lump Sum Payment Plan			# Pmts.	Full Term Monthly Payment Plan		
	Number of Units				Number of Units		
	200	400	600		200	400	600
2005	$4,540	$9,080	$13,620	64	$85.74	$170.98	$256.22
2006	$4,530	$9,060	$13,590	76	$74.57	$148.64	$222.71
2007	$4,520	$9,040	$13,560	88	$66.49	$132.47	$198.45
2008	$4,510	$9,020	$13,530	100	$60.37	$120.24	$180.10
2009	$4,500	$9,000	$13,500	112	$55.59	$110.68	$165.76
2010	$4,490	$8,980	$13,383	124	$51.76	$103.01	$153.28
2011	$4,480	$8,960	$13,216	136	$48.62	$96.74	$142.46
2012	$4,470	$8,940	$13,051	148	$46.02	$91.53	$133.38

Source: Information provided by CSOBA.

Prices for Prepaid Tuition Installment Contracts Include a Charge for Payment Over Time

When prepaid tuition contracts are purchased on an installment plan, the monthly price reflects a number of factors in addition to the current average tuition. One factor is a charge for payment over time which is similar to an interest rate. This factor is added to account for the loss of earnings on funds that are invested in small amounts over extended periods compared with a lump sum invested all at once.

According to the financial statements for the Prepaid Tuition Fund, the expected yield on investments is 7.5 percent per year. To account for the cost of paying over time, rather than in a lump sum, CSOBA includes a time-payment factor of an effective rate of 7.25 percent in its calculations of installment prices.

Due to the time-payment factor, purchasers paying for their contracts over a long period of time pay considerably more for their tuition units than those who pay with a lump sum. For example, at the 1999-2000 prices, someone with a full-term installment contract to be paid out beginning in 2018 will pay $14,861 over 17 years for 400 units compared with a current lump sum payment of $8,334. According to data from CSOBA, only about 28 percent of purchasers pay for their tuition units in a lump sum, and over 60 percent have installment contracts of five years or more.

The Rate Charged For Paying Over Time Exceeds Recent Tuition Increase Rates

The method used to set prices for prepaid tuition contracts, and the actuarial evaluation of the Prepaid Tuition Fund, use projections of annual tuition increases based on historic changes. CSOBA projects that tuition will rise at about 4 percent per year for the next four years, then at about 6 percent annually for the foreseeable future. The actuary assumes a 5.5 percent annual rise in tuition to determine the soundness of the Fund. The tuition growth assumption, along with the charge for payment over time, is incorporated into the current prices for tuition units. However, the actual increase in tuition over the past 10 years in Colorado has been just over 4 percent annually, and for the past five years, about 2.6 percent each year. Thus, while purchasers of installment contracts are paying a 7.25 percent effective rate annually as a charge for paying over time, the value of the average tuition units being purchased is currently growing at no more than about 4 percent per year.

This discrepancy between the charge for paying over time and the rise in tuition rates means that purchasers may actually pay more for tuition through the Prepaid Tuition program than they would pay without any type of program. For example, someone who bought 100 tuition units at the 1999-2000 prices for payout in 2010 would be paying about $28 per month for 112 months on a full-term payment plan. This purchaser would have paid a total of $3,136 for the 100 tuition units. If tuition continues to increase at the average rate of the last five years (2.6 percent), average tuition in 2010 will be $2,948. Thus, in 2010, the Prepaid Tuition program would pay out $2,948 (the average tuition at the time) for the 100 units even though the purchaser paid $3,136 for those units. So the contract would be worth about 6 percent less than the purchaser paid.

If CSOBA charged a time-payment rate that is closer to the average annual increase in tuition, account holders would receive more benefit for their investments. Using the example above, if CSOBA charged a 5.5 percent rate, the monthly price on the 112-month contract would be about $26 per month for a total payment of $2,912. Therefore, the purchaser would realize a gain on the contract, having paid $2,912 for 100 tuition units valued at $2,948 in 2009.

Other States Offer Alternative Payment Approaches

We obtained information from 10 other states with prepaid tuition programs that offer payment options similar to Colorado's: lump sum, monthly payment, or some combination. For those states with monthly payment plans, virtually all charge some type of interest or time-payment rate. Most states set their rates at a level that is equal to or slightly below their expected investment rate of return and within 1 to 1.5 percentage points above their recent tuition increases.

We also found that some other states offer alternative payment approaches for their programs. Some options that might be beneficial in Colorado include:

- Installment plans that allow annual rather than monthly payments. We found one state offered this option to reduce the effective interest rate charged. The rate is set lower because the program has a lump sum at the beginning of each year to invest, rather than receiving small amounts throughout the year.

- Plans that allow purchasers to buy any number of tuition units at an established rate at any time throughout the year. One state allows purchasers to pay in monthly installments, but the monthly payment increases each year as tuition rates rise. This option does not build in a charge for payment over time and does not lock in prices at any given level.

- Offering purchasers "bulk" discounts when paying a lump sum for a large quantity of units. One state reduces the price per unit as more units are purchased for a lump sum. The discounted prices are available for a limited period during the year. Colorado offers lower prices for a lump sum payment, but no discounts for purchasing a large number of tuition units.

The Colorado Prepaid Tuition program is advertised as a program to help families pay for college expenses by offering "tomorrow's tuition at today's prices", according to the 1999-2000 enrollment kit. However, when purchasers are charged a rate for installment contracts that significantly exceeds tuition increases, the advantages of investing in the program are diminished.

Recommendation No. 1:

The Colorado Student Obligation Bond Authority should consider alternatives to the current payment plans to increase benefits to purchasers. Options to consider include:

a. Charging a time-payment rate for monthly installment plans that is tied to the current rate of increase in tuition and fees.

b. Offering annual installment plans with lower rates than are applied to monthly payment plans.

c. Establishing an annual per-unit price that is in force throughout the year and allowing account holders to buy any number of tuition units at that price any time during the year.

d. Offering volume discounts for lump sum purchases of specified numbers of tuition units.

Colorado Student Obligation Bond Authority Response:

Agree. The Authority is constantly seeking new ways to provide flexible, simple and affordable ways to help families save for college. There are several ways to structure the payment plans, and we agree that offering alternatives may increase participation and benefits to purchasers.

Early in February we met with our actuary team to start identifying and evaluating new payment plans. It is very important to have an actuary evaluate any option to help determine it's long-term financial viability. We will continue to evaluate other options and look to offer additional plans.

The Minimum Required Costs of College Are Not Covered by the Average Tuition

The average tuition calculation used by CSOBA does not account for the required minimum fees and other charges, such as books and supplies, associated with college education. These mandatory costs can be a substantial part of the required expenses, representing, on average, about 1/3 of the costs at four-year colleges and universities. The mandatory fees imposed by the college or university can range from under $200 per year at many of the community colleges to more than $700 per year at the state's major four-year universities. Furthermore, the cost for books and supplies can add about $500 per year to college expenses, on average. The following table shows average tuition, fees, and book expenses, as well as the number of tuition units needed to cover these costs, at Colorado's 14 public colleges and universities and the community colleges.

Academic Year 2000 Average Tuition Costs and Required Fees with Tuition Units for Colorado Public Colleges and Universities (Value of 100 Tuition Units = $2,280)

School	One Year Average Cost			Equivalent # Tuition Units
	Tuition	Fees	Books	
Adams State College	$1,530	$562	$500	114
Colorado School of Mines	4,616	595	500	251
Colorado State University	2,340	714	500	156
Fort Lewis College	1,689	543	500	120
Mesa State College	1,577	546	500	115
Metropolitan State College	1,873	394	500	121
University of Colorado - Boulder*	2,444	724	500	161
Univ. of Colorado - Co. Springs	2,234	594	500	146
Univ. of Colo. - Health Sciences**	4,530	1,000	500	265
University of Colorado - Denver	2,068	314	500	126
University of Northern Colorado	2,014	710	500	141
University of Southern Colorado	1,808	499	500	123
Western State College	1,516	692	500	119
Community College System***	1,689	203	500	105
Average	**$2,280**	**$578**	**$500**	**147**

Source: Colorado Commission on Higher Education and information from a sample of public colleges and universities.
* Based on costs for the College of Arts and Sciences.
** Based on costs for the undergraduate nursing program.
*** Reflects 15 credit hours.

Although the Prepaid Tuition enrollment kits and other promotional information point out that 100 tuition units represents only the average tuition cost, some purchasers may perceive this amount to cover at least the minimum required costs for one year of college. We estimate the average cost for academic year 1999-2000 of tuition plus required fees and books is $3,358. If an individual had purchased a contract equal to 100 tuition units to be paid out this year, the actual costs for college would exceed the amount distributed by CSOBA by more than $1,000 ($3,358 - $2,280). In fact, the $2,280 average tuition would not cover the required tuition plus fees and books for one year at a community college.

Of ten states we contacted, nine include at least the required fees in the price of the prepaid tuition contract amount. To reduce the potential that families will not save enough to pay all required college expenses, CSOBA should include the costs of the required fees in its pricing process and should consider including the costs of books and supplies.

Recommendation No. 2:

The Colorado Student Obligation Bond Authority should modify the Prepaid Tuition program to offer tuition units that more accurately reflect the amount of minimum required college expenses. Options for determining the value of the tuition units include:

a. Incorporating the mandatory fees charged by colleges and universities for attendance into the tuition unit cost.

b. Adding the average costs of books and supplies, as well as mandatory fees, to the tuition unit.

Colorado Student Obligation Bond Authority Response:

Agree. Tuition costs are only a portion of the costs incurred by students. Fees, books and supplies, other required equipment, room and board all add to the basic cost of tuition.

Fees at colleges are often included in the student’s “tuition” billing and are frequently considered by students as a part of the tuition cost. Therefore, we concur that we should consider including these costs in our contract pricing. So as to minimize confusion for the existing contract holders, we will carefully evaluate the impacts of such a change on the existing plan participants.

> Under the current plan, purchasers can save for qualified costs of education above the average tuition rate by buying additional tuition units. Many purchasers have purchased additional units to save for a more expensive institution, or to cover the other costs such as room and board. Due to the large variation in these costs from student to student, we feel the current program provides the flexibility to save for these costs depending on each student's anticipated needs.

Excess Earnings Are Designated As a Stabilization Reserve

Because of limitations imposed by the Colorado Constitution, the Prepaid Tuition Fund is not guaranteed by the State. To provide security for future increases in tuition rates, the program has a stabilization reserve to help absorb unusual or unexpected changes, such as declines in investment returns or increases in tuition. CSOBA has designated assets in excess of projected future tuition obligations as this reserve fund. As of September 30, 1999, the Prepaid Tuition Fund had a reserve of about $8.2 million which represents about 11 percent of the program's obligations. According to the annual actuarial report, this level of reserve provides a 67 percent probability that the Fund's assets will exceed its obligations. Actuarial calculations also indicate that a stabilization reserve of about 50 percent of the program's obligations provides about a 95 percent probability that the Prepaid Tuition Fund will have sufficient funds to cover its future obligations.

The stabilization reserve grows from two primary funding sources. One is the excess of investment earnings (currently about 6.08 percent annually) over tuition increases (currently about 2.6 percent annually). The other source is a charge of 10 percent of the base purchase price included in each contract to increase the reserve. Of the $8.2 million designated as stabilization reserve at September 30, 1999, about $6.3 million is from contract charges and about $1.9 million is from investment earnings and increases in market value in excess of anticipated tuition increases.

Proposed Legislation Includes Requirements for Managing Excess Funds

In its written contract terms, CSOBA states the following: "If the Authority's Board of Directors determines in its sole discretion that amounts on deposit in the stabilization reserve exceed amounts necessary to satisfy current and future needs of the Fund, such excess amounts shall be allocated by the Board of Directors to [c]ontracts." This statement indicates that the Authority anticipates a time when the reserve will exceed needed amounts, but does not specify either how the excess will be determined or how the allocation of any excess will be made. CSOBA management indicated there is currently no formalized goal for the level the stabilization reserve should reach to provide adequate protection to account holders, although a level of 50 percent of obligations is a general target. Currently proposed legislation would establish several requirements relative to the stabilization reserve. These include:

- An annual calculation, based on assumptions approved by the CSOBA Board, to determine whether an excess amount exists in the Prepaid Tuition Fund. The annual actuarial review already includes both the calculation of the current stabilization reserve and estimates of the level of reserve needed to meet the Fund's obligations.

- The allocation of any identified excess to expected tuition units (expected tuition units means both units already paid for and units contracted for but not yet paid).

- The distribution of the excess to account holders receiving distributions of units or refunds in the year subsequent to the identification of excess funds. The legislation would add tuition units, on a pro-rata basis, to units being paid out, or would add to any refund being given in the academic year following the determination of an excess. Aside from these distributions, all excesses would remain in the fund.

The legislation defines excess as assets in the Fund which are actuarially determined to exceed the levels "required to pay the obligations of the ... fund with a likelihood of such sufficiency of at least 95%."

Additional Policies Regarding Excess Funds Should Be Considered

The legislation currently under consideration will provide general direction for how excess funds should be identified and managed. However, there are several issues the proposed bill does not specifically address which should be considered by CSOBA in implementing policies for excess funds. First, CSOBA should establish written policies for informing account holders of how their accounts are affected by the allocation of any excess. Although Fund participants may not be able to access the additional units allocated until their first payout date, CSOBA should notify them of any tuition units added to their accounts.

Second, CSOBA should consider whether some type of refund should be offered to those program participants who have already closed their accounts. Since those who purchased contracts in the first years of the program made payments that contributed to the excess, there should be some provision to return a portion of any excess to them.

Finally, CSOBA should consider reducing future charges for the stabilization reserve once an excess has been identified. While there are numerous factors affecting the reserve, if the current 10 percent charge is not reduced, the program could continue to have excess funds on a regular basis that would have to be refunded to purchasers.

Recommendation No. 3:

The Colorado Student Obligation Bond Authority should develop formal written policies relating to the distribution of future excess funds identified and allocated in accordance with the pending legislation. The policies should include:

a. Notifying account holders of tuition units allocated to their accounts due to an excess of funds.

b. Offering closed accounts some type of refund.

c. Reducing the stabilization reserve charge in the future to reduce the accumulation of excess funds that would have to be refunded.

Colorado Student Obligation Bond Authority Response:

Agree. SB-164 provides guidance for when and how to distribute the "excess reserve funds." The Authority will expand its policies with respect to the determination and distribution of the reserve fund consistent with the legislation, and will consider the alternate methods recommended in the report.

Tax Advantages of The College Savings Programs

Both the Prepaid Tuition and Scholar's Choice programs offer tax advantages to investors. Both are deemed to be qualified state tuition programs under Section 529 of the Internal Revenue Code. The tax benefits of qualified state tuition programs include the following:

- Federal taxes are deferred on the investment earnings. At the time the funds are distributed to pay educational expenses, earnings are taxed at the beneficiary's tax rate, rather than the purchaser's.

- Purchases of tuition units qualify as gifts for federal tax purposes and are considered part of the student's, not the purchaser's, estate, which may reduce the federal tax liability of purchasers.

In addition, earnings are exempt from Colorado state taxes as long as the funds are used for qualified educational expenses.

Other States Offer Greater State Tax Benefits

One of the main benefits noted in CollegeInvest materials is the tax treatment of earnings. However, we found a number of other states offer greater tax benefits to participants in their prepaid tuition and college savings programs than are currently available in Colorado. According to a 1998 report on state college savings programs produced by the College Savings Plans Network, 25 states exempt earnings on both prepaid tuition and savings programs from state taxes, as does Colorado. However, 10 states also provide some level of state tax exemptions for contributions to the states' prepaid tuition and college savings programs. For example, three states allow contributions up to $2,000 annually to be deducted for income tax purposes; one state allows a deduction up to $8,000; and four states reported no limitation on the amount that can be deducted. There is currently legislation before the Colorado General Assembly that would establish a tax deduction for contributions to both CollegeInvest programs.

In Colorado's current environment of slow tuition rate growth, one of the most attractive features of college savings plans may be the tax advantages. We believe CSOBA should support and pursue additional tax benefits for investors by working with the General Assembly on legislation allowing annual contributions to the Prepaid Tuition or Scholars Choice programs to be state tax exempt, at least up to a defined maximum.

Recommendation No. 4:

The Colorado Student Obligation Bond Authority should work with the General Assembly on legislation to improve the tax advantages of the Prepaid Tuition and

Scholars Choice programs, particularly legislation that allows a deduction for amounts contributed to these programs, at least up to a specified annual maximum.

Colorado Student Obligation Bond Authority Response:

Implemented. The Authority has been working closely with the General Assembly since the beginning of the session to support legislation that will improve the Colorado State tax benefits of both the Prepaid Tuition Fund and Scholars Choice.

We have also written to the Internal Revenue Service encouraging them to adopt regulations allowing one-time transfers from one Section 529 plan to another Section 529 plan without penalty.

CSOBA Should Pursue Methods to Reduce Costs of the CollegeInvest Programs

A common theme throughout this report is improving the benefits provided to CollegeInvest program participants. In particular, the report contains discussions of and recommendations related to various aspects of CSOBA's administrative and marketing costs. In particular, we noted the following:

- CSOBA's operational costs for the Prepaid Tuition program for 1999 represent almost 2 percent of the Fund's total assets, as shown earlier in this chapter. These costs, which are paid through fees charged to program participants, are at the upper range of operational costs for other states we contacted. However, ongoing operating costs are estimated to range from about 0.6 percent to 2.0 percent on an annual basis.

- For Scholars Choice, the 1.29 percent fee (discussed in Chapter 2) that participants pay for management and administration of the program is in the upper range of six other states' saving program fees, which ranged from 0.30 percent to 1.8 percent.

- The single largest expense incurred for the Prepaid Tuition and Scholars Choice programs is for marketing. We note in this chapter that marketing expenses represent about 45 percent of the total operating costs for Prepaid Tuition; Chapter 2 indicates that marketing represents about 70 percent of the operating costs CSOBA has incurred to date for Scholars Choice. Furthermore, recommendations 5 and 6 could reduce marketing costs.

- Recommendation Number 1 suggests reducing the charge for paying over time on Prepaid Tuition installment contracts.

In addition, Recommendation Number 13 contains a suggestion for reducing the fees CSOBA charges to participants for investment management. Consideration of the issues we raise with respect to operating costs and fees, and implementation of any or all of the recommendations noted above, should assist CSOBA in reducing costs and passing the savings on to program participants.

Marketing and Enrollment

Chapter 2

Overview

The Colorado Student Obligation Bond Authority (CSOBA) uses a consulting firm to provide marketing and promotional services for the CollegeInvest Programs. The Authority has retained the same marketing consultant since the initiation of the Prepaid Tuition program in 1996. CSOBA does not have a contract with specific terms, but instead operates under a 1996 letter of agreement with the marketing firm.

The Prepaid Tuition program has been marketed most heavily around its enrollment periods each year. During the 1999-2000 enrollment period, which extended from October 19, 1999 through January 11, 2000, the Prepaid Tuition and Scholars Choice programs were marketed jointly under the umbrella of CollegeInvest. The total costs of marketing the two programs in the first five months of the current fiscal year (from October 1999 through February 2000) are just over $1 million. In addition, the Authority spent almost $150,000 last fiscal year (October 1998 through September 1999) on initial marketing efforts to launch Scholars Choice as a new program. The following table shows the breakdown of these costs between the two programs.

Marketing Costs for the 1999 -2000 Enrollment Period	
Program	**Marketing Costs**
Scholars Choice: Start Up (spent prior to 10/1/99)	$146,000
Scholars Choice (spent between 10/99 and 2/00)	$504,000
Prepaid Tuition (spent between 10/99 and 2/00)	$514,000
Total	$1,164,000
Source: Analysis of data provided by CSOBA.	

Marketing is the largest expense to date of the Scholars Choice program, representing about 70 percent of the total program costs incurred by CSOBA. As noted in Chapter 1, marketing is also the single largest operational expense of the Prepaid Tuition program. CSOBA officials anticipate marketing costs in the current year to at least keep pace with last year. They indicated that about 2/3 of the Prepaid Tuition program's total marketing budget is typically spent over the course of the enrollment period, so the expenses to date of $514,000 would be expected to grow to about $777,000 for the fiscal year. This is an increase of about 6 percent over last year's $736,000. In addition, the contractor who manages Scholars Choice is required to spend at least $1.5 million to market Scholars Choice in Colorado in Calendar Year 2000.

Information from other states indicates that marketing expenses vary widely, from a low of about $150,000 per year to a high of about $1.8 million annually, among seven states that provided us information. These figures represent anywhere from about 7 percent of the programs' total operating budgets to 45 percent. CSOBA's marketing costs for Prepaid Tuition represented about 45 percent of total operational costs in Fiscal Year 1999.

CSOBA Does Not Comprehensively Evaluate Marketing Efforts

Although CSOBA articulates marketing goals and objectives in its annual marketing plan, it does not include benchmark expectations in the agreement with its marketing consultant. In addition, despite its significant investment in marketing, CSOBA does not conduct a complete review that includes a cost benefit analysis of either specific marketing strategies or of its overall marketing program for either Prepaid Tuition or Scholars Choice. A comprehensive evaluation is important to ensure that marketing efforts are producing desired results. We question if this is occurring because marketing costs for the Prepaid Tuition program have been increasing while the number of contracts opened each year is decreasing. As the following table shows, the marketing cost per account opened has increased substantially each year since the beginning of the program.

Marketing Dollars Spent Per Prepaid Tuition Account Opened

Year	Accounts Opened	Total Marketing Costs	Cost Per Account
1997-1998	7,228	$752,000	$104
1998-1999	3,951	$736,000	$186
1999-2000	1,230	$777,000*	$631

* Estimated FY 2000 marketing costs based on previous years' experience.

Source: Analysis of data provided by CSOBA.

About $650,000 has been spent on marketing for Scholars Choice from its inception through February 2000, and about 3,900 accounts had been opened as of March 2000.

CSOBA Requires Marketing Evaluations From Its Scholars Choice Investment Manager

CSOBA contracts with a private financial services company to manage the Scholars Choice program. The contractor is compensated through an annual fee of just under 1 percent of the net asset value of program investments. One requirement contained in the contract is that the contractor prepare and provide to the Authority a monthly report of the marketing activities for Scholars Choice and a quarterly written evaluation of their ongoing and completed marketing efforts. Even though CSOBA places these reporting and evaluation requirements on the marketing of Scholars Choice by its contractor, the Authority does not have similar requirements to evaluate the activities of its own marketing consultant. CSOBA has not completed a comprehensive evaluation of the marketing efforts to date for either program.

CSOBA should improve its oversight of marketing for the Prepaid Tuition and Scholars Choice programs. The Authority should establish benchmarks for the marketing consulting firm and assess the costs of promoting both CollegeInvest programs, particularly with respect to the dramatic increase in costs per account opened for Prepaid Tuition. The assessment would provide CSOBA with important information to more efficiently market both programs and serve as a basis for determining the need to rebid its marketing work.

Recommendation No. 5:

The Colorado Student Obligation Bond Authority should modify its agreement for marketing services to include performance benchmarks. In addition, CSOBA should conduct systematic evaluations of the marketing efforts for both the Prepaid Tuition and the Scholars Choice programs. This assessment should include, at a minimum, the following:

a.. A written evaluation of the ongoing and completed marketing efforts of its own staff and of contractors on a routine basis.

b. A periodic analysis of the marketing costs associated with the two programs and the costs per account opened.

Colorado Student Obligation Bond Authority Response:

Agree. Performance benchmarks are a very useful tool in measuring the effectiveness of a marketing program and we concur that we should incorporate such benchmarks into our marketing contract. We currently conduct an annual market analysis to determine the overall impact of our marketing efforts and have found that benchmarks such as calls received, contracts received, and accounts from non-front range cities to be very helpful. The Authority will incorporate these benchmarks, as well as others, into our marketing agreements and prepare written evaluations of the marketing effort.

