COLORADO STUDENT OBLIGATION BOND AUTHORITY
PREPAID TUITION FUND
Denver, Colorado

FINANCIAL STATEMENTS
June 30, 2001

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COLORADO STUDENT OBLIGATION BOND AUTHORITY
PREPAID TUITION FUND

FINANCIAL AUDIT

June 30, 2001

Members of the Legislative Audit Committee:

This report contains the results of the financial and compliance audit of the Prepaid Tuition Fund of the Colorado Student Obligation Bond Authority as of June 30, 2001. This report contains the results of the audit of the Prepaid Tuition Fund of the Colorado Student Obligation Bond Authority. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of the departments, institutions and agencies of State government.

Clifton Gunderson LLP

Greenwood Village, Colorado
November 30, 2001

REPORT SUMMARY

COLORADO STUDENT OBLIGATION BOND AUTHORITY
PREPAID TUITION FUND
FINANCIAL AUDIT
FISCAL YEAR ENDED JUNE 30, 2001

Purpose and Scope

The Office of the State Auditor, State of Colorado engaged Clifton Gunderson LLP to conduct the financial audit of the Colorado Student Obligation Bond Authority Prepaid Tuition Fund (Prepaid Tuition Fund) for the fiscal year ended June 30, 2001. Clifton Gunderson LLP performed this audit in accordance with auditing standards generally accepted in the United States of America.

The purpose and scope of our audit was to express an opinion on the Prepaid Tuition Fund financial statements of the Authority as of the fiscal year ended June 30, 2001.

Audit Opinions and Reports

We expressed an unqualified opinion on the Authority's Prepaid Tuition Fund financial statement, as of and for the fiscal year ended June 30, 2001.

Summary of Key Findings and Recommendations

We identified no findings or recommendations for the fiscal year ended June 30, 2001. The prior year report for the year ended June 30, 2000 included one recommendation, which has been implemented.

Required Communication

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

Significant Audit Adjustments. Two audit adjustments were made during the completion of fieldwork.

The first adjustment was to increase contracts and benefits payable by $415,000 due to a revised actuarial report.

The second adjustment was to restate beginning retained earnings as of October 1, 1999 and for the nine months ended June 30, 2000 to account for a change in accounting principle among acceptable alternatives. The effect of this adjustment on the financial statements for the nine months ended June 30, 2000 was an increase in net income of $48,000, a decrease in the stabilization reserve of $6,785,000 and an increase in retained earnings of $6,785,000.

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

DESCRIPTION OF THE COLORADO STUDENT OBLIGATION BOND AUTHORITY PREPAID TUITION FUND

Organization

The Colorado General Assembly established a student obligation bond program, a post secondary education expense program, and a college savings program, which are administered by the Colorado Student Obligation Bond Authority. The programs assist residents in meeting the expenses incurred in availing themselves of higher education opportunities.

Colorado Prepaid Tuition Fund

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

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

Clifton Gunderson LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Members of the Legislative Audit Committee

We have audited the accompanying balance sheet of the Colorado Student Obligation Bond Authority, Prepaid Tuition Fund as of June 30, 2001, and the related statements of revenue, expenses and changes in retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Colorado Student Obligation Bond Authority, Prepaid Tuition Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of and for the nine month period ended June 30, 2000 prior to the restatement explained in Note 11 were audited by other auditors whose report dated October 6, 2000, expressed an unqualified opinion on those financial statements.

We also audited the adjustments described in Note 11 that were applied to restate the financial statements for the nine month period ended June 30, 2000. In our opinion, such adjustments are appropriate and have been properly applied.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Colorado Student Obligation Bond Authority, Prepaid Tuition Fund as of June 30, 2001 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the financial statements, the Prepaid Tuition Fund changed its method of accounting for the stabilization reserve.