Both CSOBA and the Contractor Market Scholars Choice

In addition to the Scholars Choice marketing costs discussed above, which are incurred by CSOBA, the contract requires the contractor to spend at least $1.5 million to market and promote Scholars Choice in Colorado during the first year of the contract. This means that for the period October 1, 1999 (the start of CSOBA's fiscal year) through December 31, 2000 (the end of the first contract year) at least $2 million is expected to be spent to market Scholar's Choice in Colorado. After the initial contract year, the amount required to be spent on Colorado marketing and promotion by the contractor is reduced to $750,000 per year.

Investors pay the cost of administering and managing the programs, including marketing expenses, through fees charged on the net asset value of the fund. The contractor receives just under 1 percent of the net asset value annually and CSOBA is compensated for its administrative costs up to a maximum of 0.03 percent of the fund's net asset value each year.

Because of the significant amount of funds stipulated in the contract to be paid for marketing Scholars Choice in Colorado, the need for CSOBA to spend additional funds is diminished. We believe the $500,000 CSOBA has independently incurred for marketing Scholars Choice should be considered a part of the total contractually-required marketing expense of $1.5 million for the current year. However, to date, there have been no formal arrangements between CSOBA and the contractor regarding the division of marketing responsibilities and costs. In addition, there is no written agreement about whether CSOBA's marketing costs are to be considered part of administration expenses that would be paid for through the 0.03 percent charge.

An arrangement should be established to address how marketing activities will be divided between the two organizations and how marketing costs will be covered. We recommend that CSOBA's marketing efforts be considered part of the total marketing for the program and be reimbursed out of the $1.5 million stipulated in the contract. CSOBA's other administration expenses could continue to be paid through the annual fee. However, the amount of these other expenses are small compared with the amount spent on marketing, so the annual 0.03 percent fee could be reduced significantly, providing a benefit to investors.

Recommendation No. 6:

The Colorado Student Obligation Bond Authority should work with the contractor to negotiate a formal agreement to address the division of marketing activities and costs between the two. The agreement should stipulate that marketing expenses incurred by CSOBA for Scholars Choice be included in the total amount to be spent on marketing and will be reimbursed by the contractor. In addition, the annual fee remitted to CSOBA should be reduced to reflect the non-marketing administration costs of the program. These arrangements should be included in future contracts.

Colorado Student Obligation Bond Authority Response:

Agree. The Authority is currently working with the contractor to determine the marketing program for the remainder of the year and the appropriate allocation of marketing resources. The contract financial services firm has recently completed their marketing plan for Scholars Choice for Colorado for the remainder of this year, and are prepared to commence their direct marketing efforts.

We have scheduled a meeting for later this month to begin negotiating the portion of the joint marketing campaign costs that the contractor should bear and will enter into a formal agreement once such negotiations are completed.

The Enrollment Period for The Prepaid Tuition Program Is Limited

The Prepaid Tuition program offers enrollment during a limited time period each year. In the past three years, the enrollment window has begun in mid-fall, after the tuition prices for the following academic year are set by higher education institutions. The deadline for enrollment has been in either December or January, although contracts for newborns can be established at any time before the child's first birthday. The exact opening and closing dates of the enrollment periods have changed each year. The following table shows the dates of each enrollment period and the number of accounts opened.

Prepaid Tuition Program Enrollment Periods

Year	Enrollment Period	Accounts Opened
1997	September 15, 1997 - November 24, 1997	7,228
1998	October 5, 1998 - December 8, 1998	3,951
1999	October 19, 1999 - January 11, 2000	1,230
Total		12,409*

Source: Information provided by CSOBA.
* Some contracts have been canceled and others paid out since they were opened. There are currently just over 12,100 active accounts.

As the above table shows, the enrollment periods occur around the end of the calendar year, near the Thanksgiving and Christmas holidays. The periods have ranged from 8 to 11 weeks and have had different deadlines each year.

We noted two main problems with the current scheduling of the Prepaid Tuition program enrollment period. First, the variation in the times and length of the periods could confuse potential participants. The Authority noted in its 1999 marketing planning materials that the "closing date [of the 1997 enrollment period] came and went on a significant number of people who are seriously interested in the Fund." CSOBA staff indicated that specific marketing strategies, such as increased advertising at the end of the enrollment period, were implemented to address this concern. However, extending the enrollment period and establishing consistent dates would also help to alleviate this type of problem. Furthermore, individuals planning to establish accounts do not know from year to year when the enrollment period will be. Scheduling the enrollment period at the same time with the same deadline each year could eliminate confusion among potential participants and increase enrollment.

A second concern is that the different enrollment windows for Prepaid Tuition and Scholars Choice may cause some confusion among interested families. Scholars Choice does not have an enrollment period, but instead allows families to open an account at any time during the year. As a result, potential participants may select a plan based more on what is available when they are ready to enroll than on their savings needs.

There are only two other states that currently offer both a prepaid tuition program and a college savings program. Both states now restrict enrollment in their prepaid tuition program to an enrollment period of approximately three months at the end of the calendar year. However, officials in Michigan, which has had a prepaid tuition program and is starting up a savings program, indicated they plan to offer both programs with open enrollment throughout the year. One reason cited for this decision is that maintaining a consistent enrollment period will enable the state to better compete with the numerous private sector college savings options now available. In addition, having open enrollment for both programs will enable the state to market them more effectively.

We believe CSOBA should modify its current enrollment period to more effectively communicate the Prepaid Tuition program to the public. Options for modification include increasing the length of time the enrollment period is open, creating two enrollment periods (such as at the beginning and end of the school year), and moving the enrollment period to a different time of year. Moving and/or lengthening the enrollment period could also provide other benefits to the Prepaid Tuition program. For example:

- Advertising could be focused at the beginning and/or end of the school year, when it might be more effective.

- In general, advertising costs at the end of the calendar year are considerably higher, on average, than at other times of the year, due to the competition of holiday season advertising and television "sweeps". We found that advertising rates at Denver television stations range from about 10 percent to 50 percent higher during the fourth quarter (October through December) than during the third quarter. CSOBA management indicated that they control marketing costs by buying advertising well in advance to obtain discounts and by avoiding advertising in the most costly weeks of the period. CSOBA could continue to apply similar cost-saving strategies to get more value for its advertising dollar if the enrollment period occurred at a different time of the year.

Recommendation No. 7:

The Colorado Student Obligation Bond Authority should establish deadlines for its Prepaid Tuition enrollment period that are consistent each year and modify the period to improve marketing of and enrollment in the program. Options for changing the enrollment period include:

a. Increasing the length of the enrollment period, such as spanning the school year, with marketing focusing on the beginning and end of the year.

b. Offering two separate enrollment periods during the year, one at the beginning of the school year and one at the end of the school year.

c. Moving the enrollment period from the end of the calendar year to a time that will provide CSOBA with a more efficient and effective marketing and advertising program.

Colorado Student Obligation Bond Authority Response:

Agree. Our market studies and research of other states have indicated that it is critical to have an end date to an enrollment period to create a sense of urgency and encourage families to make a decision. Our own experience has shown us that on average over 70% of our contracts are entered into during the last two weeks of the enrollment period. The Prepaid Tuition Fund was established to help encourage families to save for college, especially those families that had not done so in the past and needed an impetus to do so in the future. To help families initiate a savings program, our research has indicated an end date to the enrollment period is critical.

However, having a fixed enrollment period that is consistent year to year would increase family awareness, enable families to more adequately plan, and facilitate the marketing efforts. Multiple enrollment periods during the year may also be appropriate depending upon consideration of the financial and community outreach implications.

Enrollment Materials Could Be Improved

The enrollment kits provided to potential investors in the CollegeInvest programs contain a variety of information on the purposes of the programs, their costs and benefits, and how the programs compare. The kits are an important part of the marketing for the programs and are designed to provide clear, complete, understandable information to potential investors. In reviewing the enrollment materials, we concluded that the materials for the Prepaid Tuition program could be improved to provide more complete and useful information. Specific areas where we believe the materials should contain more information are discussed below.

Comparative Tuition Costs. The Prepaid Tuition program bases its prices on the current average tuition costs for Colorado public colleges and universities. The Program Overview and Contract Terms booklet within the enrollment packet provides a guide to tuition units which compares the number of tuition units needed to attend each of Colorado's higher education institutions. The guide shows, for example, that the current average tuition of $2,280 per year is worth 100 tuition units, the current tuition at CU Boulder is 107 units, and the current tuition in the Community College system is 74. However, the guide does not list the actual tuition costs of any of the institutions. Although the comparison of tuition units is helpful in determining the units that should be purchased to cover a given number of years' tuition, it does not provide a clear picture of how the current average tuition cost relates to actual tuition at particular schools. In addition, the kits do not contain any information on how Colorado's average tuition compares with tuition in other states, although tuition units purchased through the Prepaid Tuition program may be used throughout the United States.

Historical Changes in Tuition Costs. The enrollment kit reports the current average tuition for Colorado public institutions of higher education, but does not provide readers with information on how tuition costs have changed over time or what factors impact tuition setting. Average tuition in Colorado has increased about 4 percent per year over the past 10 years. This is considerably lower than the increases in the previous 10 years which averaged 10.5 percent annually. Due to TABOR restrictions, it is likely that tuition increases in the future will continue to be limited. This is important information for potential investors, but it is not included in the enrollment materials or contract.

Fees and Charges. The enrollment kit contains the prices for various contract options, both lump sum and installment, as well as a list of various additional fees such as late fees and contract cancellation fees. However, the enrollment materials do not inform purchasers of the amounts of fees and charges incorporated into the contract prices which are intended to cover the costs of program administration over the life of the contract. The following are included in the base contract prices:

- A $1.50 per unit fee for operating expenses.
- A $0.26 per unit fee for computer costs.
- A $15.00 annual fee for account maintenance.
- A $15.00 fee for each distribution from an account.

Overall, we estimate these fees average about 12 percent of the total per-unit price of a Prepaid Tuition contract. The estimated annual cost of program administration ranges from about 0.6 percent to about 2 percent of a contract's price, depending on the length of time to the first payout date.

Recommendation No. 8:

The Colorado Student Obligation Bond Authority should modify its enrollment kit to include additional information for potential investors. The changes should include:

a. Adding information about the actual tuition costs at Colorado's higher education institutions and average tuition costs at other colleges and universities around the country.

b. Supplying some historical information on tuition increases in Colorado and factors that affect tuition costs.

c. Clarifying the contract price amounts by indicating what fees are incorporated into the prices.

Colorado Student Obligation Bond Authority Response:

Agree. Investors in either the Prepaid Tuition Fund or Scholars Choice should have all of the information they need to make a sound financial decision. The additional recommended disclosures would enhance the purchaser's knowledge, and should be added to the marketing materials. Furthermore, SB-164 provides specific guidance for disclosures related to both the Prepaid Tuition Fund and the Scholars Choice programs. These disclosures will also be incorporated into the Authority's marketing materials and annual statements to purchasers.

Prepaid Tuition Fund Investments

Chapter 3

Note: With the exception of the first recommendation, the information and findings in this chapter are the result of work performed by Callan Associates, an independent investment consulting firm. The Office of the State Auditor retained Callan to evaluate the investment performance and review the asset allocation of the Prepaid Tuition Fund.

Assets in the Prepaid Tuition Fund

CSOBA began collecting contributions for the Prepaid Tuition Fund in late 1997. Initial investments of the liquid contributions were made in December 1997 and were allocated among three asset classes, as shown in the table below.

December 31, 1997

	$	%
Domestic Equity, Mid-Cap		
Sound Shore Mutual Fund	7,500,000	50%
International Equity		
Janus Overseas Mutual Fund	1,500,000	10%
Domestic Fixed Income		
Treasury Inflation Protected Securities (TIPS), internally managed	5,982,687	40%
Total	14,982,687	100%

During 1998 and 1999 additional contributions were invested. In 1999, CSOBA selected the Putnam Core Growth fund to diversify the domestic equity asset class. CSOBA also adopted a revised investment policy with an asset allocation that differed from the original asset allocation (implemented in December 1997). The new asset allocation is 35% Large-Cap Equity, 10% Small/Mid-Cap Equity, 20% International Equity and 35% TIPS. The actual allocation at the time of the policy change was different from the new asset allocation. CSOBA made the decision to use cash inflows to move toward the new policy, rather than selling units in the existing mutual funds. In effect, CSOBA retained assets in the Sound Shore mutual fund rather than sell part of that investment to fund the large cap (Putnam) allocation closer to target.

The table below summarizes the current policy target, and contrasts it to the actual allocation, as of December 31, 1999. The result is that the Prepaid Tuition fund has an overweight position in the mid-cap equity class.

Comparison of Asset Allocation Target and Actual Allocation at December 31, 1999						
Category	Policy Target	%	Actual	%	Difference	%
Large Cap Equity	$17,605,535	35%	$ 9,090,398	18%	-$ 8,515,137	-17%
Small/Mid Cap Eq.	$ 5,030,153	10%	$ 8,354,976	37%	+$13,324,823	0%
International Equity	$10,060,306	20%	$ 8,190,071	16%	-$ 1,870,235	-4%
TIPS	$17,605,535	35%	$13,719,098	27%	-$ 3,886,437	-8%
Cash Equivalents	$ 0	0%	$ 946,986	2%	+$ 949,986	0%
Totals	$50,301,529	-	$50,301,529	-	-	-

Please note that CSOBA has sold some units in Sound Shore during the first quarter of 2000, based on revised estimates of cash in-flows.

Performance Review – Invested Assets of the Prepaid Tuition Fund

Based on data provided by CSOBA, their previous consultant (Sovereign Financial Services), and the current consultant (Milliman Roberts), Callan Associates prepared the Investment Measurement Report, included in Appendix B. The report covers the two-year period from January 1, 1998 through December 31, 1999 for both the total fund and the individual manager.

The return on the total invested assets for calendar year 1998 was 3.69%, for calendar year 1999 was 13.57%, and for the combined two year period was 8.52% (The two year period return is annualized). The most direct comparison for these return numbers is to look at the return on a target benchmark. The original asset allocation policy that CSOBA utilized for 1998 was as follows: 50% Russell 2500, 10% Morgan Stanley EAFE International Index, and 40% Lehman Brothers TIPS index. A target benchmark based on these allocations produced a return of 3.77% in 1998. This compares to CSOBA's total fund return of 3.69%.

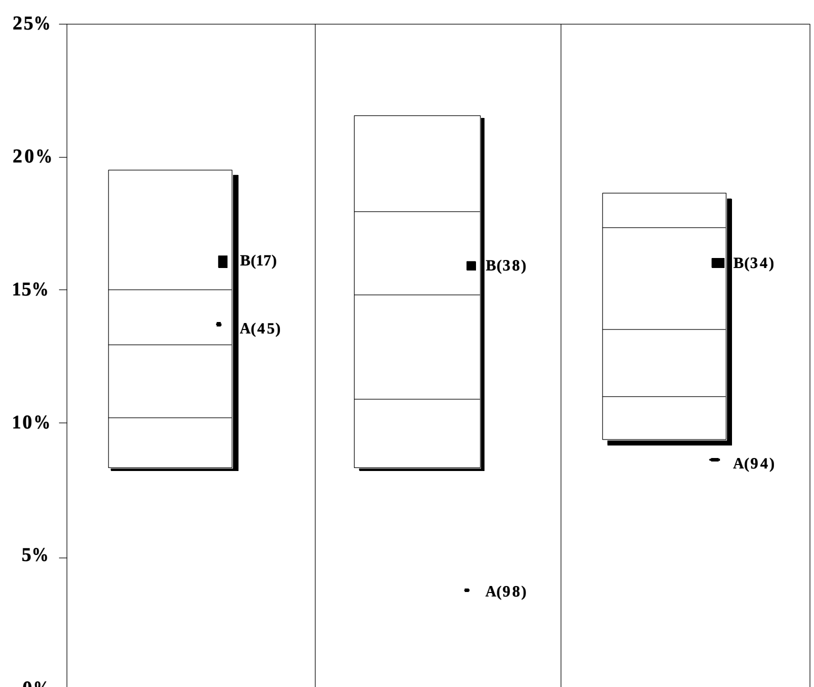
Callan also utilized the recent asset allocation policy to construct a target for 1999. This target return is composed of 35% S&P500 Index, 20% Morgan Stanley EAFE International Index, 10% Russell 2500, and 35% Lehman Brothers TIPS Index. This index returned 16.09% for 1999 which compares to CSOBA's total fund return of 13.57%.

A composite benchmark using the original asset allocation target for returns in 1998 and the more recent asset allocation target for returns in 1999 produces a 9.76% annual return for the two-year period. The total fund return for the two-year period lagged this result, producing an 8.52% return.

The major explanation for under-performance relative to these benchmarks is the over-weight of the mid-cap equity asset class (Sound Shore) and Sound Shore's subsequent under-performance versus its benchmark during 1998. The program has taken steps towards implementing a more balanced equity structure.

We can also evaluate the performance of CSOBA's fund in comparison to a database of programs with similar assets. The chart below shows CSOBA's performance for 1998 ranked in the 98th percentile of Callan's small plan sponsor database, while in 1999 the total fund return placed CSOBA in the 48th percentile. (Note: In Callan's ranking system, the 1st percentile is considered the highest performing fund, while the 99th percentile is the lowest performing fund.) For the two-year period ended December 31, 1999, CSOBA's total plan return of 8.52% placed them in the 94th percentile. Clearly, the fund experienced a much stronger calendar year period in 1999. However, the weakness of 1998 will negatively impact any cumulative time periods going forward.

<u>Prepaid Tuition Fund's Performance vs. Callan's Small (Less than $150 mm) Plan Sponsor Database</u>



	Last Year	Year Ended 12/1998	Last 2 Years
10th Percentile	19.47	21.59	18.62
25th Percentile	15.02	18.00	17.34
Median	12.96	14.78	13.56
75th Percentile	10.27	10.89	10.99
90th Percentile	8.41	8.42	9.45
Total Fund - A	13.57	3.69	8.52
Target Index ■B	16.09	15.96	16.02

It is important to recognize that the members of the Callan small plan database may have significantly different asset allocation policies than the one adopted by CSOBA. The average allocation for this group included 58% domestic equity, 10% international equity, and 32% fixed income. This difference affects the comparability of the program's relative ranking in the group.

Statutes Contain Requirements for How Funds Can Be Invested

CSOBA is statutorily authorized to administer and manage the CollegeInvest funds. Section 23-3.1-216, C.R.S., states that CSOBA may invest moneys in the Prepaid Tuition and Scholars Choice funds in state and municipal bonds, participation agreements with life insurance companies, corporate notes, bonds, and debentures, and common or preferred stock. The statutes also contain the following specific stipulations:

- No investment in any corporation shall exceed 5 percent of the then book value of either the Prepaid Tuition Fund or the Scholars Choice Fund.

- Neither fund shall acquire more than 5 percent of the outstanding stock or bonds of any single corporation.

- The aggregate amounts of moneys in either fund invested in stock, or in corporate bonds, notes, or debentures that are convertible to stock, or investments in trust shares, shall not exceed sixty percent of the then book value of either fund or the aggregate of the funds.

At December 31, 1999, CSOBA's allocation of invested assets for the Prepaid Tuition Fund was as follows:

- 71 percent ($35.6 million) were in stocks or items convertible to stock (also referred to as equities).

- 27 percent ($13.7 million) were in bonds (also referred to as Treasury Inflation Protected Securities, or TIPS).

- 2 percent ($0.9 million) were in cash equivalents.

CSOBA management believes the Fund is in compliance with the statutory requirement that no more than 60 percent may be in equities, because Advance Payment Contract receivables of over $40 million are included in the determination of the fund's book value. Advance Payment Contract receivables represent the amounts contract purchasers have agreed to pay in the future. By including the receivables, the allocation of the Fund appears as follows:

- 39 percent ($35.66 million) in equities.

- 60 percent ($54.4 million) in fixed income, including bonds and Advance Payment Contract receivables.

- 1 percent ($0.9 million) in cash equivalents.

CSOBA includes the Advance Payment Contract receivables in the book value of the Fund because Section 23-3.1-206.7, C.R.S., states that the Prepaid Tuition Fund "shall consist of moneys remitted by purchasers and receivables for moneys due to be remitted in accordance with advance payment contracts …." However, unlike other assets in the Fund, receivables represent money that may be available for investment sometime in the future rather than funds currently available to be allocated among investment options to produce income. Furthermore, the Advance Payment Contract receivables are not investments that can be bought or sold by CSOBA.

Continuing to include the Advance Payment Contract receivables in the book value could result in CSOBA investing all its cash in stocks. For example, if the Advance Payment Contract receivables increased to $75 million, CSOBA could invest all other funds, up to its current total assets of $50 million, in stocks. This risk can also be seen in the current allocation of invested assets, not including the receivables. When considering only the investable assets, the proportion of the Prepaid Tuition Fund that was invested in stocks as of December 31, 1999 (71 percent) exceeds the statutory 60 percent restriction by over 18 percent. The proportion of investable assets in stocks also exceeds CSOBA's target allocation, which is shown in the following table, by almost 10 percent.

Target Asset Allocation for Investable Assets of the Prepaid Tuition Fund

Asset Class	Percentage
Equities (35% large-cap US stocks, 10% small/mid cap US stocks, 20% non-US stocks)	65%
Inflation Indexed Bonds	35%
Total	100%

Source: CSOBA Investment Policy.

Placing a large percentage of investable assets in stock may increase the risk of the Fund overall. This is because stocks generally have higher risk and higher returns than bonds or other fixed income investments.

To clarify how monies in the Prepaid Tuition Fund may be invested, we believe the language in Section 23-3.1-216, C.R.S., should be amended to specify that no more than 60 percent of the investable assets of the Fund may be invested in stocks or items convertible to stock.

Recommendation No. 9:

The Colorado Student Obligation Bond Authority should work with the General Assembly to make changes to the current statutory language of Section 23-3.1-216, C.R.S., to clarify that no more than 60 percent of the investable assets of the Prepaid Tuition Fund may be invested in stocks or items convertible to stock.

Colorado Student Obligation Bond Authority Response:

Agree. To ensure the conservative nature of the investment policy, the Authority will work with the General Assembly to modify the current statutory language in Section 23-3.1-216, C.R.S.. In addition, the Board Finance and Investment committee has agreed to modify the current asset allocation policy to conform to the revised language at it's next meeting tentatively scheduled for March 22, 2000.