Clifton Gunderson LLP

Greenwood Village, Colorado
September 21, 2001

COLORADO STUDENT OBLIGATION BOND AUTHORITY
PREPAID TUITION FUND
BALANCE SHEET
JUNE 30, 2001 AND 2000
(dollar amounts expressed in thousands)

	2001	2000
Assets:		
Cash deposits	$ 138	$ 25
Investments	51,763	52,571
Advance payment contract receivables	28,618	35,469
Interest receivable	332	227
Other assets, net	1,859	1,999
Total assets	$ 82,710	$ 90,291
Liabilities and Retained Earnings:		
Accounts payable and accrued expenses	$ 87	227
Due to Student Loan Program Funds	1,901	2,191
Contracts and benefits payable	79,715	77,937
Total liabilities	81,703	80,355
Retained earnings – restricted	1,007	9,936
Total liabilities and retained earnings	$ 82,710	$ 90,291

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

COLORADO STUDENT OBLIGATION BOND AUTHORITY
PREPAID TUITION FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE PERIOD ENDED JUNE 30
(dollar amounts expressed in thousands)

	Year Ended June 30, 2001	Nine Months Ended June 30, 2000
Revenues:		
Contract income	$ 1,736	$ 3,139
Net investment income	2,710	663
Net appreciation (depreciation) in fair value of investments	(7,741)	5,645
Total revenues	(3,295)	9,447
Expenses:		
Contracts and benefits expense	4,406	6,110
Marketing	396	597
Amortization of software costs	258	187
Salaries and benefits	251	304
General and administrative expenses	164	318
Professional services	159	181
Total expenses	5,634	7,697
Net income (loss)	(8,929)	1,750
Retained earnings, beginning of period	9,936	8,186
Retained earnings, end of period	$ 1,007	$ 9,936

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

COLORADO STUDENT OBLIGATION BOND AUTHORITY
PREPAID TUITION FUND
STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED JUNE 30
(dollar amounts expressed in thousands)

	Year Ended June 30, 2001	Nine Months Ended June 30, 2000
Cash Flows from Operating Activities:		
Cash receipts from advance payment contracts	$ 9,012	$ 9,967
Cash distributions for advance payment contracts	(3,044)	(3,610)
Cash payments to suppliers for goods and services	(1,158)	(1,015)
Cash payments to employees for service	(251)	(304)
Net cash provided by operating activities	4,559	5,038
Cash Flows from Investing Activities:		
Redemptions (purchases) of investments	(12,554)	824
Income received from investments	2,605	601
Net cash (used) provided by investing activities	(9,949)	1,425
Cash Flows from Capital Financing Activities:		
Purchase of other assets	(118)	-
Net cash used in capital financing activities	(118)	-
Increase (decrease) in cash and cash equivalents	(5,508)	6,463
Cash and cash equivalents, beginning of period	6,933	470
Cash and cash equivalents, end of period	$ 1,425	$ 6,933

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

COLORADO STUDENT OBLIGATION BOND AUTHORITY
PREPAID TUITION FUND
STATEMENT OF CASH FLOWS (continued)
FOR THE PERIOD ENDED JUNE 30
(dollar amounts expressed in thousands)

	Year Ended June 30, 2001	Nine Months Ended June 30, 2000
Reconciliation of net income to net cash provided by operating activities:		
Net income (loss)	**$ (8,929)**	$ 1,750
Item reflected as investing activities:		
Income received from investments	**(2,605)**	(601)
Adjustments to reconcile net income to net cash provided by operating activities:		
Net (appreciation) depreciation of fair value of investments	**7,741**	(5,645)
Amortization of other assets	**258**	187
Changes in operating assets and liabilities:		
Advance payment contract receivables	**6,851**	6,059
Interest receivable	**(105)**	(192)
Accounts payable and accrued expense	**(140)**	(115)
Due to Student Loan Program Funds	**(290)**	(157)
Contracts and benefits payable	**1,778**	3,752
Net cash provided by operating activities	**$ 4,559**	$ 5,038

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

COLORADO STUDENT OBLIGATION BOND AUTHORITY
PREPAID TUITION FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000

1. Organization and Summary of Significant Accounting Policies:

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

The Colorado General Assembly established a student obligation bond program (Student Loan Program Funds), a post secondary education expense program (Prepaid Tuition Fund), and a college savings program (Scholars Choice Fund) which are administered by the Authority. The mission of the Authority is to provide innovative, quality financial resources and services that enable all Coloradans to pursue higher education. The operations of the programs of the Authority are accounted for under generally accepted accounting principles. The Authority receives no grants from, and is not otherwise financially assisted by, the State or any local government of the State. The Authority is an enterprise under Section 20, Article X of the Colorado Constitution.