CSOBA's Asset Allocation is Not As Efficient As It Could Be

The following tables compare the target allocation as found in CSOBA's Investment Policy Statement, and the fund's actual asset allocation as of December 31, 1999:

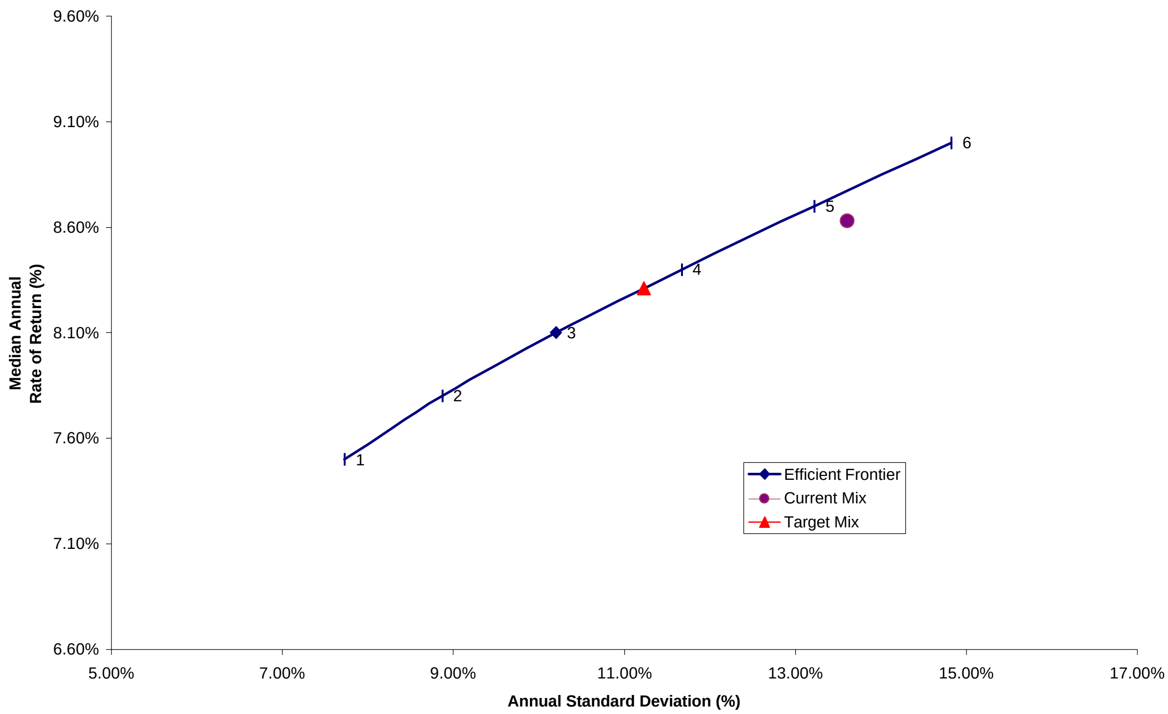
Comparison of Asset Allocation Target and Actual Allocation at December 31, 1999						
Category	Policy Target	%	Actual	%	Difference	%
Large Cap Equity	$17,605,535	35%	$ 9,090,398	18%	-$ 8,515,137	-17%
Small/Mid Cap Eq.	$ 5,030,153	10%	$ 8,354,976	37%	+$13,324,823	0%
International Equity	$10,060,306	20%	$ 8,190,071	16%	-$ 1,870,235	-4%
TIPS	$17,605,535	35%	$13,719,098	27%	-$ 3,886,437	-8%
Cash Equivalents	$ 0	0%	$ 946,986	2%	+$ 949,986	0%
Totals	$50,301,529	-	$50,301,529	-	-	-

Clearly the fund has taken a significant overweight in mid-cap and a corresponding underweight in large-cap.

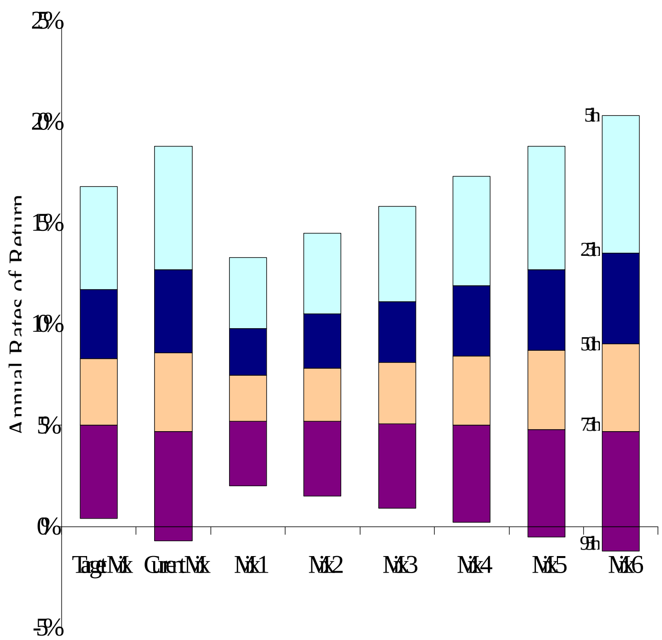
As mentioned above, CSOBA counts the Advance Payment Contract receivables as part of the total book value of the Prepaid Tuition Fund. Given that these receivables, at over $40 million as of December 31, 1999, represented about 44% of total book value, the resulting asset allocation for the Total Fund is considerably more conservative than the asset allocation for the invested assets discussed in this section.

Callan utilized its 2000 Capital Market Projections[1] and an asset allocation software program called “AssetMax”, to evaluate the efficiency of both the target mix, and the current allocation. This software seeks to predict the return and risk (as measured by standard deviation) expectations of a given portfolio of assets. The line found on the following chart represents various asset allocation strategies that the software identifies as being “efficient”, in terms of having the lowest level of risk for a given level of return (or, alternatively, having the highest expected return for a given risk level). As the chart shows, the target allocation for CSOBA is considered efficient by the software. However, the fund’s allocation as of December 31, 1999 does not lie on the efficient frontier and represents a significantly higher risk portfolio than the target allocation.

[1] Additional information regarding the creation of these capital market assumptions is available upon request.



The inefficiencies of the current asset allocation structure can also be identified in the expected range of returns over a five-year time period. The chart on the following page illustrates the expected range of returns for the various asset allocation mixes. This particular chart shows the expected returns for the mixes over a five-year time period. The table below the graph shows the specific numeric values of the bar chart. The percentile rankings (5^{th}, 25^{th}, 50^{th}, 75^{th}, and 95^{th}) simply refer to the strength of the overall investment market during the time period. For example, the 5^{th} percentile would represent an investment environment that produces returns that are better than 95% of all other potential markets. Correspondingly, the expected returns for all of the asset mixes are highest at the 5^{th} percentile. The chart shows the dispersion of the current asset allocation is more pronounced than the other mixes. Specifically, the current allocation is most comparable to Mix 5. However, the difference between the lowest expected return and the highest expected return (-0.8% to 18.8%) is larger than a comparable spread for Mix 5 (-0.5% to 18.8%). In addition, the current allocation has an expected standard deviation of 13.61% whereas Mix 5 is estimated to have a 13.22% standard deviation.



Range of Returns Five Years

Percentile	Target Mix	Current Mix	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5	Mix 6
5th	16.8%	18.8%	13.3%	14.5%	15.8%	17.3%	18.8%	20.3%
25th	11.7%	12.7%	9.8%	10.5%	11.1%	11.9%	12.7%	13.5%
50th	**8.3%**	**8.6%**	**7.5%**	**7.8%**	**8.1%**	**8.4%**	**8.7%**	**9.0%**
75th	5.0%	4.7%	5.2%	5.2%	5.1%	5.0%	4.8%	4.7%
95th	0.4%	-0.8%	2.0%	1.5%	0.9%	0.2%	-0.5%	-1.2%

The following table identifies the specific allocations for the various mixes.

Including the Advanced Payment Contracts, the asset allocation for CSOBA's total

Optimal Portfolios

Portfolio Component	Current Mix	Target Mix	Limits Min	Limits Max	Asset Mix 1	2	3	4	5	6
Large Cap	18%	35%	0%	100%	21%	27%	33%	40%	46%	52%
Small/Mid	0%	10%	0%	100%	6%	7%	8%	9%	10%	11%
Intl. Eq	16%	20%	0%	100%	12%	15%	18%	20%	23%	26%
Cash Eq.	2%	0%	0%	5%	0%	0%	0%	0%	0%	0%
TIPS	27%	35%	0%	100%	61%	51%	41%	31%	21%	11%
Mid Cap	37%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Totals	100%	100%			100%	100%	100%	100%	100%	100%
Median	8.63%	8.31%			7.50%	7.80%	8.10%	8.40%	8.70%	9.00%
Std Dev	13.41%	11.23%			7.73%	8.87%	10.20%	11.67%	13.22%	13.22%

assets is approximately 40% equity, 60% fixed income. This asset allocation is similar to Mix 1 shown in the table above which has an expected return of 7.5%. A general split of 60% equity and 40% fixed income would be consistent with Mix 3 in the table above. Mix 3 has an expected return of 8.10% and represents the most aggressive, "efficient" allocation available to CSOBA. However, this conclusion is based on a very simplified assumption regarding the Advanced Payment Contracts. A more in-depth analysis is outside the scope of Callan's assignment.

Recommendation No. 10:

The Colorado Student Obligation Bond Authority should shift its asset allocation for the invested assets towards the target allocation identified in the Investment Policy Statement.

Colorado Student Obligation Bond Authority Response:

Implemented. The Board Finance and Investment Committee met on February 7, 2000 and approved a six-month systematic plan to liquidate certain investments and reallocate those proceeds so that the investments held by the Authority are consistent with the current asset allocation policy. In February the Authority sold $5 million of Sound Shore and reinvested that in the Putnam Fund. In March another $3 million of Sound Shore will be sold.

The Domestic Equity Structure of the Prepaid Tuition Fund

The initial asset allocation for the Prepaid Tuition fund, which dominated the Fund until July 1999, had the entire domestic equity allocation invested in mid-cap value equity. This allocation is an extreme deviation from the broad market, and was based on the desire to time the market.

The consultant report, prepared by Sovereign Financial Services, on asset allocation dated September 1997 endorses market bets when it specifically states, "While the stock market is at an all time high, the mid cap sector has not enjoyed the same level of investor enthusiasm as large cap stocks." The report proceeds to recommend that the mid-cap value allocation be the only domestic equity allocation.

The additional decision to forego style neutrality and place all of the mid-cap assets into a "value" style compounded the problem. Managers' investment strategies are frequently characterized as "growth" or "value" oriented. Growth managers typically invest in companies whose sales and earnings are growing at a rapid pace with little consideration for valuation measures such as price to earnings or price to book value. In contrast, value managers invest in companies that have lower than average valuation measures (Such as P/E or price to book).

The differences in performance among these two style groups can be significant. During the two-year period ended December 31, 1999, the median manager in Callan's mid-cap value mutual fund style group produced a return of 9.23% annually. In sharp contrast, the median growth mid-cap manager realized a 42.07% annualized return during the same time period. An allocation of 50% growth, 50% value would have resulted in an approximate return of 25% which compares very favorably to the return of the Russell 2500 Mid-Cap benchmark of 11.63% for the period.

CSOBA Should Consider An Equity Structure That is Comparable To A Broad Market Index

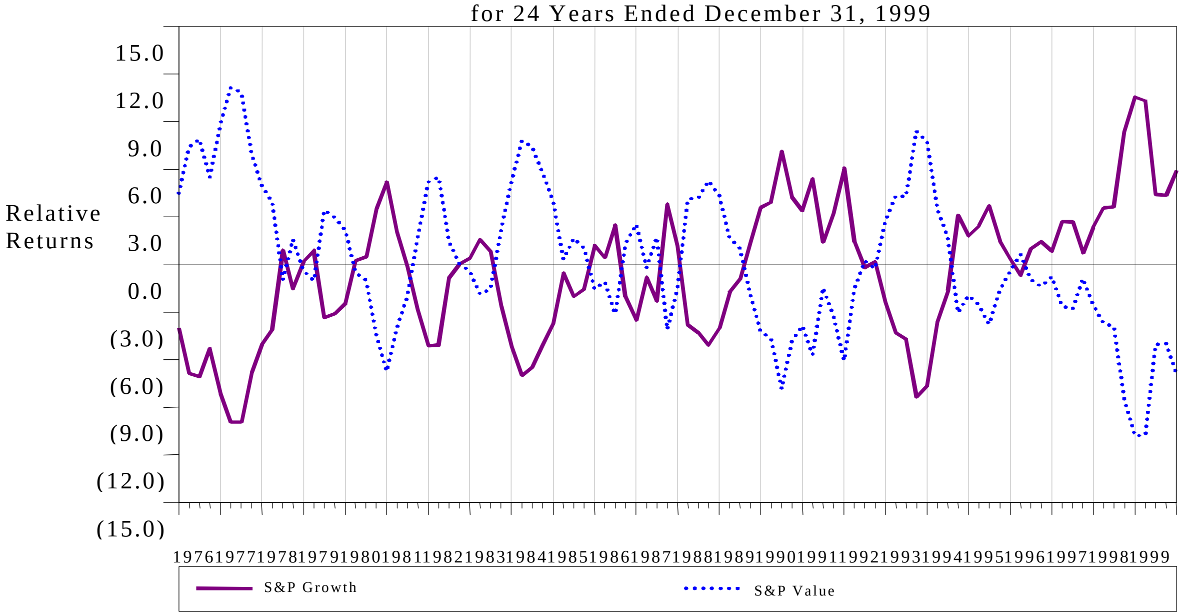
The Russell 3000 is an index maintained by Frank Russell Company and is widely recognized as a performance gauge for the entire stock market. It is comprised of approximately 3,000 securities and represents over 97% of the total investable U.S. equity market. Callan's empirical research and theoretical academic studies indicate two main factors that account for the return patterns of a diversified portfolio. These factors are (1) capitalization (large cap companies versus small cap companies) and (2) style (growth versus value).

The relative underperformance of value and small to mid-capitalization stocks during the past five years has been well documented. However, the two graphs on the following page illustrate the cyclical nature of the style and capitalization factors of the overall stock market. The first graph compares the rolling 4-quarter relative returns for the S&P Growth and S&P Value Indices versus the S&P 500. While the more recent periods show a significant bias towards growth, the history of the chart shows the cyclical nature of style strategies.

The second graph compares the rolling 4-quarter relative returns for the Callan Small Cap and Medium Cap Indices versus the S&P 500 (A large cap barometer). The chart illustrates the cyclical outperformance and underperformance of capitalization bias within the overall market.

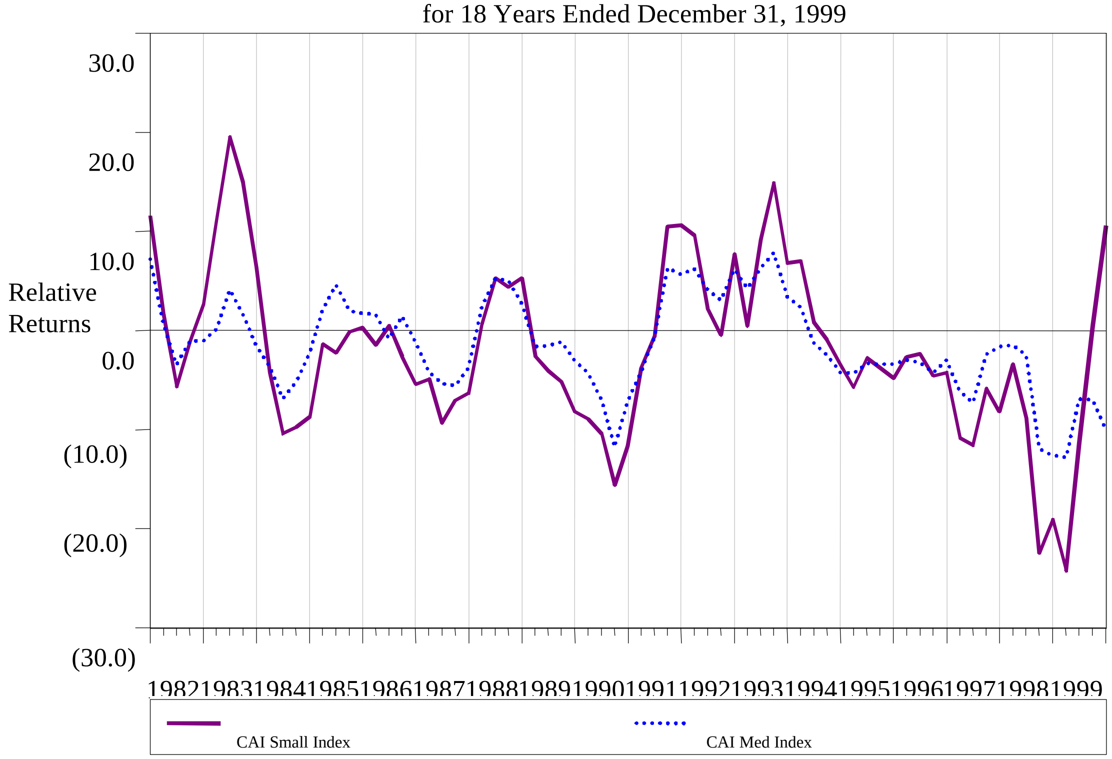
Rolling 4 Quarter Relative Returns Relative To S&P 500

for 24 Years Ended December 31, 1999



Rolling 4 Quarter Relative Returns Relative To S&P 500

for 18 Years Ended December 31, 1999



Callan's research has concluded that (1) over meaningful cycles both value and growth style strategies can add value to the overall portfolio; and (2) a balanced approach that results in an overall neutral allocation to style and capitalization should add more value with lower risk, than strategies that have an extreme style or capitalization bias. Therefore, Callan would recommend that CSOBA implement a domestic equity structure relatively comparable to a broad market index like the Russell 3000 unless CSOBA has a strong documented preference for adopting an overweight position. CSOBA has taken a step in the right direction by investing in Putnam's Large Cap Growth commingled product. However, the current overweight in mid-cap value gives the overall equity exposure of CSOBA a significant value and mid cap bias.

Recommendation No. 11:

The Colorado Student Obligation Bond Authority should implement a domestic equity structure relatively comparable to a broad market index like the Russell 3000 that is neutral with respect to style.

Colorado Student Obligation Bond Authority Response:

Implemented. The Board Finance and Investment Committee met on February 7, 2000 and adopted asset allocation objectives that are reflective of the Russell 3000 index. As noted in the response to Recommendation No. 10, they also implemented a six-month systematic plan to achieve the new asset allocation objectives.

A Benchmark for Long- and Short-Term Performance Evaluation is Needed

CSOBA should establish a target benchmark return for the investment assets in order to evaluate short-term performance. This target benchmark should consist of the policy asset class weights applied against market benchmark returns. Actual performance relative to this benchmark would indicate the benefit or cost of active management, and the benefit or cost of deviating from the policy asset allocation. Currently, the major return objective is defined as either 7.5% per year or the rate of tuition inflation plus 2%. While this overall return target is valid for the long-term evaluation, it is not sufficient by itself for evaluating shorter-term performance.

Recommendation No 12:

The Colorado Student Obligation Bond Authority should include within the written Investment Policy Statement a total target benchmark for the invested assets that is suitable for measuring short-term and long-term performance of the program.

Colorado Student Obligation Bond Authority Response:

Agree. Benchmarks are a key indicator of the Fund's performance and its ability to meet long term investment objectives. The current investment policy of the Authority states that "In order to measure performance of the investment program, the return for the Total Fund will be compared to a blend of benchmark returns in proportion to the target asset allocation." In the future we will specify in the investment policy the specific benchmarks we intend to use to measure the investment performance.

CSOBA Should Establish a Fee-Sensitive Investment Structure

In regard to fees, the current investment vehicles that CSOBA utilizes are all extremely competitive in comparison to retail mutual funds of similar investment philosophies. However, CSOBA could recognize significant fee savings by exploring the possibilities of separately managed accounts. In reality, this exploration should only take place over time as the assets of the program reach a more critical mass level of around $100 million. In addition, CSOBA could certainly recognize fee savings by implementing an index fund such as the Vanguard Institutional Index fund, which currently charges a mere .06% on the assets under management. Based on Policy Targets, the management fees for the equity portion of the Fund total approximately 85 basis points (or 0.85%) which equates to $306,000 on the assets of $36 million. As the fund reaches a total investable asset base of closer to $100 million, fees for the active managers might approach an average level of around 70 basis points (0.70%). Additional savings could be realized through the use of index funds if they were deemed appropriate. The following key points should be considered with respect to the various investment vehicles:

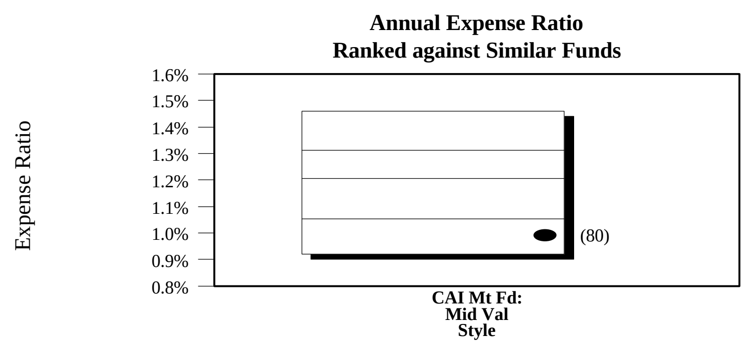
- The program has saved money by running the TIPS portfolio internally.

- The fee schedule for Putnam's Core Growth Commingled Product, shown below, looks relatively competitive. Note however that the separate account fees are approximately .10% lower for the various levels of assets.

Fee Schedule:

Separate Account Size ($mm)	Account Fee (%)	Commingled Fund Account Size ($mm)	Fee (%)
First $15	0.65	First $15	0.75
Next $35	0.50	Next $35	0.60
Next $50	0.35	Next $50	0.45
Next $200	0.25		

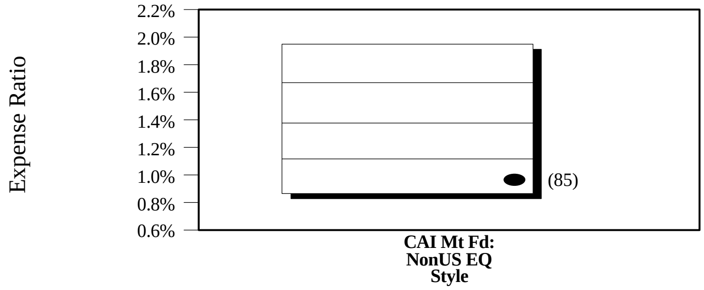
- The Sound Shore fund has a competitive fee arrangement in comparison to other retail mid cap mutual funds, as shown below.



	CAI Mt Fd: Mid Val Style
10th Percentile	1.46
25th Percentile	1.31
Median	1.21
75th Percentile	1.05
90th Percentile	0.92
Sound Shore ●	0.99

- The Janus Overseas Fund also has a very competitive fee schedule relative to retail mutual funds, as shown below.

Annual Expense Ratio
Ranked against Similar Funds



10th Percentile	1.95
25th Percentile	1.67
Median	1.38
75th Percentile	1.12
90th Percentile	0.86
Janus Overseas	0.96

Recommendation No. 13:

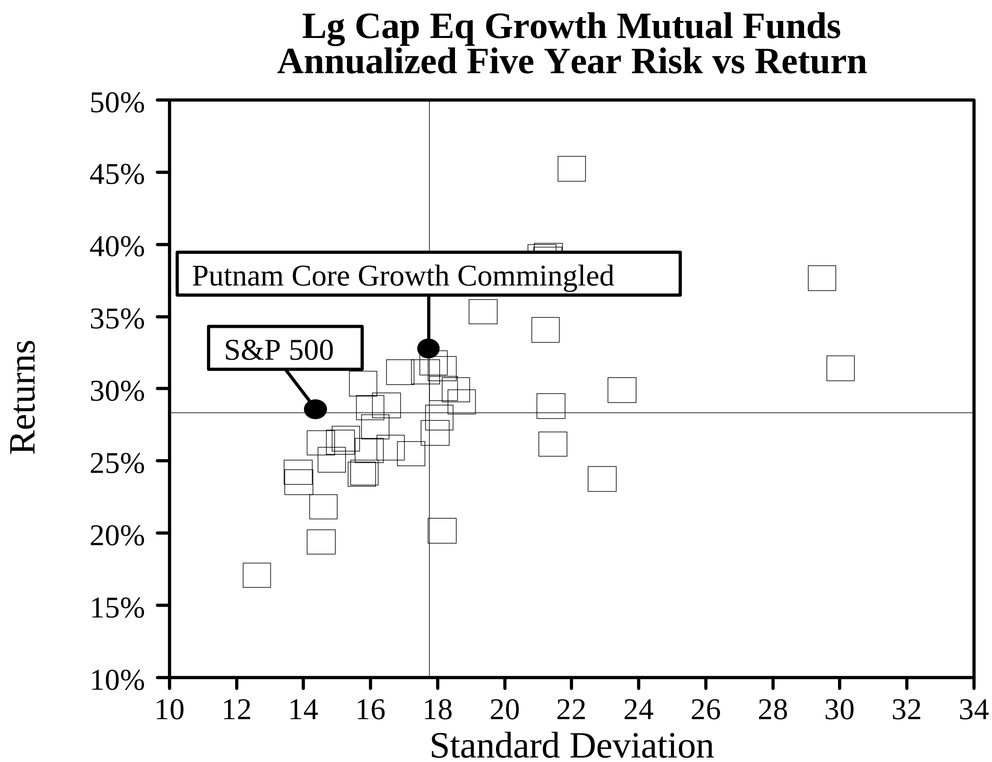
The Colorado Student Obligation Bond Authority should pursue an investment structure that is sensitive to fees and that is competitive with other institutional investment programs.