Prepaid Tuition Fund

The Prepaid Tuition Fund was established in 1997 to provide families with an opportunity to save for future college education expenses. The Prepaid Tuition Fund offers an annual enrollment period for purchasers to buy prepaid tuition contracts. The Prepaid Tuition Fund offers certain federal and state tax advantages to investors.

The Prepaid Tuition Fund is designed to keep pace with average tuition inflation in Colorado. A purchaser buys tuition units based on current average tuition levels and the investment is valued and paid out at the level of average tuition or an average minimum of 4% per year (when held until the first payout date), whichever is greater, at the time of payout. Average tuition is determined annually by the Prepaid Tuition Fund by adding (1) the sum of the applicable year's resident, undergraduate, general full-time tuition at all Colorado public four-year colleges and universities, to (2) the average full-time tuition at the State community colleges for that year. Full-time tuition equates to the tuition charged for the equivalent of fifteen credit hours for each of two semesters. The total of (1) and (2) above is then divided by the number of Colorado public four-year colleges and universities in existence at such time plus one for the State community colleges.

A purchaser sets a tuition unit goal for the portion of average tuition she or he wishes to buy based on her or his anticipated need to pay actual tuition and other eligible expenses, such as fees, books and supplies, and room and board. If a purchaser buys an amount equal to one year of average tuition and the student attends a school with tuition less than the average tuition, the difference may be used for other eligible expenses. If the student attends a college with tuition more than the average tuition, the student must pay the difference. A purchaser's investment is valued in dollars at the time of pay out based on average tuition or an average minimum of 4% per year (when held until the first payout date), whichever is greater, calculated at that time, regardless of whether the student attends an in-state or out-of-state college or university. The purchaser does not select a specific school at the time of investment. A purchaser can use amounts paid from the Prepaid Tuition Fund to pay for eligible expenses at private and public colleges, universities and vocational schools throughout the United States.

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

Prepaid Tuition Fund (continued)

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

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

In accordance with the Colorado Revised Statutes 23-3.1-206.7(5)(d), if it is determined that the Prepaid Tuition Fund is not actuarially sound as determined by an annual actuarial valuation, then the operations of the Prepaid Tuition Fund may be terminated, and all contracts thereby cancelled. If it is determined that the Prepaid Tuition Fund is not financially sound as determined by an annual audit, then the Prepaid Tuition Fund may discontinue permanently or for a period of time may suspend that particular aspect of the Prepaid Tuition Fund and the execution of additional contracts. Likewise, if it is determined that an excess amount exists in the Prepaid Tuition Fund, the Authority would calculate the portion of such excess that would be attributable on a pro rata basis to each tuition unit.

Reporting Entity:

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

Budgets and Budgetary Accounting:

By statute, the Authority and the Prepaid Tuition Fund are continuously appropriated through user charges. Therefore, the budget is not legislatively adopted and a Statement of Revenues and Expenses – Budget to Actual is not a required part of these financial statements. Total budgeted expenses for the Prepaid Tuition Fund for the fiscal year ended June 30, 2001 were $6,469,000, compared to actual expenses of $5,753,000.

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

Budgets and Budgetary Accounting (continued):

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

Basis of Accounting:

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles and standards of the Governmental Accounting Standards Board (GASB). The Prepaid Tuition Fund has applied pronouncements issued on or before November 30, 1989 by the Financial Accounting Standards Board, the Accounting Principles Board, and the Committee on Accounting Procedure, except for pronouncements that conflict with or contradict those of the GASB.

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

Cash and Cash Equivalents:

The Prepaid Tuition Fund considers all cash, demand deposit accounts, money market accounts, and investments purchased with maturities of three months or less to be cash equivalents.

Investments:

Investments are carried at fair value, which are primarily determined based on quoted market prices at June 30, 2001 and 2000.

Advance Payment Contract Receivables:

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

Other Assets:

Other assets include costs for software development and are carried at cost, less accumulated amortization. Amortization is calculated on the straight-line method over ten years.

Compensated Absences:

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

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

Due to Student Loan Program Funds:

The Board has authorized the Administrative Fund of the Authority to advance the Prepaid Tuition Fund monies for costs of software development. The advance will be repaid without interest through 2008.