Colorado Student Obligation Bond Authority Response:

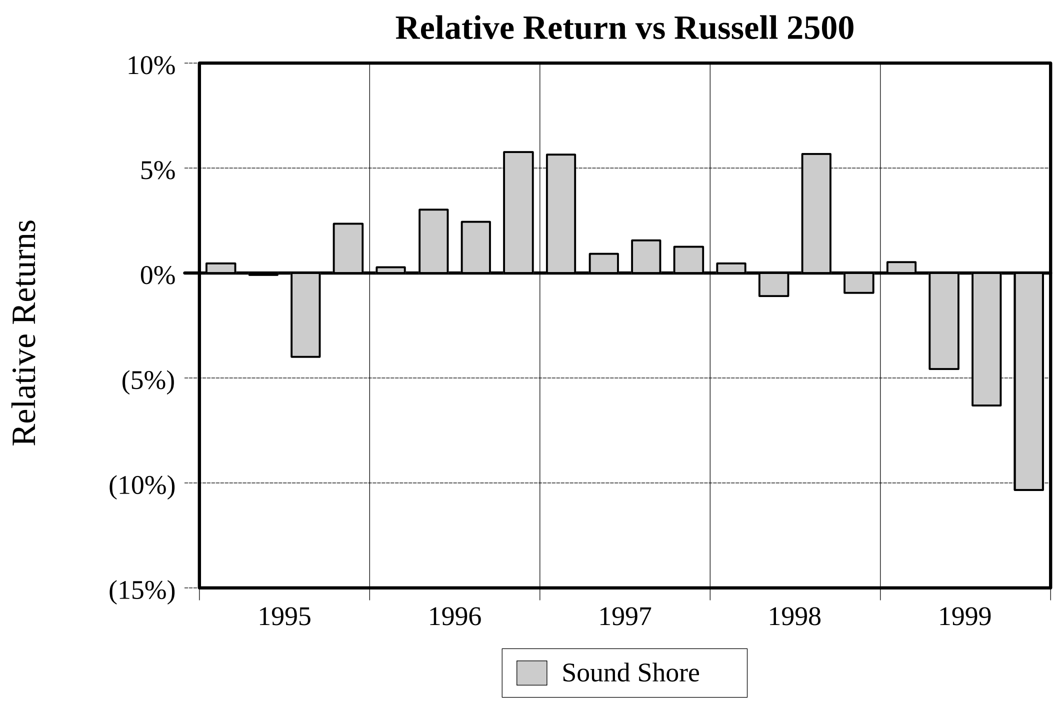
Agree. As ;noted in this report, the current investments have a fee structure that is competitive with similar investments within the market place. In the Board's continuing review of the Investment Policy, the Board will include fee structure as selection criteria for all new investments. The analysis of fee structure will ensure that the Prepaid Tuition Fund stays competitive with other similar institutional investment programs.

Performance Review -- Individual Managers

Putnam Core Growth ($9,090,398 as of 12/31/99) This Putnam product has added value for the Prepaid Tuition fund since its selection in mid 1999, out performing the S&P 500 index since inception. The graph below gives a longer-term perspective, based on 5 years of returns for Putnam's composite. While Putnam has exceeded the return on the broad market as measured by the S&P 500 index, it has exhibited greater risk than that market index. This higher risk level is indicative of its growth style, a fact confirmed by portfolio characteristics shown on page 7 of the performance report (provided in the Appendix.) For this reason, a large cap growth manager should be augmented with a value manager.

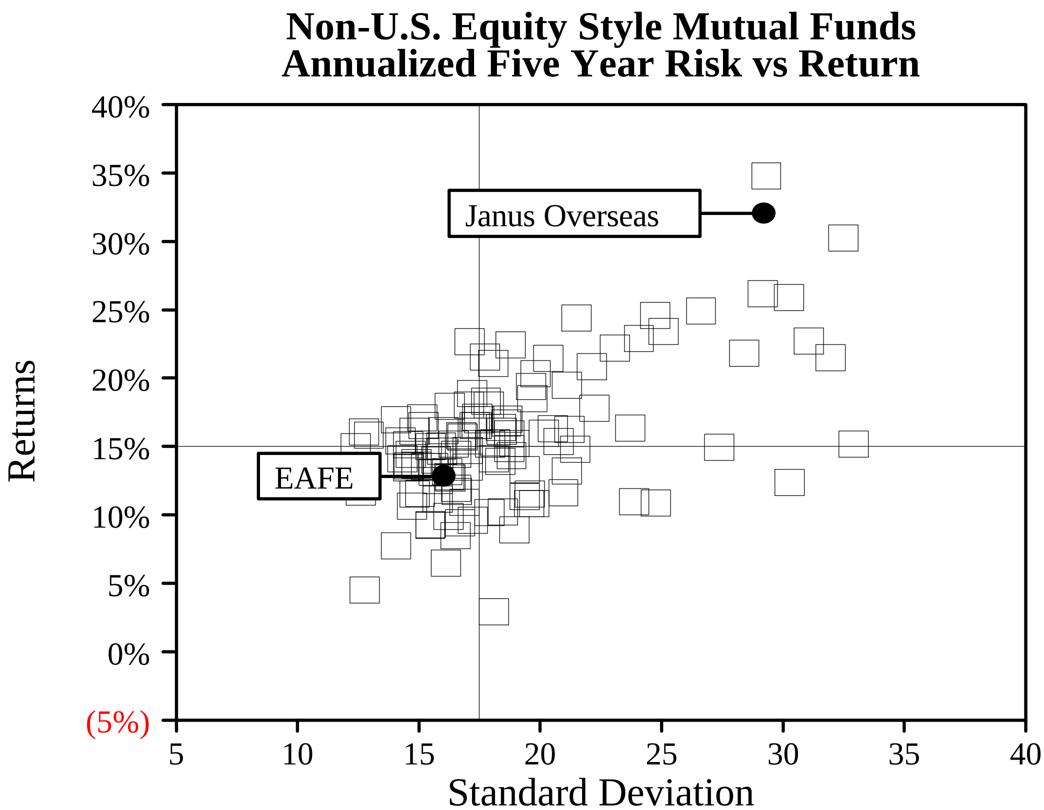


Sound Shore ($18,354,976 as of 12/31/99) Sound Shore has a solid long-term performance record, having out-performed the Russell 2500 index (the benchmark that CSOBA has assigned) in calendar years 1998, 1997 and 1996. Recent performance is less competitive. In 1999 Sound Shore underperformed both the Russell 2500 index and the majority of active mid cap value mutual funds by a wide margin. Sound Shore is also drifting upward in terms of market capitalization. Relative returns vs. the benchmark are shown in the graph below.



Recent under performance has brought all the cumulative period returns down near median. It is not unusual for active managers to achieve a good long-term record in a lumpy manner that includes periods of under performance. The major concern about Sound Shore is not its ability to perform as a strong mid cap value manager, but rather, the large role that this mutual fund has played in the overall manager structure of the Pre Paid Tuition Fund.

Janus Overseas ($ 8,190,071 as of 12/31/99) This mutual fund has been a strong performer for the Prepaid Tuition Fund, due in large part to the fourth quarter of 1999. The asset allocation to international increased during the year, in part due to high returns. The relative role of this asset class is consistent with Callan's analysis of the asset allocation review, found elsewhere in this report. CSOBA needs to be aware that this fund does exhibit above average volatility, as illustrated in the graph below. Investors have been rewarded for assuming this volatility in the past.



TIPS Bond Portfolio ($13,719,098 as of 12/31/99) The bond exposure for the Prepaid Tuition Fund is achieved through the use of Treasury Inflation Protected Securities (TIPS). These securities are purchased by CSOBA directly and are held in a buy-and-hold portfolio; in other words, the portfolio is not actively managed. The performance appears reasonable relative to the policy. The performance relative to actively managed core bond portfolios is somewhat weak. Performance relative to active core bond portfolios will vary based on inflation expectations – and the TIPS will under perform when actual inflation is lower than anticipated inflation, (which was the case in 1999). Performance is also affected by changes in the real return premium, and by liquidity concerns in the market. Nevertheless, this strategy is a low cost, low risk strategy that protects a large portion of the invested assets from inflation, which is a major risk for the Prepaid Tuition Fund.

Appendix A

College Investment Options

Numerous options are available for saving for a college education. While some options have been available for some time, recent changes in the federal tax law have resulted in many new programs, some with management by traditional financial services companies. The following includes a partial list of education savings options ranging from savings bonds to privately managed state savings plans:

- Series EE Savings Bonds: These are low-risk and low-cost investment choices that offer tax savings benefits if the bonds are used for education, dependent on certain requirements. The interest is exempt from state and local taxes.

- Education IRA: Similar to a traditional IRA, this account can be opened by a family with a deposit limit of $500 per year if the child is under 18. The distributions are tax free if funds are used for qualified educational expenses. The tax free status is dependent on income levels of the contributor.

- Mutual Funds: This investment offers immediate diversification of investment funds, professional management, generally low maintenance (especially no-load funds) and liquidity. In addition, there are a wide variety of investment choices available to the investors, depending on their needs. The risks of the funds vary according to the types of investments held. The fees charged to mutual fund accounts can also vary. For example, fees from two mutual fund companies range from 0.28 percent to 2.0 percent of the average net assets per account.

- State Sponsored Savings Plans: 22 states now have college savings plans that meet the federal government requirements for qualified education savings plans. These programs vary widely with differences in residency requirements, fee structures and rates of returns. For example, New York's program does not require that participants live in the state, is managed by TIAA-CREF, and has a fee of 0.65 percent per account. Arkansas' program is administered by Merrill Lynch, assesses a 1.8 percent fee per account, and does not have a residency requirement. In comparison, Vanguard manages the program for the state of Iowa, where participants are charged a fee of only 0.30 percent per account.

- CollegeSure CDs: Two states (Montana and Arizona) offer education CDs that earn an interest rate tied to the annual increase of a nation-wide tuition index. A private bank guarantees a minimum investment return of 4 percent annually. There are no management fees charged to the accounts and the investment principal and earnings are guaranteed by the Federal Depository Insurance Corporation. These states do not have any residency requirements for participants.

PUTNAM
One Post Office Square
Boston, MA 02109

History

Putnam was founded in 1937. In 1968, the Putnam Advisory Company registered with the SEC as an investment advisor to provide specialized management of institutional assets. In 1970, Putnam was acquired by Marsh & McLennan Companies, Inc., a professional services firm with insurance and reinsurance brokering, consulting and investment management businesses. Putnam operates as a wholly-owned, independent subsidiary. In October 1997, Putnam announced plans to place 12% of the ownership with the senior management. These new, non-voting shares represent 12% of the mutual fund unit and will be distributed in several installments.

Structure

Founded: 1937
Type of Firm: Independent Inv Adv/Subsidiary Of Marsh & McLennan
Ownership: Publicly Owned
Errors and omissions insurance: yes
In compliance with SEC and DOL: yes

Contact: Robert Job

One Post Office Square
Boston, MA 02109
Phone: 617-760-1710
Fax: 617-292-8614

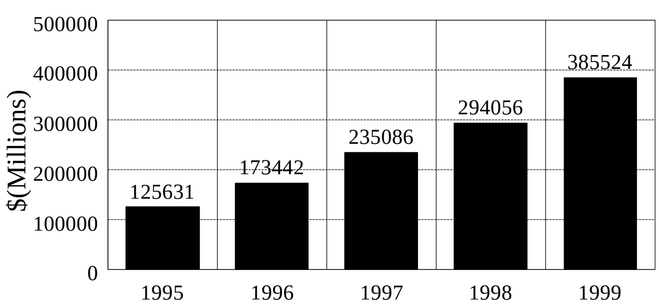
Key Professionals

	Joined Firm	Investment Experience
Lawrence J. Lasser - Chairman, President	1969	1967
Robert W. Burke - CIO	1987	1961
Irene M. Esteves - CFO	1997	1982
Thomas J. Lucey - COO	1990	1983
Carol C. McMullen - Dir of Research	1995	1977

Employee Structure

Administrative	9
Client Services/Marketing	144
Economist	4
Executive Management	14
Fundamental Analyst	77
Portfolio Manager	99
Quantitative Analyst	30
System/Information Technology	487
Trader	28
Total	**892**

Total Asset Growth



Total Asset Structure

Asset Type	$(mm)	
Mutual Fund	300,356	78%
Non-U.S.	9,246	2%
U.S. Tax-Exempt	64,953	17%
U.S. Taxable	10,969	3%
Total	385,524	100%

Tax-Exempt Separate/Commingled Assets as of December 31, 1999

Asset Class	$(mm)	
Domestic Broad Equity	32,684	50%
Domestic Broad Fixed-Income	10,020	15%
Intl/Global Equity	21,671	33%
Intl/Global Fixed-Income	578	1%
Total	64,953	100%

Client Type	$(mm)	
Other	11,483	18%
Tax-Exempt Corporate	25,949	40%
Tax-Exempt Endowment/Foundation	2,206	3%
Tax-Exempt Multi-Employer	4,024	6%
Tax-Exempt Public	21,291	33%
Total	64,953	100%

PUTNAM
CORE GROWTH EQUITY
AS OF DECEMBER 31, 1999

Key Professionals

	Joined Firm	Investment Experience
C. Beth Cotner - Portfolio Manager	1995	1974
Jeffrey R. Lindsey - Portfolio Manager	1994	1983
Richard B. England - Portfolio Manager	1992	1987
David J. Santos - Portfolio Manager	1986	1985
Darryl K. Mikami - Portfolio Manager	1995	1981
Thomas M. Regner - Portfolio Manager	1997	1982

Total Asset Structure

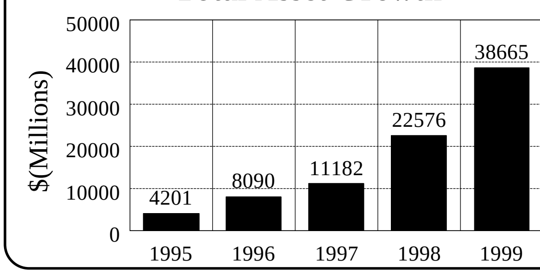
Asset Type	$(mm)	
Mutual Fund	15,994	41%
Non-U.S.	2,771	7%
U.S. Tax-Exempt	15,927	41%
U.S. Taxable	3,973	10%
Total	38,665	100%

Investment Professionals

Function	#	5 Years Gained	5 Years Lost
Portfolio Manager	6	2	6

Portfolio Decision: Team Management

Total Asset Growth



Product Highlights:

Investment Style: Large Cap Growth

Benchmark: S&P 500

Invest. Strategy: Fundamental Research/Risk Control (Bottom Up/Top Down Overlay)

Investment Process:
20% Industry/Sector Allocation
80% Security Selection

Portfolio Characteristics	Year End	Range Min	Range Max
% Large Cap ($wgt) > $10B	92	90	100
% Mid Cap ($wgt) $1.5 - $10 B	8	0	10
Number of Securities	93	75	95
Annual Percent Turnover	110	70	120

U.S. Tax-Exempt Assets

Vehicle	Min. Account	# of Accounts	$(mm) Assets	5 Years Net Contrib.
Commingled	10	4	1,796	684
Separate	25	75	14,256	7,574

ERISA Commingled - Yes
NON-ERISA Commingled - Yes

Fee Schedule:

Separate Account: Account Size ($mm)	Fee (%)	Commingled Fund: Account Size ($mm)	Fee (%)
First $15	0.65	First $15	0.75
Next $35	0.50	Next $35	0.60
Next $50	0.35	Next $50	0.45
Next $200	0.25		

Performance Composite:

Assets in composite ($mm): 10,624
Number of Accts in Composite: 44
AIMR Methodology: Yes
AIMR Compliant: Yes - Level II

1999 Annual Dispersion Range:
Composite Return: 31.02%
Highest Return: 31.64%
Lowest Return: 29.94%

PUTNAM
CORE GROWTH EQUITY

Investment Philosophy:

Putnam utilizes traditional fundamental analysis combined with a systematic stock selection process to create a core growth portfolio. In conjunction with bottom up analysis, active risk management helps produce consistent returns.

Research Process:

Putnam integrates fundamental analysis with their proprietary ranking process. Their fundamental research is used to confirm their initial quantitative results. The portfolio manager/analyst assigned to a specific stock focuses on: the qualitative aspects of stock selection, management strength, the strategic positioning of a company, and new product development. The analysts are responsible for developing a projected outlook for each company that they follow. Core Growth portfolio managers, in conjunction with Putnam equity analysts, also visit corporate managements, determine competitive advantages, and analyze earnings prospects. Each portfolio manager acts as an industry liaison, working closely with the appropriate analyst(s). The ideal scenario is one in which a stock ranks highly both on the quantitative ranking model and by the Putnam analyst (with a 1 or 2 rating).

Security Selection:

An initial universe of approximately 5500 stocks is screened to identify those stocks having the following characteristics: consensus earnings growth expectations of at least 10%; a minimum market capitalization of $3 billion; and, at least a $2 million average daily trading volume. This qualified "Core Growth Universe" which is comprised of about 600 stocks is then ranked into quintiles using a proprietary, multi-factor computer model which evaluates earnings surprise and momentum, price/sales ratios, dividend yield and cash plow-back. The stocks in the top 20% of the ranked universe are subjected to fundamental research by the analysts prior to being considered for purchase. After examining risk tolerance and return requirements, a portfolio is optimally constructed. Stocks are purchased opportunistically under favorable market conditions to minimize transaction costs and secure the most attractive prices.

Portfolio Construction:

A typical portfolio contains between 75-95 securities. Portfolios are rebalanced quarterly and have an average annual turnover of 71%. Position sizes typically range from 0.5% to 4.5% of the portfolio. A portfolio may hold a maximum of 5% of its market value or 1.5 times the benchmark weighting, whichever is higher, in any one security at time of purchase. In addition, portfolio sectors will not exceed a weight greater than three times the benchmark, the S&P 500, providing that they represent greater than 5% of the benchmark.

Sell Discipline:

A stock may be sold for any of the following reasons: 1) the stock price, through appreciation, exceeds the overall risk management guideline weighting of the portfolio; 2) meaningful, unanticipated changes cause a company's fundamentals to deteriorate; 3) the relative attractiveness deteriorates, that is, it falls from the top quintile ranking; and/or, 4) rapid unsustainable price appreciation occurs such as an increase of more than 10% and two times the market during a two week period.

PUTNAM CORE GROWTH COMMINGLED
PERIOD ENDED DECEMBER 31, 1999

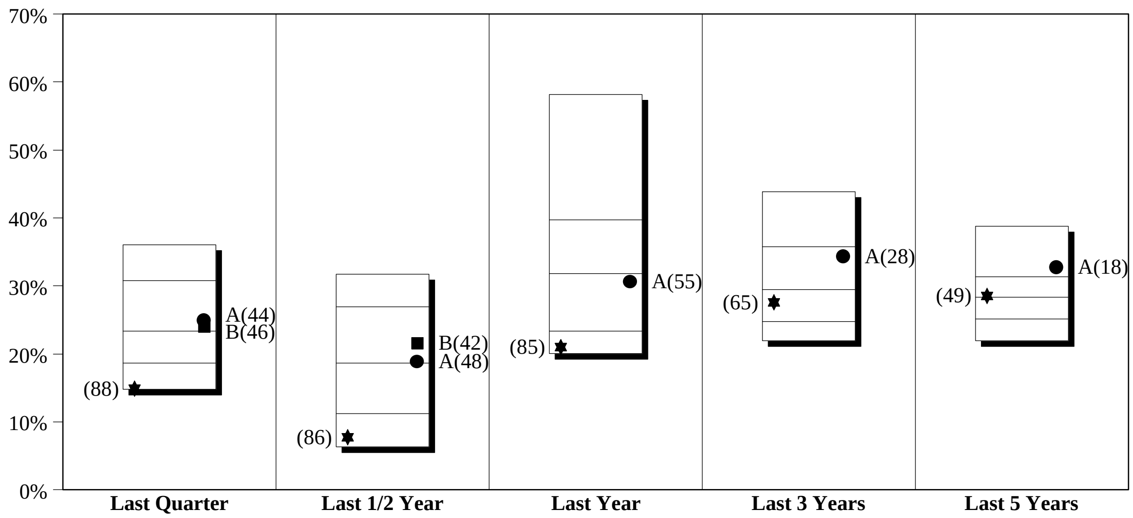
Investment Philosophy

Putnam utilizes traditional fundamental analysis combined with a systematic stock selection process to create a core growth portfolio. In conjunction with bottom up analysis, active risk management helps produce consistent returns.

Quarterly Summary and Highlights

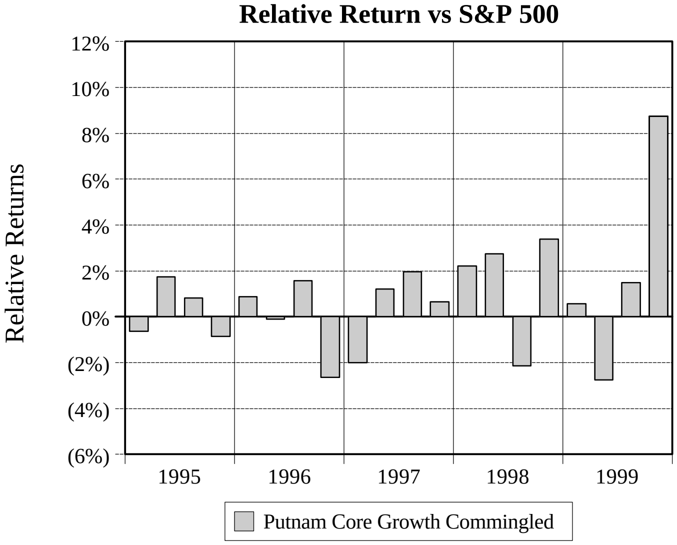
- Putnam Core Growth Commingled's portfolio posted a 24.92% return for the quarter placing it in the 44 percentile of the Lg Cap Eq Growth Mutual Funds group for the quarter and in the 55 percentile for the last year.
- Putnam Core Growth Commingled's portfolio outperformed the S&P 500 by 10.04% for the quarter and outperformed the S&P 500 for the year by 9.56%.

Performance vs Lg Cap Eq Growth Mutual Funds

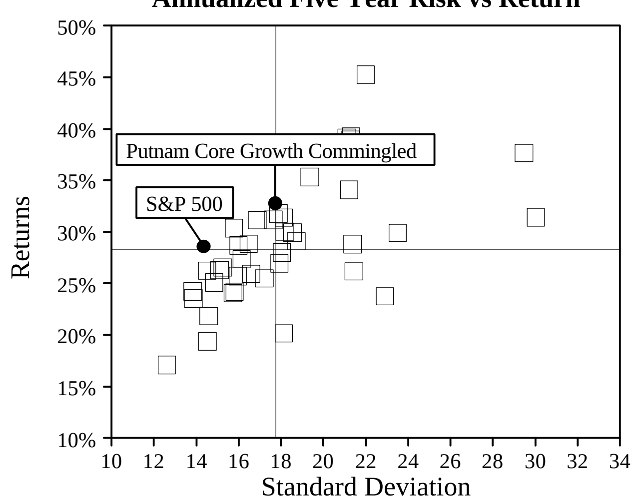


		Last Quarter	Last 1/2 Year	Last Year	Last 3 Years	Last 5 Years
10th Percentile		36.03	31.75	58.21	43.88	38.81
25th Percentile		30.82	26.96	39.74	35.81	31.32
Median		23.30	18.61	31.86	29.50	28.35
75th Percentile		18.65	11.20	23.34	24.77	25.17
90th Percentile		14.76	6.36	20.02	21.92	21.98
Putnam Core Growth Commingled	● A	24.92	18.85	30.60	34.29	32.77
CSOBA Returns	■ B	24.05	21.54	-	-	-
S&P 500	✶	14.88	7.71	21.04	27.56	28.56

Relative Return vs S&P 500



Lg Cap Eq Growth Mutual Funds
Annualized Five Year Risk vs Return

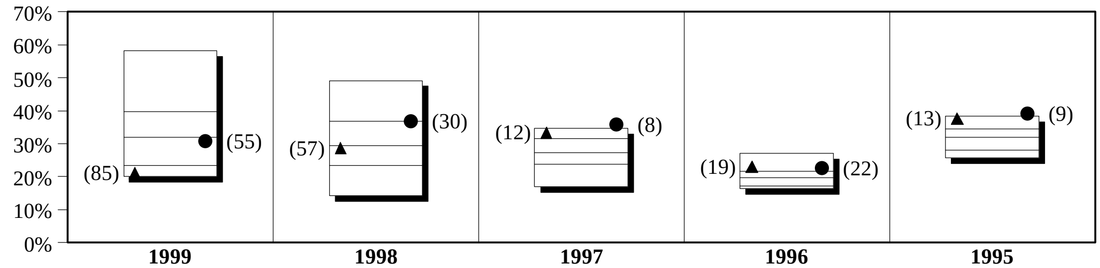


PUTNAM CORE GROWTH COMMINGLED
RETURN ANALYSIS SUMMARY

Return Analysis

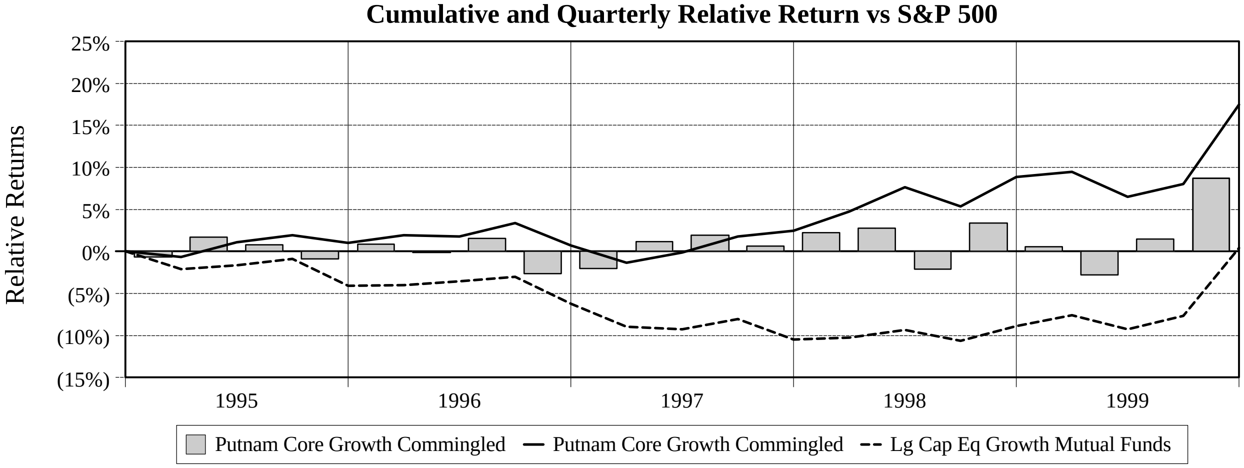
The graphs below analyze the manager's return on both a risk-adjusted and unadjusted basis. The first chart illustrates the manager's ranking over different periods versus the appropriate style group. The second chart shows the historical quarterly and cumulative manager returns versus the appropriate market benchmark. The last two charts illustrate the manager's ranking relative to their style using various risk-adjusted return measures.

Performance vs Lg Cap Eq Growth Mutual Funds

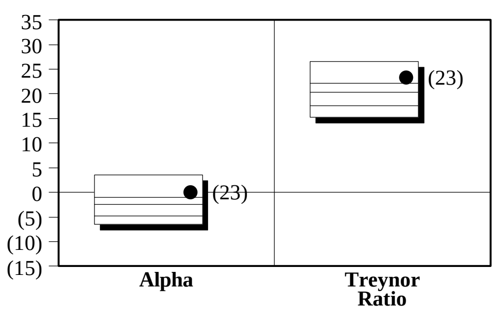


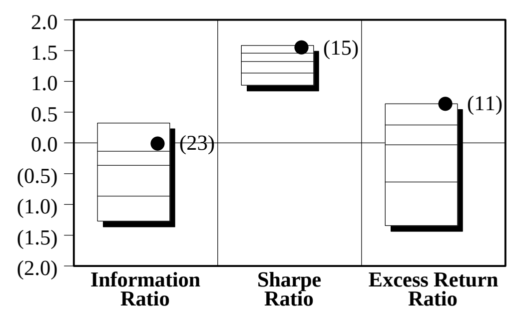
	1999	1998	1997	1996	1995
10th Percentile	58.21	49.16	34.64	27.04	38.38
25th Percentile	39.74	36.80	31.48	21.74	34.57
Median	31.86	29.51	27.23	19.61	31.94
75th Percentile	23.34	23.29	23.74	17.23	27.98
90th Percentile	20.02	14.19	16.92	16.38	25.71
Putnam Core Growth Commingled ●	30.60	36.62	35.73	22.54	39.01
S&P 500 ▲	21.04	28.58	33.36	22.96	37.58

Cumulative and Quarterly Relative Return vs S&P 500



Risk Adjusted Return Measures vs S&P 500
Rankings Against Lg Cap Eq Growth Mutual Funds
Five Years Ended December 31, 1999





	Alpha	Treynor Ratio
10th Percentile	3.55	26.60
25th Percentile	(1.00)	22.17
Median	(2.52)	20.30
75th Percentile	(4.78)	17.59
90th Percentile	(6.53)	15.24
Putnam Core Growth Commingled ●	(0.05)	23.26

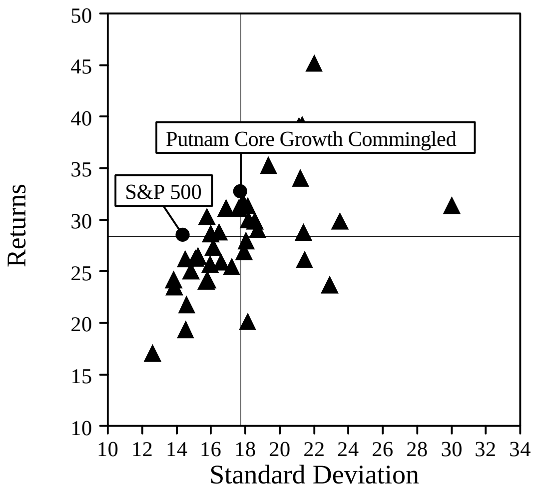
	Information Ratio	Sharpe Ratio	Excess Return Ratio
10th Percentile	0.32	1.59	0.64
25th Percentile	(0.14)	1.46	0.29
Median	(0.36)	1.33	(0.03)
75th Percentile	(0.86)	1.14	(0.64)
90th Percentile	(1.27)	0.94	(1.34)
Putnam Core Growth Commingled ●	(0.01)	1.55	0.64

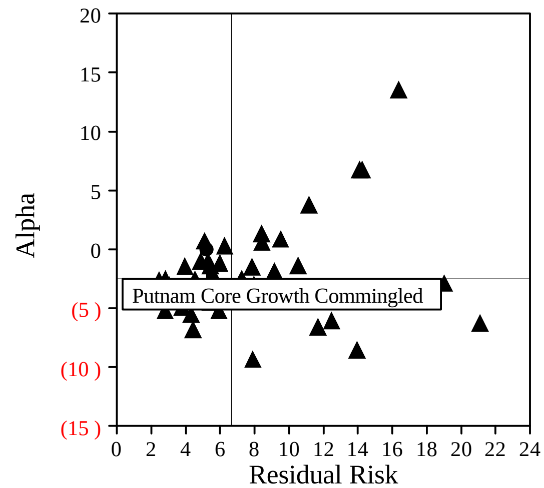
PUTNAM CORE GROWTH COMMINGLED
RISK ANALYSIS SUMMARY

Risk Analysis

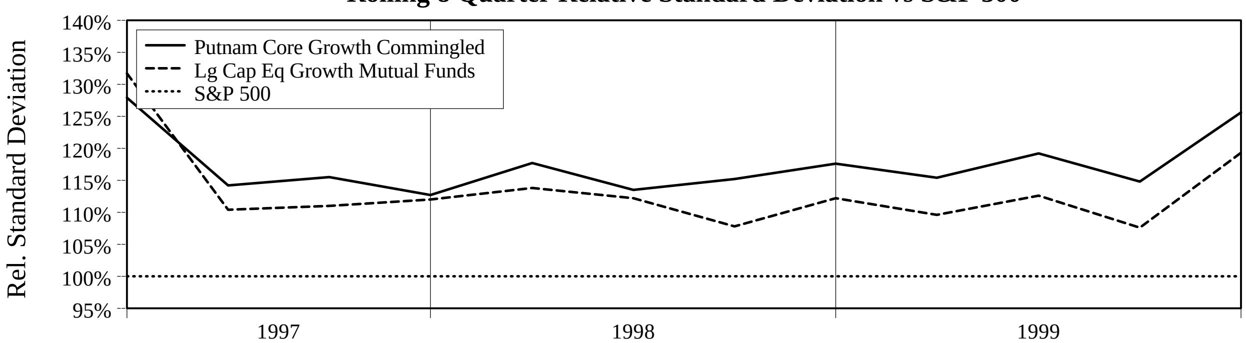
The graphs below analyze the variation or risk of the manager's return pattern. The first scatter chart illustrates the return versus risk relationship. The second scatter illustrates the manager's alpha (risk adjusted return) versus their residual risk (tracking error versus the benchmark). The third chart shows the manager's relative standard deviation versus a benchmark (a value of one means they have the same standard deviation as the benchmark). The last two charts illustrate the manager's ranking relative to their style using various risk measures.

Risk Analysis vs Lg Cap Eq Growth Mutual Funds
Five Years Ended December 31, 1999

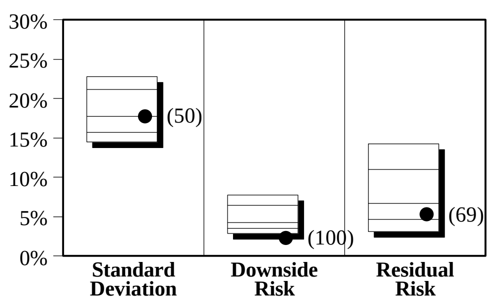


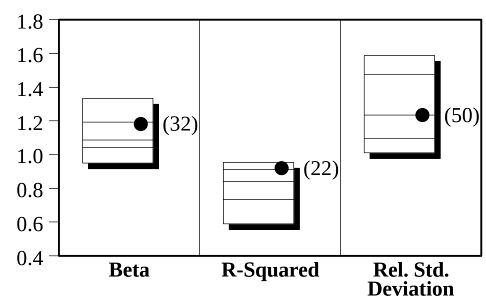


Rolling 8 Quarter Relative Standard Deviation vs S&P 500



Risk Statistics Rankings vs S&P 500
Rankings Against Lg Cap Eq Growth Mutual Funds
Five Years Ended December 31, 1999





	Standard Deviation	Downside Risk	Residual Risk
10th Percentile	22.82	7.75	14.24
25th Percentile	21.19	6.43	11.00
Median	17.76	4.23	6.67
75th Percentile	15.75	3.50	4.63
90th Percentile	14.52	2.85	3.09
Putnam Core Growth Commingled ●	17.74	2.29	5.24

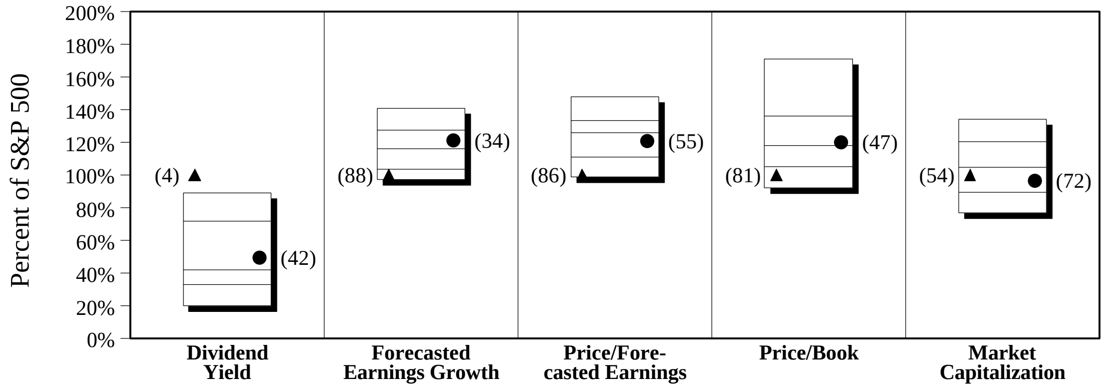
	Beta	R-Squared	Rel. Std. Deviation
10th Percentile	1.34	0.96	1.59
25th Percentile	1.19	0.91	1.47
Median	1.09	0.84	1.24
75th Percentile	1.04	0.74	1.10
90th Percentile	0.95	0.59	1.01
Putnam Core Growth Commingled ●	1.18	0.92	1.23

PUTNAM CORE GROWTH
EQUITY CHARACTERISTICS ANALYSIS SUMMARY

Portfolio Characteristics

This graph compares the manager's portfolio characteristics with the range of characteristics for the portfolios which make up the manager's style group. This analysis illustrates whether the manager's current holdings are consistent with other managers employing the same style.

Portfolio Characteristics as a Percentage of S&P 500
Rankings Against Lg Cap Eq Growth Mutual Funds
as of December 31, 1999

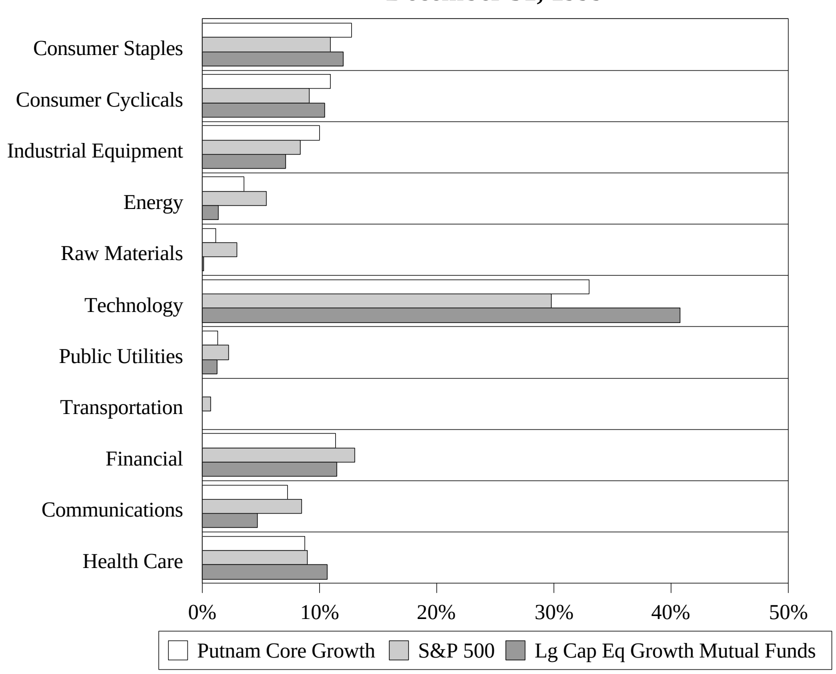


	Dividend Yield	Forecasted Earnings Growth	Price/Fore-casted Earnings	Price/Book	Market Capitalization
10th Percentile	1.02	24.88	51.02	18.16	191.22
25th Percentile	0.82	22.54	45.94	14.46	171.80
Median	0.48	20.51	43.35	12.54	149.57
75th Percentile	0.38	18.30	38.35	11.17	127.66
90th Percentile	0.23	17.23	34.11	9.79	109.54
Putnam Core Growth ●	0.56	21.41	41.55	12.73	137.18
S&P 500 ▲	1.14	17.67	34.47	10.63	142.50

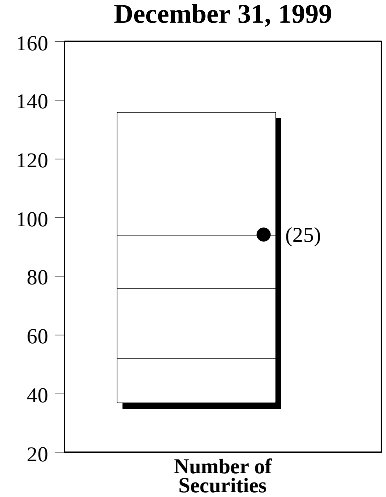
Sector Weights

The graph below contrasts the manager's sector weights for the most recent quarter with those of the benchmark. The median sector weights across the members of the manager's style are also shown for comparison.

Sector Allocation
December 31, 1999



Number of Issues Held
December 31, 1999



	Number of Securities
10th Percentile	136
25th Percentile	94
Median	76
75th Percentile	52
90th Percentile	37
Putnam Core Growth ●	94

SOUND SHORE
8 Sound Shore Drive
P.O. Box 1810
Greenwich, CT 06836-1810

History

Sound Shore Management, Inc. registered as an investment advisor with the SEC in 1978. Approximately one-half of the firm's $4.6 billion of assets under management are separate discretionary equity accounts. Included among these institutional clients are the pension plans of Fortune 500 companies, foundations and endowment funds. In addition, manage a "no-load" mutual fund, the Sound Shore Fund, for individuals and smaller institutions.

Structure

Founded: 1978
Type of Firm: Independent Investment Advisor
Ownership: Employee Owned
Errors and omissions insurance: yes
In compliance with SEC and DOL: yes

Contact: Shanna Sullivan

8 Sound Shore Drive
Greenwich, CT 06836-1810
Phone: 203-629-1980
Fax: 203-629-3680

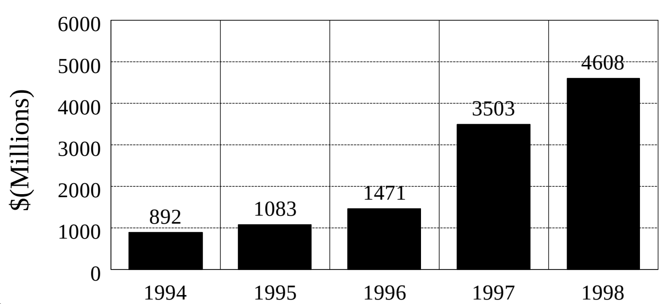
Key Professionals

	Joined Firm	Investment Experience
Harry Burn - Chairman, CIO of Domestic Equity	1978	1974
T. Gibbs Kane - President	1978	1970
Shanna Sullivan - CAO	1979	1979
Ellen Smoller - Dir of Trading	1985	1985

Employee Structure

Administrative	5
Fundamental Analyst	2
Portfolio Manager	2
Trader	1
Total	**10**

Total Asset Growth



Total Asset Structure

Asset Type	$(mm)	
Mutual Fund	1,960	43%
U.S. Tax-Exempt	2,587	56%
U.S. Taxable	60	1%
Total	4,608	100%

Tax-Exempt Separate/Commingled Assets as of December 31, 1998

Asset Class	$(mm)	
Domestic Balanced	49	2%
Domestic Broad Equity	2,538	98%
Total	2,587	100%

Client Type	$(mm)	
Tax-Exempt Corporate	1,471	57%
Tax-Exempt Endowment/Foundation	1,115	43%
Total	2,587	100%

SOUND SHORE
EQUITY COMPOSITE
AS OF DECEMBER 31, 1998

Key Professionals

	Joined Firm	Investment Experience
Harry Burn - Portfolio Manager	1978	1974
T. Gibbs Kane - Portfolio Manager	1978	1970
William McLanahan - Fundamental Analyst	1994	1989
John DeGulis - Fundamental Analyst	1995	1990

Total Asset Structure

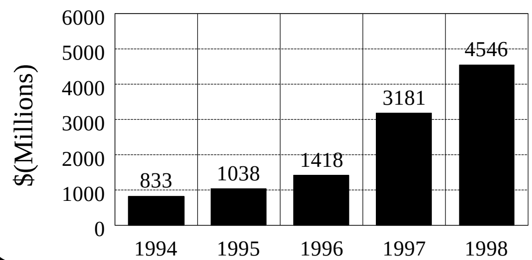
Asset Type	$(mm)	
Mutual Fund	1,960	43%
U.S. Tax-Exempt	2,538	56%
U.S. Taxable	48	1%
Total	4,546	100%

Investment Professionals

Function	#	5 Years Gained	5 Years Lost
Fundamental Analyst	2	2	1
Portfolio Manager	2	0	0

Portfolio Decision: Team Management

Total Asset Growth



Product Highlights:

Investment Style: Mid Cap Value

Benchmark: S&P 500

Invest. Strategy: Fundamental Research (100% Bottom Up)

Investment Process:
100% Security Selection

Portfolio Characteristics	Year End	Range Min	Range Max
% Large Cap ($wgt) > $10B	40	35	45
% Mid Cap ($wgt) $1.5 - $10 B	59	55	65
% Small Cap ($wgt) < $1.5 B	1	0	5
Number of Securities	40	33	50
Annual Percent Turnover	56	50	75

U.S. Tax-Exempt Assets

Vehicle	Min. Account	# of Accounts	$(mm) Assets	5 Years Net Contrib.
Separate	3	37	2,538	596

Fee Schedule:

Separate Account: Account Size ($mm)	Separate Account: Fee (%)	Commingled Fund: Account Size ($mm)	Commingled Fund: Fee (%)
First $10	1.00		
Next $10	0.88		
Next $30	0.80		
Next $50	0.65		

Performance Composite:

Assets in composite ($mm): 2,538
Number of Accts in Composite: 37
AIMR Methodology: Yes
AIMR Compliant: Yes

1998 Annual Dispersion Range:
Composite Return: 7.43%
Highest Return: 9.93%
Lowest Return: 2.42%

MUTUAL FUND PROFILE
PERIOD ENDED DECEMBER 31, 1999

Ticker:	SSHFX
CUSIP:	836083105
Share Class:	NA
Inception Date:	05/03/1985
Closed Status:	Open
Open End:	Yes
Share Class Assets	$1,259m

Sound Shore Fund
Sound Shore
2 Portland Square
Portland, ME 04101
(800) 754-8758
(207) 879-0001

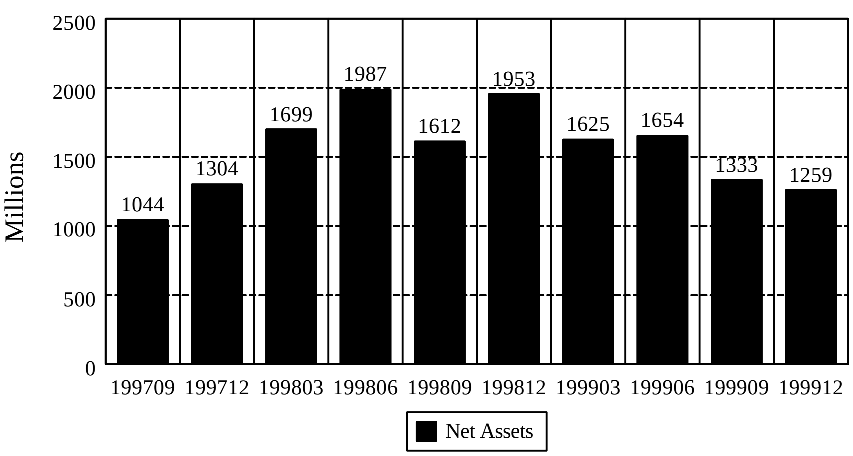
Asset Class:	Dom Medium Cap
Style:	Mt Fd: Mid Val Style
Benchmark:	Russell 2500

Published Expense and Load Detail

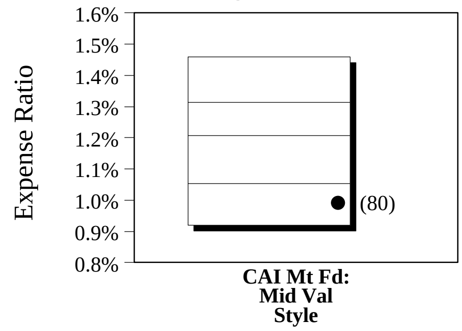
Expense Ratio:	0.99%
Front Load:	No
Redemption Fee:	No

Advisor/Subadvisor:	Sound Shore Management, Inc.
Portfolio Manager:	T. Gibbs Kane, Jr.
Manager Inception:	05/03/1985

Growth in Total Assets in Product

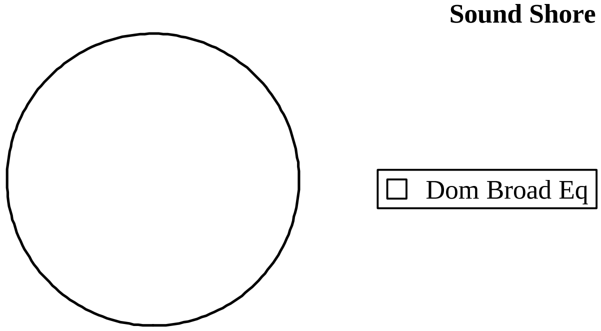


Annual Expense Ratio Ranked against Similar Funds



	CAI Mt Fd: Mid Val Style
10th Percentile	1.46
25th Percentile	1.31
Median	1.21
75th Percentile	1.05
90th Percentile	0.92
Sound Shore ●	0.99

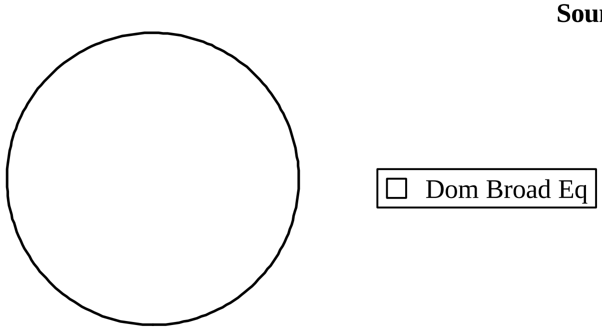
Mutual Fund Advisor* Asset Distribution by Asset Class Ended: December 31, 1999
Sound Shore Management, Inc.



Asset Class	Percent	$Millions
Dom Broad Eq	100.0%	$ 1,259
Total	**100.0%**	**$ 1,259**

*Includes all Advisory and Subadvisory Relationships.

Mutual Fund Family Asset Distribution by Asset Class Ended: December 31, 1999
Sound Shore



Asset Class	Percent	$Millions
Dom Broad Eq	100.0%	$ 1,259
Total	**100.0%**	**$ 1,259**

SOUND SHORE
EQUITY COMPOSITE

Investment Philosophy:

Investment process is driven by the belief that careful selection of out-of-favor stocks provides above average market returns with below average market risk.

Research Process:

A universe of the 1,250 largest U. S. equities, is used to identify low P/E stocks selling at the greatest discount to their historic P/E ratios on consensus earnings. The companies identified with low P/E ratios are then subjected to fundamental analysis. Sound Shore will then review a company's market position, growth prospects, management capabilities and competition. Will then build their own detailed financial and valuation models to meet fundamental performance expectations.

Security Selection:

The stock selection process begins with the screening of the 1,250 largest investment grade companies; will measure both the absolute price earnings ratio on consensus-projected earnings and the variance of each from its historic normal ratio. Will then rank these stocks in decile valuation groups and update the data monthly. The screening technique typically focuses on financially sound companies that have suffered a loss of investor confidence but not earnings power, or on companies that have had some earnings disappointments in the past but are on their way to recovery. In both cases, the stocks generally do not discount the favorable earnings outlook and are selling at discounts to their historic multiple levels.

Portfolio Construction:

Sound Shore will target a portfolio of approximately 50 equities with an overall portfolio P/E ratio on projected earnings that is typically 75% of the S&P 500. Representation of a single issue and industry concentration typically do not exceed 5% and 25%, respectively.

Sell Discipline:

Stocks are sold when the target prices are achieved, or when the earnings estimates are reduced materially.

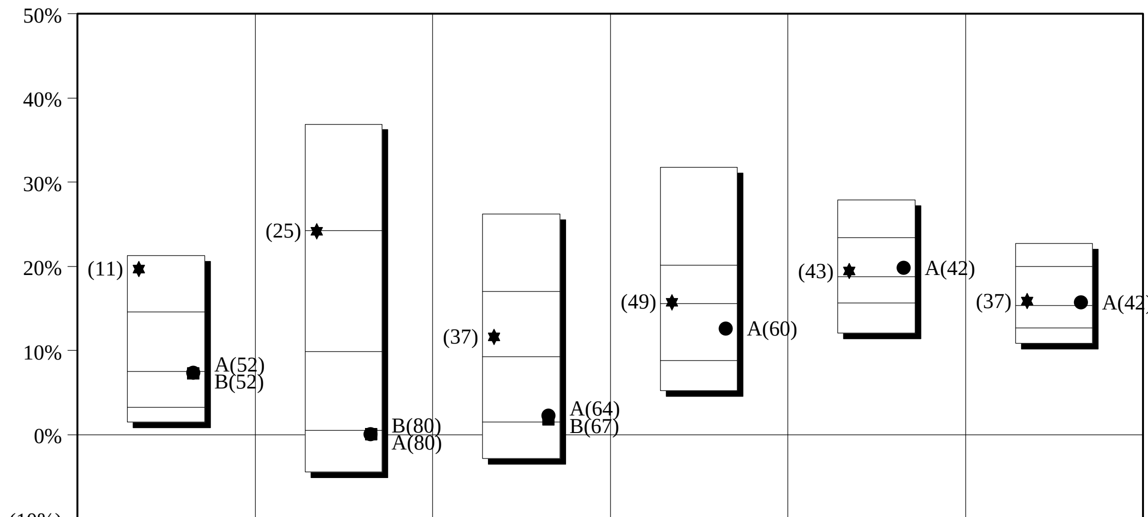
Investment Philosophy

Investment process is driven by the belief that careful selection of out-of-favor stocks provides above average market returns with below average market risk.

Quarterly Summary and Highlights

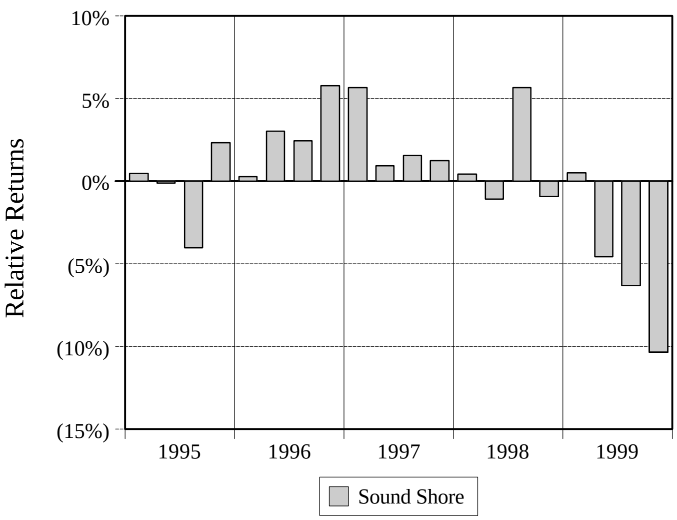
- Sound Shore's portfolio posted a 7.30% return for the quarter placing it in the 52 percentile of the Mid Cap Value Eq Style Mutual Funds group for the quarter and in the 80 percentile for the last year.
- Sound Shore's portfolio underperformed the Russell 2500 by 12.37% for the quarter and underperformed the Russell 2500 for the year by 24.10%.

Performance vs Mid Cap Value Eq Style Mutual Funds

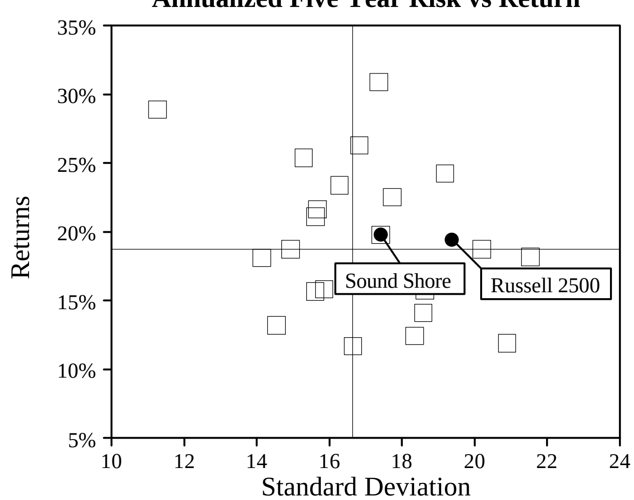


	Last Quarter	Last Year	Last 2 Years	Last 3 Years	Last 5 Years	Last 7 Years
10th Percentile	21.27	36.90	26.19	31.73	27.85	22.75
25th Percentile	14.61	24.22	17.01	20.12	23.38	19.96
Median	7.48	9.85	9.23	15.56	18.73	15.34
75th Percentile	3.25	0.54	1.52	8.82	15.67	12.65
90th Percentile	1.51	(4.43)	(2.86)	5.21	12.11	10.85
Sound Shore ● A	7.30	0.05	2.21	12.53	19.78	15.69
CSOBA ■ B	7.30	0.08	1.83	-	-	-
Russell 2500 ✶	19.67	24.15	11.63	15.72	19.43	15.85

Relative Return vs Russell 2500



Mid Cap Value Eq Style Mutual Funds Annualized Five Year Risk vs Return

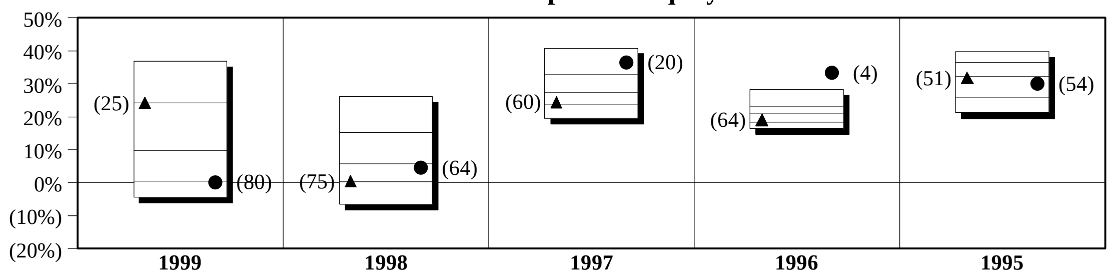


SOUND SHORE
RETURN ANALYSIS SUMMARY

Return Analysis

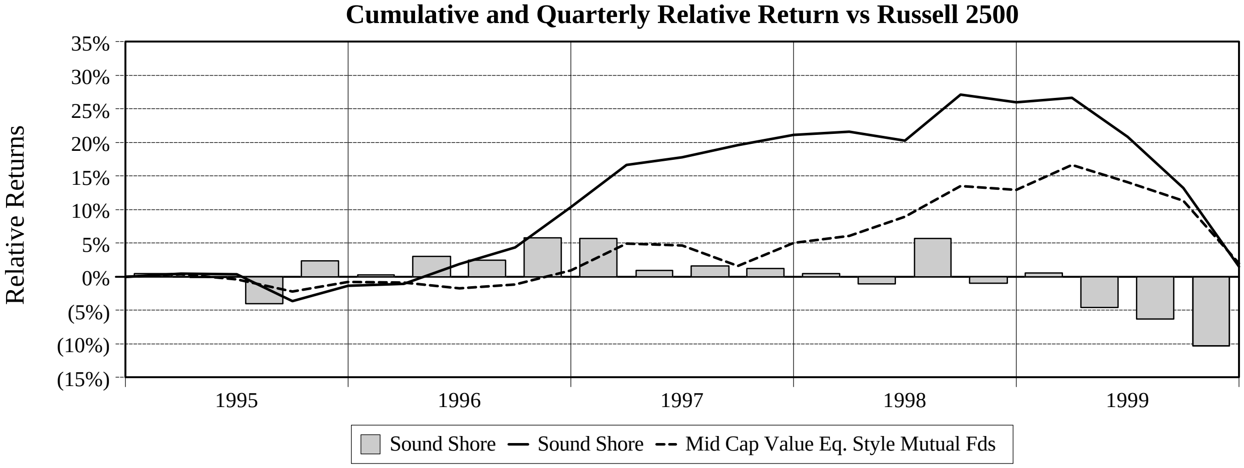
The graphs below analyze the manager's return on both a risk-adjusted and unadjusted basis. The first chart illustrates the manager's ranking over different periods versus the appropriate style group. The second chart shows the historical quarterly and cumulative manager returns versus the appropriate market benchmark. The last two charts illustrate the manager's ranking relative to their style using various risk-adjusted return measures.

Performance vs Mid Cap Value Eq Style Mutual Funds

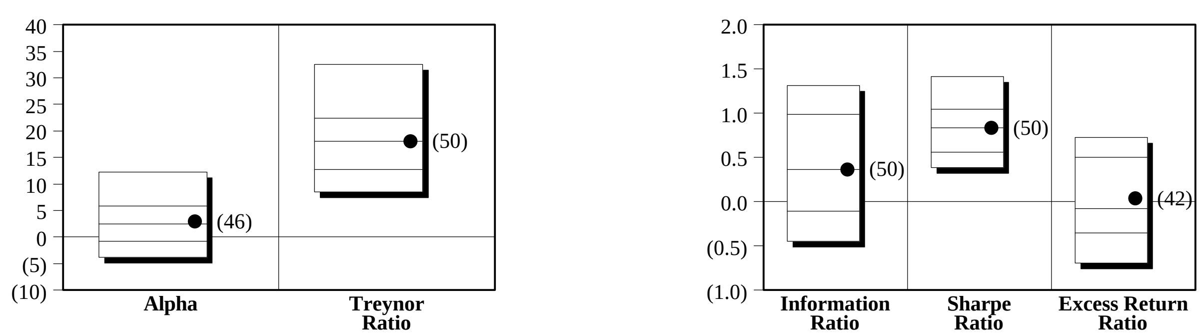


	1999	1998	1997	1996	1995
10th Percentile	36.90	26.09	40.83	28.31	39.67
25th Percentile	24.22	15.21	32.80	23.06	36.40
Median	9.85	5.65	27.31	20.85	32.18
75th Percentile	0.54	0.31	23.51	18.32	25.75
90th Percentile	(4.43)	(6.45)	19.57	16.49	21.19
Sound Shore ●	0.05	4.41	36.40	33.27	29.86
Russell 2500 ▲	24.15	0.38	24.36	19.05	31.69

Cumulative and Quarterly Relative Return vs Russell 2500



Risk Adjusted Return Measures vs Russell 2500
Rankings Against Mid Cap Value Eq Style Mutual Funds
Five Years Ended December 31, 1999



	Alpha	Treynor Ratio
10th Percentile	12.23	32.59
25th Percentile	5.83	22.42
Median	2.52	18.04
75th Percentile	(0.84)	12.72
90th Percentile	(3.82)	8.55
Sound Shore ●	2.90	18.04

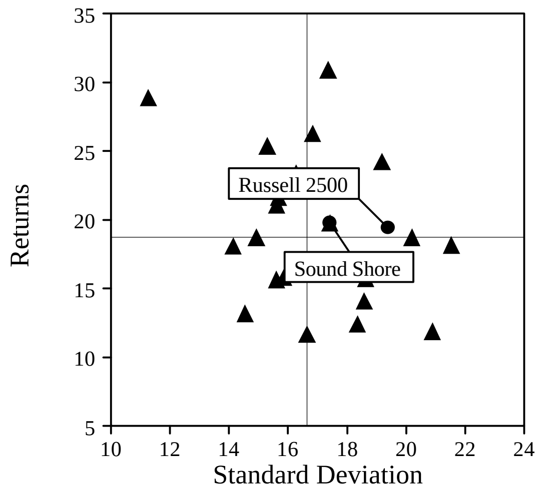
	Information Ratio	Sharpe Ratio	Excess Return Ratio
10th Percentile	1.32	1.41	0.73
25th Percentile	0.99	1.04	0.50
Median	0.36	0.83	(0.08)
75th Percentile	(0.10)	0.56	(0.35)
90th Percentile	(0.45)	0.39	(0.70)
Sound Shore ●	0.36	0.83	0.04

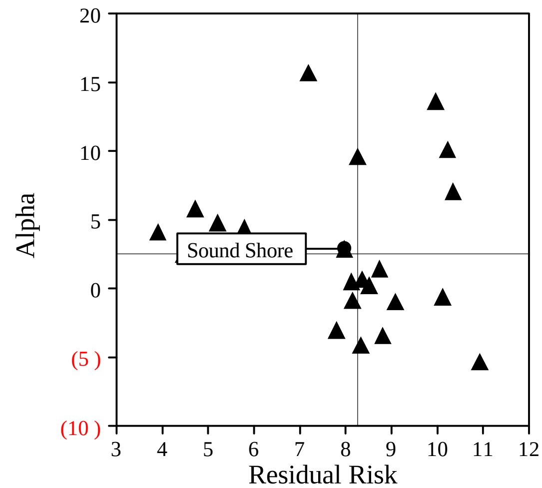
SOUND SHORE
RISK ANALYSIS SUMMARY

Risk Analysis

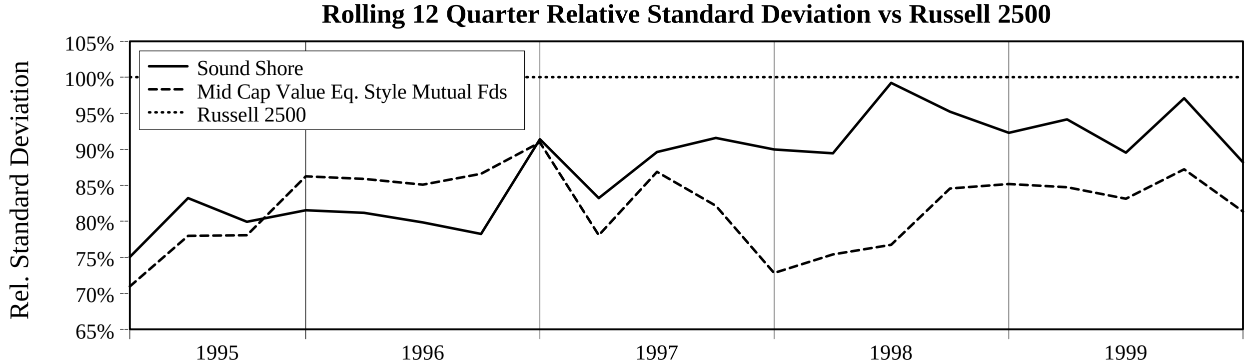
The graphs below analyze the variation or risk of the manager's return pattern. The first scatter chart illustrates the return versus risk relationship. The second scatter illustrates the manager's alpha (risk adjusted return) versus their residual risk (tracking error versus the benchmark). The third chart shows the manager's relative standard deviation versus a benchmark (a value of one means they have the same standard deviation as the benchmark). The last two charts illustrate the manager's ranking relative to their style using various risk measures.

Risk Analysis vs Mid Cap Value Eq Style Mutual Funds
Five Years Ended December 31, 1999

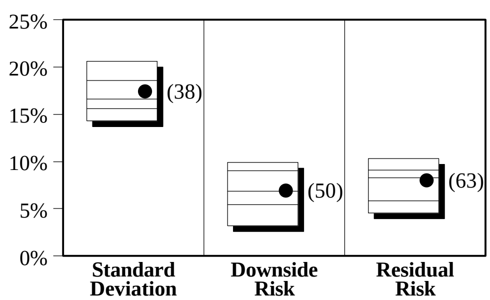


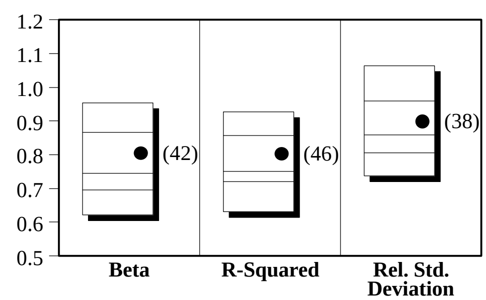


Rolling 12 Quarter Relative Standard Deviation vs Russell 2500



Risk Statistics Rankings vs Russell 2500
Rankings Against Mid Cap Value Eq Style Mutual Funds
Five Years Ended December 31, 1999





	Standard Deviation	Downside Risk	Residual Risk
10th Percentile	20.61	9.91	10.30
25th Percentile	18.59	9.03	9.08
Median	16.65	6.90	8.26
75th Percentile	15.61	5.42	5.82
90th Percentile	14.30	3.23	4.56
Sound Shore ●	17.42	6.90	7.97

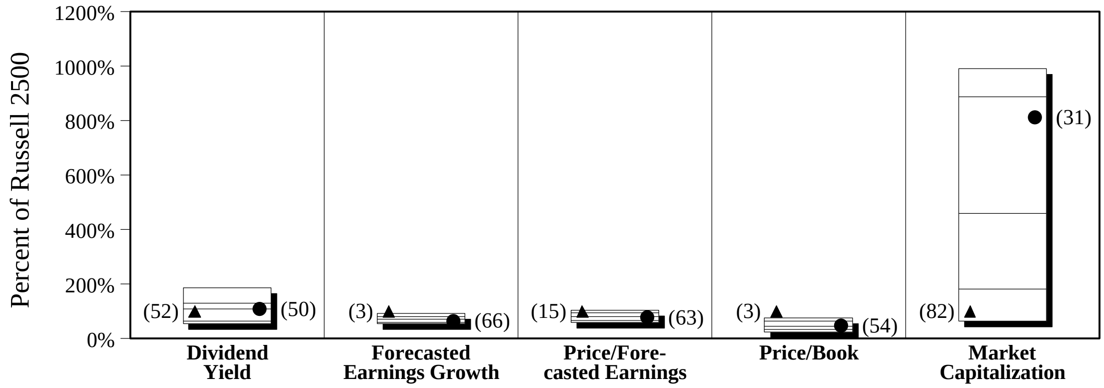
	Beta	R-Squared	Rel. Std. Deviation
10th Percentile	0.95	0.93	1.06
25th Percentile	0.87	0.86	0.96
Median	0.75	0.75	0.86
75th Percentile	0.70	0.72	0.81
90th Percentile	0.62	0.63	0.74
Sound Shore ●	0.80	0.80	0.90

SOUND SHORE
EQUITY CHARACTERISTICS ANALYSIS SUMMARY

Portfolio Characteristics

This graph compares the manager's portfolio characteristics with the range of characteristics for the portfolios which make up the manager's style group. This analysis illustrates whether the manager's current holdings are consistent with other managers employing the same style.

Portfolio Characteristics as a Percentage of Russell 2500
Rankings Against Mid Cap Value Eq Style Mutual Funds
as of December 31, 1999

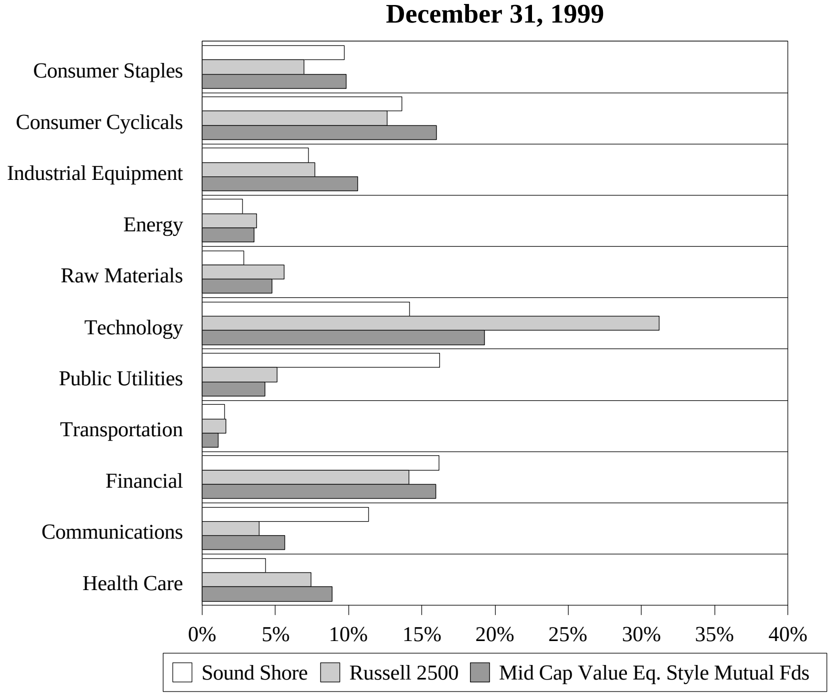


	Dividend Yield	Forecasted Earnings Growth	Price/Fore-casted Earnings	Price/Book	Market Capitalization
10th Percentile	2.40	20.51	26.50	7.29	32.84
25th Percentile	1.68	18.02	24.51	6.19	29.44
Median	1.40	15.67	20.94	4.45	15.24
75th Percentile	0.84	13.34	17.33	3.25	6.02
90th Percentile	0.69	12.45	15.16	2.39	2.16
Sound Shore ●	1.38	14.17	19.60	4.38	26.87
Russell 2500 ▲	1.29	22.25	25.61	9.65	3.31

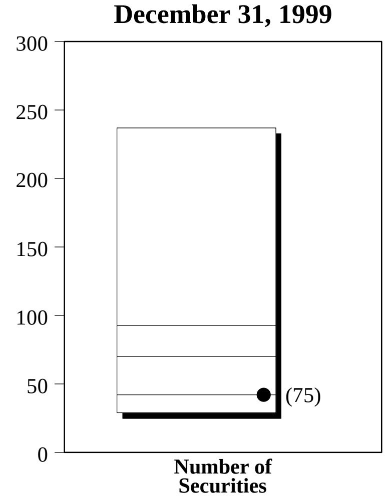
Sector Weights

The graph below contrasts the manager's sector weights for the most recent quarter with those of the benchmark. The median sector weights across the members of the manager's style are also shown for comparison.

Sector Allocation
December 31, 1999



Number of Issues Held
December 31, 1999

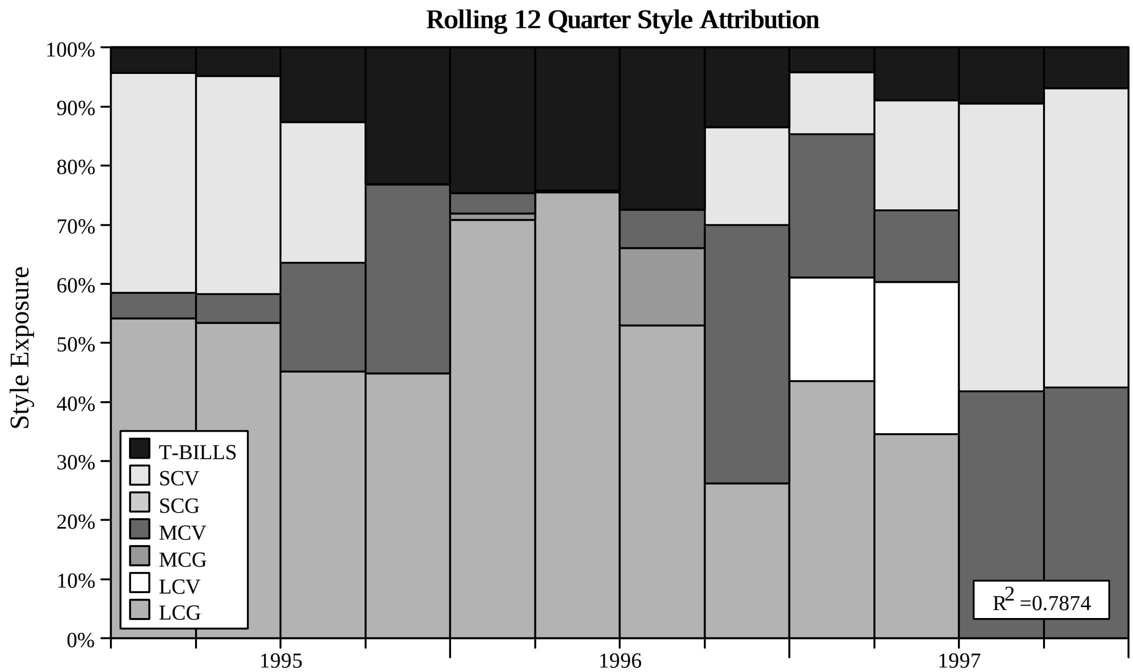


	Number of Securities
10th Percentile	237
25th Percentile	93
Median	70
75th Percentile	42
90th Percentile	29
Sound Shore ●	42

SOUND SHORE
STYLE ANALYSIS SUMMARY

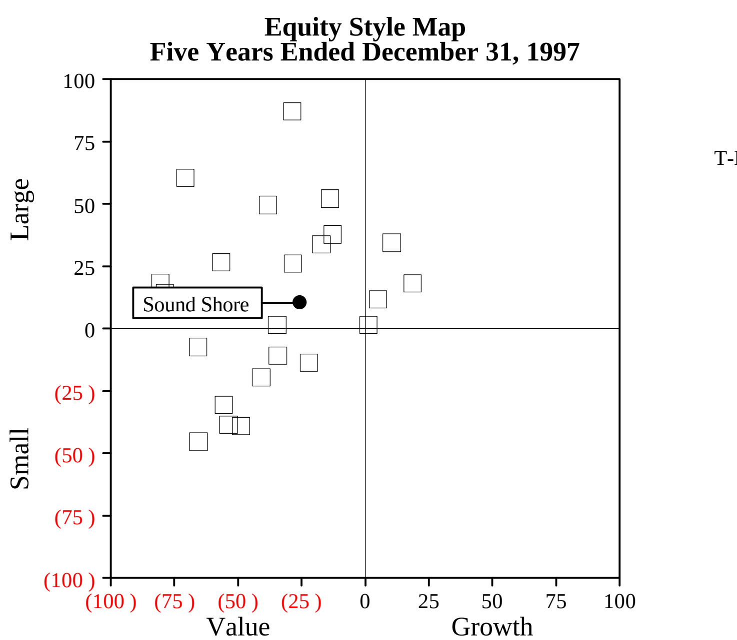
Style Consistency

The graph below uses return based factor analysis to calculate the exposure of the manager to each of the seven style factors which explain equity performance. The analysis is done on a rolling 12 quarter basis to illustrate the consistency of a manager's results.

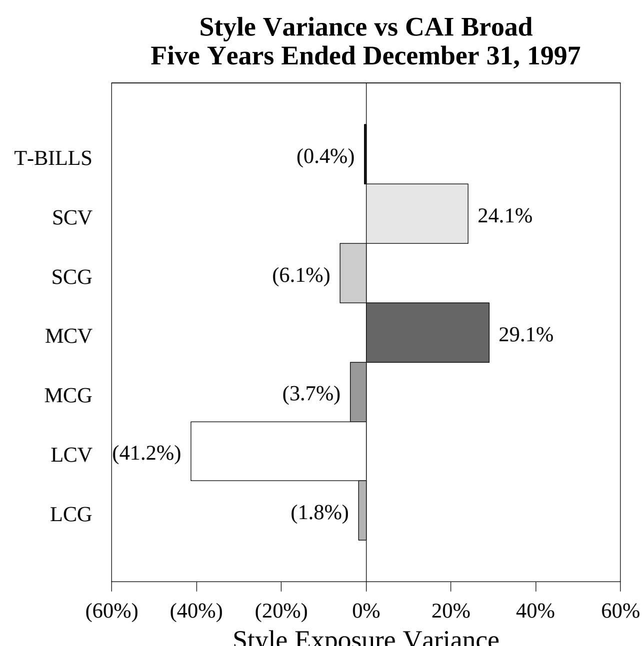


Relative Style Analysis

The first graph below contrasts the manager's equity style exposure with the exposures employed by the other managers which make up the manager's style group. The second chart illustrates the variance between the manager's style exposure and that of the benchmark. Positive bars indicate the manager has more exposure to the style factor than the benchmark, negative bars indicate less exposure than the benchmark.



Scattered dots are members of Mid Cap Value Eq. Style Mutual Fds



JANUS CAPITAL
100 Fillmore Street
Suite 300
Denver, CO 80206

History

Janus Capital Corporation was founded and registered as an investment advisory firm in 1969. Janus is 83% owned by Kansas City Southern Industries, a holding company with diverse interests in transportation and financial services. The remaining 17% is held by key employees and directors of the firm with Thomas Bailey retaining a 12% interest in the firm.

Structure

Founded: 1969
Type of Firm: Independent Inv Adv/Subsidiary Of Kansas City Southern Industries
Ownership: Publicly Owned
Errors and omissions insurance: yes
In compliance with SEC and DOL: yes

Contact: Tim Carstensen

100 Fillmore Street, Suite 400
Denver, CO 80206
Phone: (800) 525-1068
Fax: (303) 394-7697

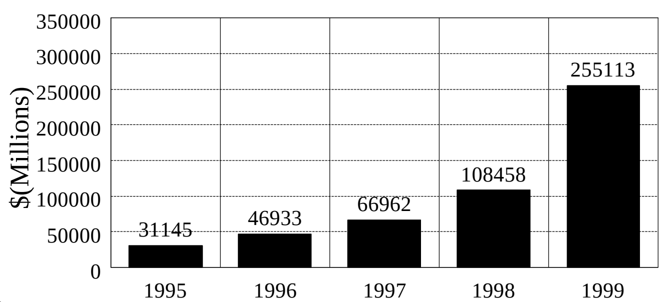
Key Professionals

	Joined Firm	Investment Experience
Thomas Bailey - Chairman, President, CEO	1969	1965
James Craig - CIO, Dir of Research	1983	1980
Steve Goodbarn - CFO	1992	1981
Marjorie Hurd - COO	1990	1985

Employee Structure

Administrative	14
Client Services/Marketing	32
Executive Management	5
Fundamental Analyst	29
Portfolio Manager	21
System/Information Technology	30
Trader	14
Total	**145**

Total Asset Growth



Total Asset Structure

Asset Type	$(mm)	
Mutual Fund	200,510	79%
Non-U.S.	6,176	2%
U.S. Tax-Exempt	6,062	2%
U.S. Taxable	42,365	17%
Total	255,113	100%

Tax-Exempt Separate/Commingled Assets as of December 31, 1999

Asset Class	$(mm)	
Domestic Balanced	201	3%
Domestic Broad Equity	5,527	91%
Domestic Broad Fixed-Income	36	1%
Intl/Global Equity	298	5%
Total	6,062	100%

Client Type	$(mm)	
Tax-Exempt Corporate	3,490	58%
Tax-Exempt Endowment/Foundation	1,644	27%
Tax-Exempt Multi-Employer	149	2%
Tax-Exempt Public	781	13%
Total	6,062	100%

MUTUAL FUND PROFILE
PERIOD ENDED DECEMBER 31, 1999

Ticker:	JAOSX
CUSIP:	471023846
Share Class:	NA
Inception Date:	05/13/1994
Closed Status:	Closed
Open End:	Yes
Share Class Assets	$7,050m

Janus Fd Inc-Overseas
Janus Fund
100 Fillmore Street
Suite 300
Denver, CO 80206
(800) 525-3713
(303) 333-3863

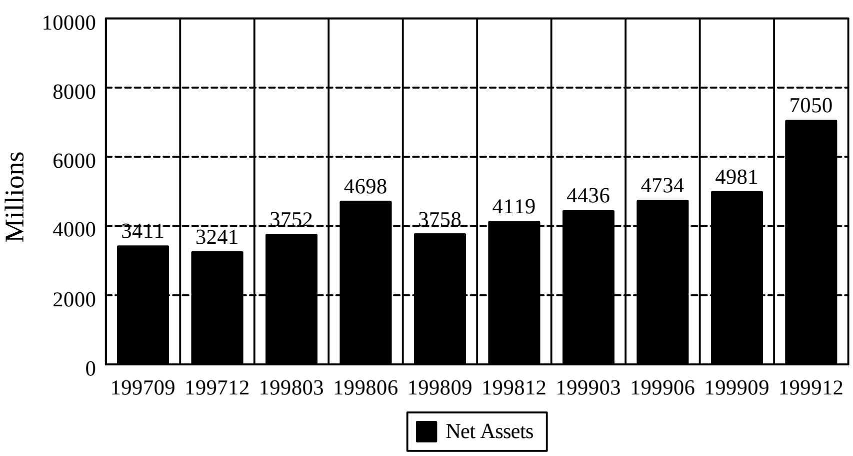
Asset Class:	Intl Broad EQ
Style:	Mt Fd: NonUS EQ Style
Benchmark:	MSCI EAFE US$

Published Expense and Load Detail

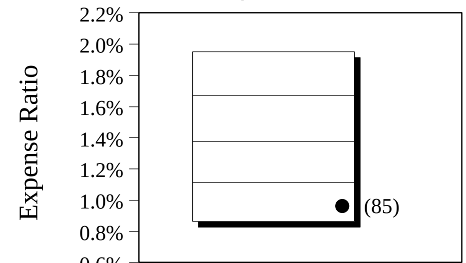
Expense Ratio:	0.96%
Front Load:	No
Redemption Fee:	No

Advisor/Subadvisor:	Janus Capital Corporation
Portfolio Manager:	Helen Young Hayes
Manager Inception:	05/15/1994

Growth in Total Assets in Product

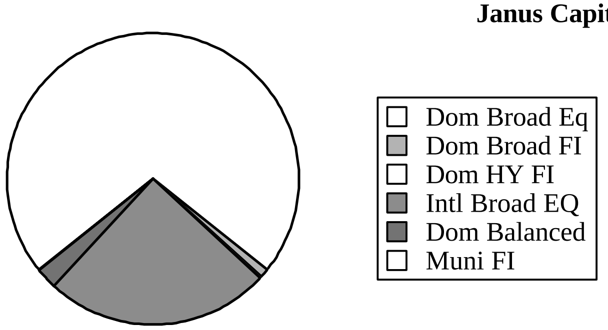


Annual Expense Ratio Ranked against Similar Funds



	CAI Mt Fd: NonUS EQ Style
10th Percentile	1.95
25th Percentile	1.67
Median	1.38
75th Percentile	1.12
90th Percentile	0.86
Janus Overseas ●	0.96

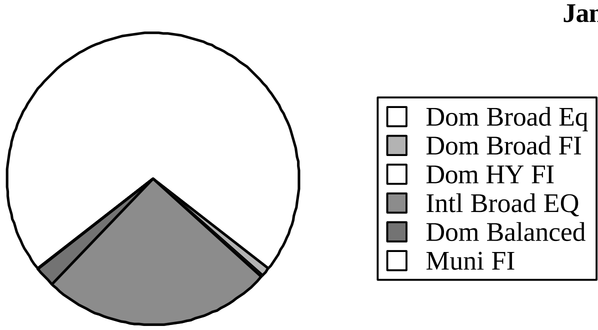
Mutual Fund Advisor* Asset Distribution by Asset Class Ended: December 31, 1999
Janus Capital Corporation



Asset Class	Percent		$Millions
Dom Broad Eq	71.5%	$	104,470
Dom Broad FI	1.0%	$	1,397
Dom HY FI	0.2%	$	278
Intl Broad EQ	25.0%	$	36,550
Dom Balanced	2.3%	$	3,288
Muni FI	0.1%	$	94
Total	**100.0%**	**$**	**146,076**

*Includes all Advisory and Subadvisory Relationships.

Mutual Fund Family Asset Distribution by Asset Class Ended: December 31, 1999
Janus Fund



Asset Class	Percent		$Millions
Dom Broad Eq	71.0%	$	98,623
Dom Broad FI	1.0%	$	1,368
Dom HY FI	0.2%	$	278
Intl Broad EQ	25.5%	$	35,470
Dom Balanced	2.2%	$	3,078
Muni FI	0.1%	$	94
Total	**100.0%**	**$**	**138,911**

JANUS OVERSEAS
PERIOD ENDED DECEMBER 31, 1999

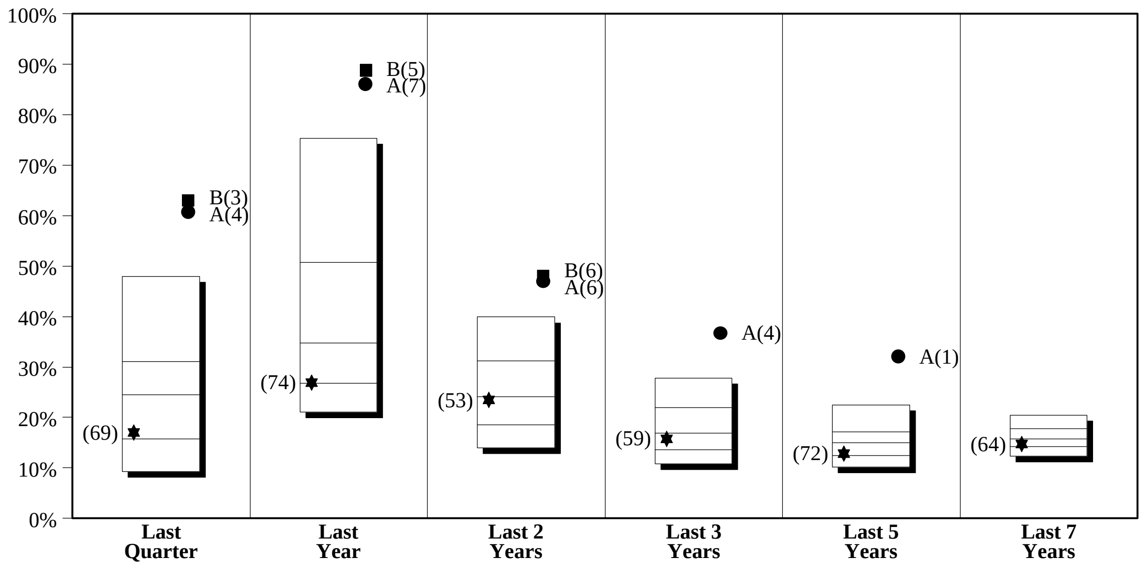
Investment Philosophy

Non-U.S. Equity Style managers invest their assets only in non-U.S. equity securities. This style group excludes regional and index funds.

Quarterly Summary and Highlights

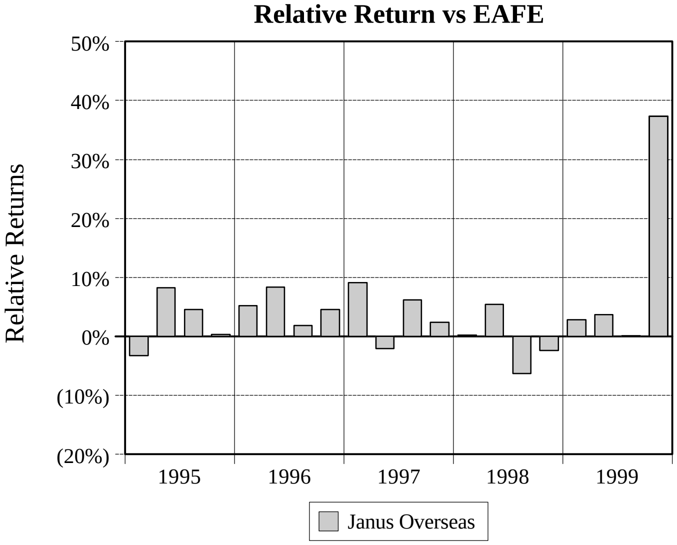
- Janus Overseas's portfolio posted a 60.63% return for the quarter placing it in the 4 percentile of the Non-U.S. Equity Style Mutual Funds group for the quarter and in the 7 percentile for the last year.
- Janus Overseas's portfolio outperformed the EAFE by 43.65% for the quarter and outperformed the EAFE for the year by 59.09%.

Performance vs Non-U.S. Equity Style Mutual Funds

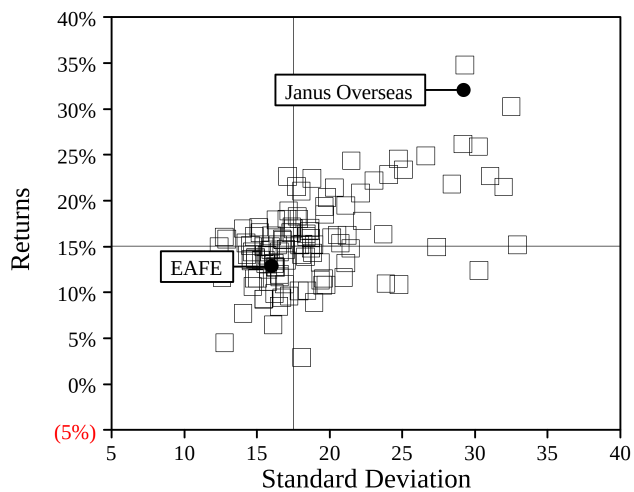


		Last Quarter	Last Year	Last 2 Years	Last 3 Years	Last 5 Years	Last 7 Years
10th Percentile		47.89	75.36	39.90	27.78	22.42	20.43
25th Percentile		31.14	50.74	31.22	21.89	17.14	17.75
Median		24.54	34.71	24.06	16.85	15.02	15.69
75th Percentile		15.71	26.81	18.51	13.62	12.49	14.27
90th Percentile		9.22	21.11	13.99	10.78	10.15	12.30
Janus Overseas	● A	60.63	86.05	46.93	36.66	32.04	-
CSOBA Janus Overseas	■ B	63.05	88.82	48.04	-	-	-
EAFE	✸	16.98	26.96	23.43	15.75	12.83	14.71

Relative Return vs EAFE



Non-U.S. Equity Style Mutual Funds Annualized Five Year Risk vs Return

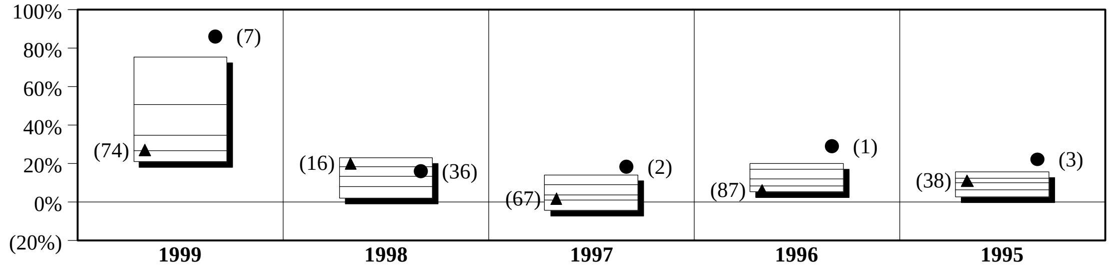


JANUS OVERSEAS
RETURN ANALYSIS SUMMARY

Return Analysis

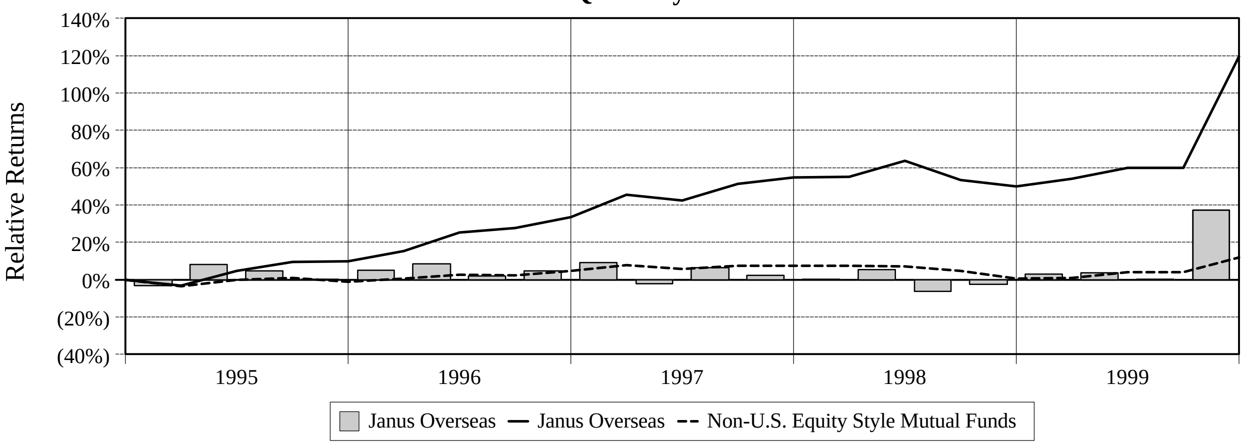
The graphs below analyze the manager's return on both a risk-adjusted and unadjusted basis. The first chart illustrates the manager's ranking over different periods versus the appropriate style group. The second chart shows the historical quarterly and cumulative manager returns versus the appropriate market benchmark. The last two charts illustrate the manager's ranking relative to their style using various risk-adjusted return measures.

Performance vs Non-U.S. Equity Style Mutual Funds

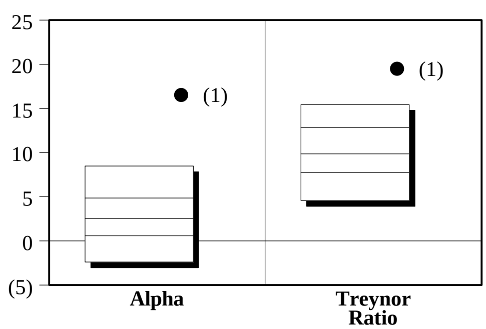


	1999	1998	1997	1996	1995
10th Percentile	75.36	22.96	13.99	20.05	15.86
25th Percentile	50.74	18.26	9.19	16.97	12.44
Median	34.71	13.52	3.82	11.95	9.91
75th Percentile	26.81	8.08	1.05	8.42	6.34
90th Percentile	21.11	2.25	(4.19)	5.40	2.69
Janus Overseas ●	86.05	16.03	18.24	28.84	22.07
EAFE ▲	26.96	20.00	1.78	6.05	11.21

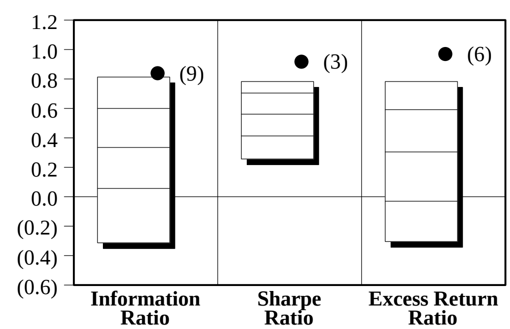
Cumulative and Quarterly Relative Return vs EAFE



Risk Adjusted Return Measures vs EAFE
Rankings Against Non-U.S. Equity Style Mutual Funds
Five Years Ended December 31, 1999



	Alpha	Treynor Ratio
10th Percentile	8.49	15.47
25th Percentile	4.91	12.85
Median	2.53	9.87
75th Percentile	0.60	7.78
90th Percentile	(2.36)	4.58
Janus Overseas ●	16.49	19.47



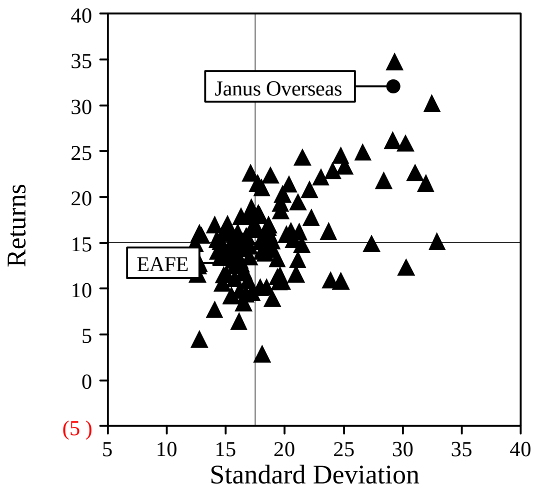
	Information Ratio	Sharpe Ratio	Excess Return Ratio
10th Percentile	0.81	0.78	0.78
25th Percentile	0.60	0.70	0.59
Median	0.34	0.56	0.30
75th Percentile	0.06	0.41	(0.03)
90th Percentile	(0.31)	0.26	(0.30)
Janus Overseas ●	0.84	0.92	0.97

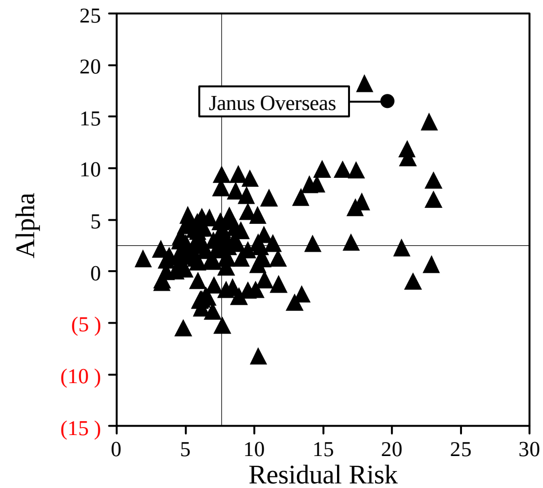
JANUS OVERSEAS
RISK ANALYSIS SUMMARY

Risk Analysis

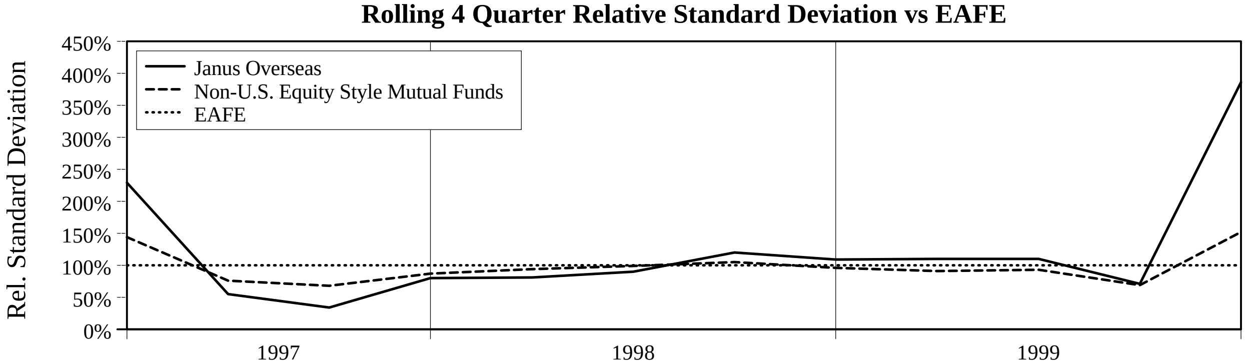
The graphs below analyze the variation or risk of the manager's return pattern. The first scatter chart illustrates the return versus risk relationship. The second scatter illustrates the manager's alpha (risk adjusted return) versus their residual risk (tracking error versus the benchmark). The third chart shows the manager's relative standard deviation versus a benchmark (a value of one means they have the same standard deviation as the benchmark). The last two charts illustrate the manager's ranking relative to their style using various risk measures.

Risk Analysis vs Non-U.S. Equity Style Mutual Funds
Five Years Ended December 31, 1999

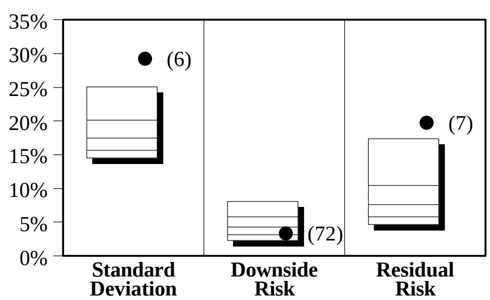




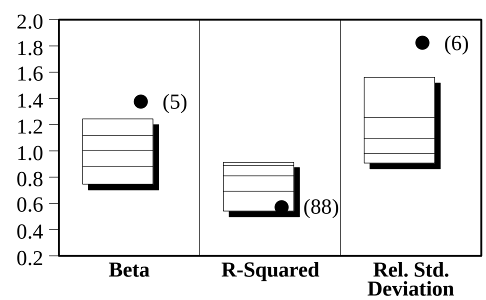
Rolling 4 Quarter Relative Standard Deviation vs EAFE



Risk Statistics Rankings vs EAFE
Rankings Against Non-U.S. Equity Style Mutual Funds
Five Years Ended December 31, 1999



	Standard Deviation	Downside Risk	Residual Risk
10th Percentile	25.08	8.14	17.34
25th Percentile	20.15	5.78	10.44
Median	17.49	4.29	7.63
75th Percentile	15.70	3.19	5.86
90th Percentile	14.56	2.32	4.65
Janus Overseas ●	29.22	3.28	19.69

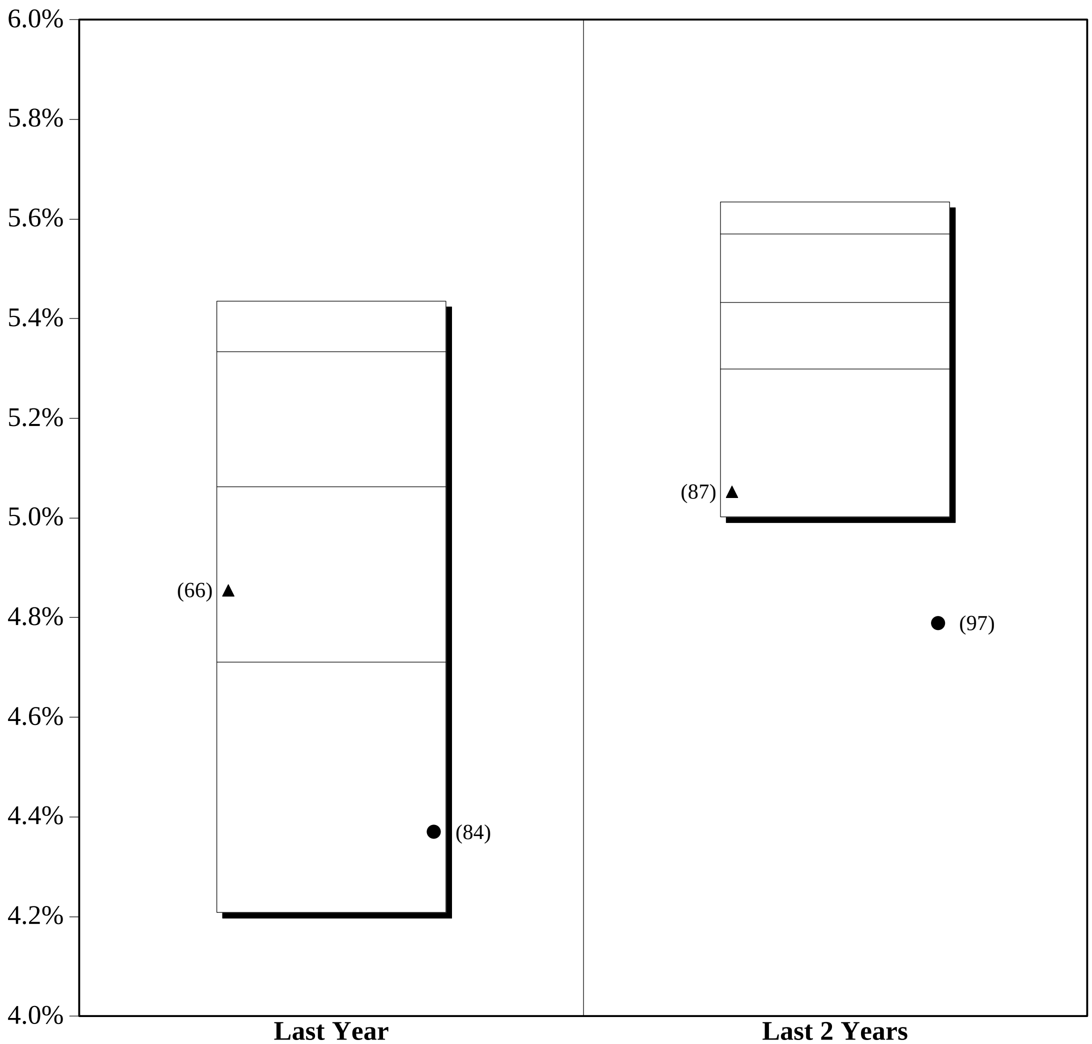


	Beta	R-Squared	Rel. Std. Deviation
10th Percentile	1.25	0.92	1.56
25th Percentile	1.12	0.89	1.26
Median	1.01	0.81	1.09
75th Percentile	0.88	0.70	0.98
90th Percentile	0.75	0.54	0.91
Janus Overseas ●	1.37	0.57	1.82

CSOBA
PERFORMANCE VS CASH DATABASE
PERIODS ENDED DECEMBER 31, 1999

Return Ranking

The chart below illustrates fund rankings over various periods versus the Cash Database. The bars represent the range of returns from the 10th percentile to the 90th percentile for each period for all funds in the Cash Database. The numbers to the right of the bar represent the percentile rankings of the fund being analyzed. The table below the chart details the rates of return plotted in the graph above.

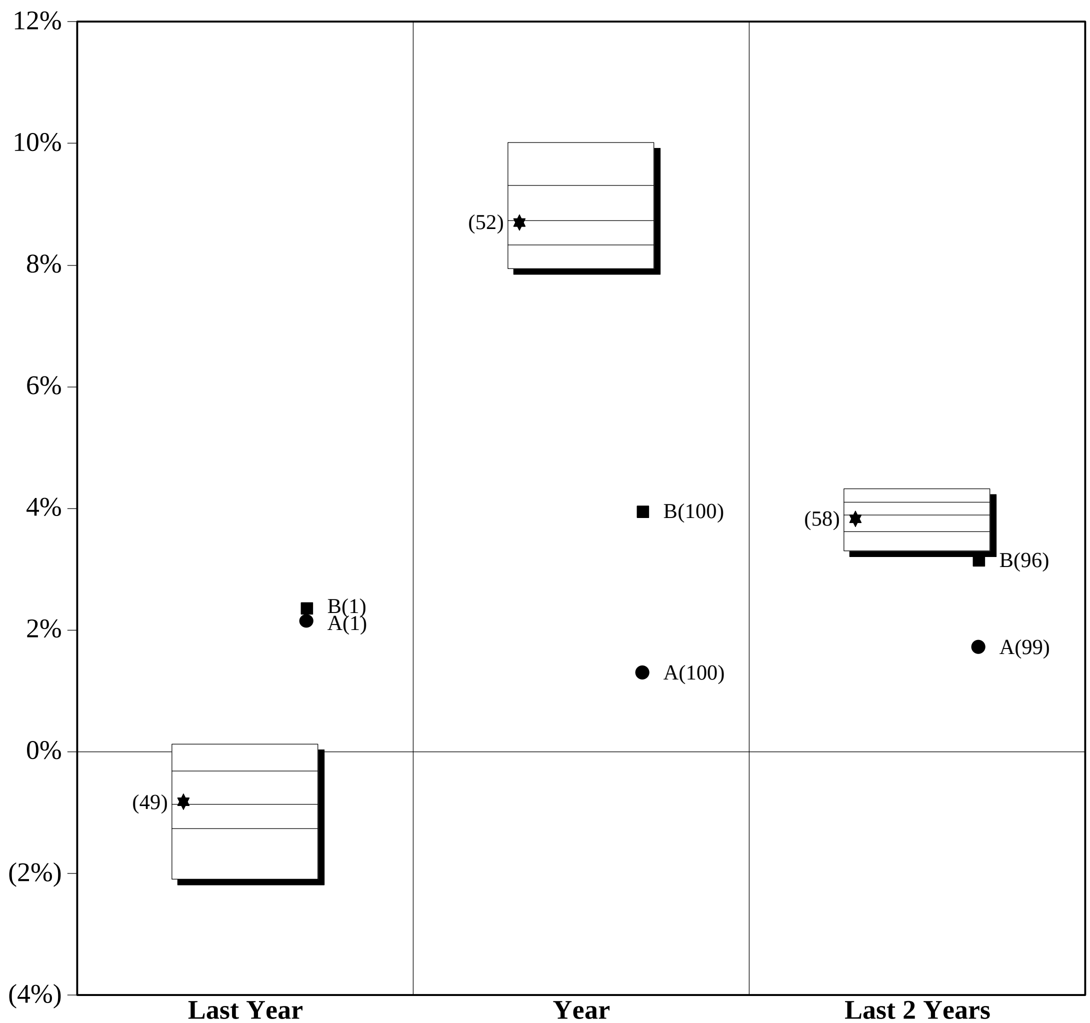


	Last Year	Last 2 Years
10th Percentile	5.44	5.63
25th Percentile	5.33	5.57
Median	5.06	5.43
75th Percentile	4.71	5.30
90th Percentile	4.21	5.00
Banc One ●	4.37	4.79
T-Bls ▲	4.85	5.05

CSOBA
PERFORMANCE VS CORE BOND FIXED-INCOME STYLE
PERIODS ENDED DECEMBER 31, 1999

Return Ranking

The chart below illustrates fund rankings over various periods versus the Core Bond Fixed-Income Style. The bars represent the range of returns from the 10th percentile to the 90th percentile for each period for all funds in the Core Bond Fixed-Income Style. The numbers to the right of the bar represent the percentile rankings of the funds being analyzed. The table below the chart details the rates of return plotted in the graph above.

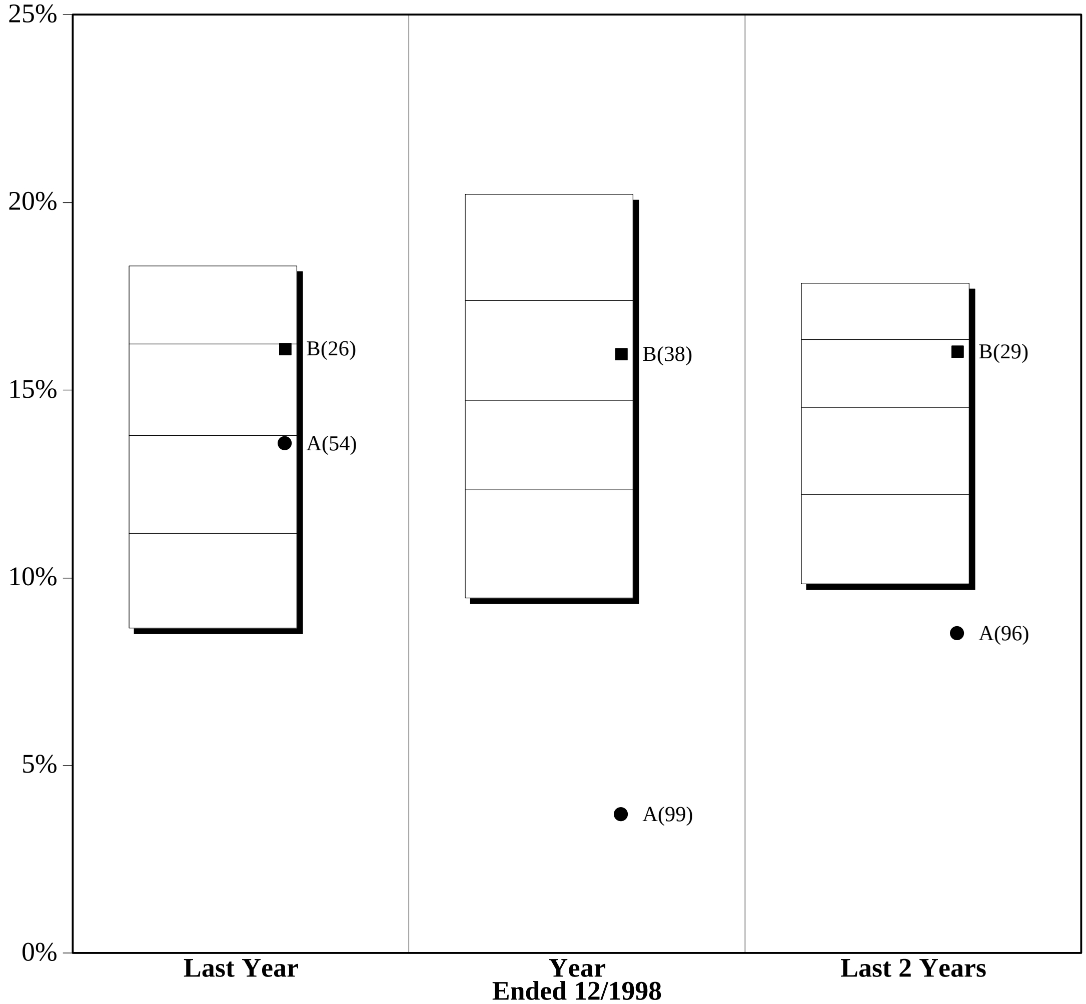


		Last Year	Year Ended 12/1998	Last 2 Years
10th Percentile		0.12	10.01	4.33
25th Percentile		(0.32)	9.31	4.10
Median		(0.86)	8.73	3.89
75th Percentile		(1.26)	8.33	3.61
90th Percentile		(2.09)	7.94	3.30
Indexed Treasuries	● A	2.15	1.30	1.72
Lehman Brothers TIPS Index	■ B	2.36	3.95	3.15
L/B Agg	✶	(0.82)	8.70	3.83

CSOBA
PERFORMANCE VS TOTAL PLAN SPONSOR DATABASE
PERIODS ENDED DECEMBER 31, 1999

Return Ranking

The chart below illustrates fund rankings over various periods versus the Total Plan Sponsor Database. The bars represent the range of returns from the 10th percentile to the 90th percentile for each period for all funds in the Total Plan Sponsor Database. The numbers to the right of the bar represent the percentile rankings of the funds being analyzed. The table below the chart details the rates of return plotted in the graph above.



	Last Year	Year Ended 12/1998	Last 2 Years
10th Percentile	18.31	20.21	17.85
25th Percentile	16.23	17.40	16.34
Median	13.79	14.73	14.54
75th Percentile	11.18	12.35	12.22
90th Percentile	8.66	9.46	9.84
Total Fund ● A	13.57	3.69	8.52
Target Index ■ B	16.09	15.96	16.02

Target Benchmark Consists of 35% S&P 500, 10% Russell 2500, 20% EAFE, and 35% Lehman Brothers TIPS Index.

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