Contracts and Benefits Payable/Expense:

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

Retained Earnings:

Retained earnings are restricted for the purpose of meeting future payments for higher education expenses as stipulated by the Colorado Revised Statutes 23-3.1-206.7(5)(a) and as agreed to in the advance payment contracts.

Revenue Recognition:

The Prepaid Tuition Fund utilizes the deposits method of accounting. Advance payment contracts are recorded gross with the cash or receivable offset by contracts and benefits payable with no effect on net income.

Expense Limitation:

Beginning in the fiscal year ended June 30, 2001, the annual administrative expenses of the Prepaid Tuition Fund (excluding contracts and benefits expense and amortization of software costs) is limited by the Colorado Revised Statutes 23-3.1-206.7(5)(e)(I) to 1% of the contract commitment. For the fiscal year ended June 30, 2001, the Prepaid Tuition Fund was in compliance with this requirement.

Reclassifications:

Certain amounts in the June 30, 2000 financial statements have been reclassified to conform to the current year's presentation.

Use of Estimates:

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

2. Cash Deposits and Investments:

Investment Authority:

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

- The aggregate amount of monies invested in corporate stocks or corporate bonds, notes or debentures that are convertible into stock cannot exceed 60% of the market value of investable assets.
- No investment in common or preferred stock (or both) of any corporation can exceed 5% of the market value of investable assets.
- The fund cannot acquire more than 5% of the outstanding stock or bonds of any single corporation.

The above limitations and the Prepaid Tuition Fund's diversification over several asset classes are intended to reduce the overall investment risk exposure. The Prepaid Tuition Fund has not exceeded any of these limitations as of June 30, 2001 and 2000.

Cash Deposits:

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

Cash deposits as of June 30 are as follows:

	2001	2000
Demand deposit accounts – insured by FDIC	**$ 43,000**	$25,000
Demand deposit accounts - collateralized	**95,000**	-
Total Cash Deposits	**$138,000**	$25,000

The carrying amount and bank balance of demand deposit accounts was $138,000 and $176,000 as of June 30, 2001 and $25,000 and $25,000 as of June 30, 2000, respectively.

Investments:

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

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

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

2. Cash Deposits and Investments (continued):

Investments (continued):

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

The Board approves the investment policy for the Prepaid Tuition Fund. Generally, investments include direct obligations of the U.S. government and its agencies, bankers acceptances, commercial paper, money market funds, repurchase agreements, bond and equity mutual funds. With respect to these investments, the Prepaid Tuition Fund is subject to market risk, which represents the exposure to changes in the market, such as a change in interest rates or a change in price or principal value of a security. Credit risk is the exposure to the default of the issuer of the investment securities.

Investments in the State Treasurer's cash pool, money market funds, and mutual funds are not categorizaed because they are not evidenced by securities that exist in physical or book entry form. Investments are stated at fair value.

Investments as of June 30 are as follows:

	Category of Credit Risk			**2001**	2000
	No. 1	No. 2	No. 3	**Total Fair Value**	Total Fair Value
	(dollar amounts in thousands)				
U.S. government securities	$ 26,462	$ -	$ -	**$ 26,462**	$ 14,287
Plus uncategorized investments -					
Mutual funds				**23,994**	38,284
State Treasurer's cash pool				**1,307**	-
Total Investments	$ 26,462	$ -	$ -	**$ 51,763**	52,571

Cash deposits and investments are reflected for the June 30, 2001 and 2000 in the statement of cash flows as follows:

	2001	2000
	(dollar amounts in thousands)	
Cash and cash equivalents	**$ 1,425**	$ 6,933
Investments	**50,476**	45,663
Total Cash, Cash Equivalents and Investments	**$ 51,901**	$ 52,596

3. Advance Payment Contract Receivables:

Purchasers enter into advance payment contracts for a number of tuition units. The Prepaid Tuition Fund will value and pay out the tuition units based on future average tuition to the designated student when he or she attends a college of his or her choice. These contracts may be purchased with a one-time lump sum payment, a monthly payment plan, or a combination plan. The monthly payment plan allows the purchaser to determine the monthly payment amount and the number of payments the purchaser wishes to make. The combination plan allows the purchaser to begin paying with a lump sum payment and his or her first monthly payment, followed by subsequent monthly payments. Monthly payment plans are generally for full term (from the contract date until at least three months before the scheduled payout date), five years, or ten years. The full term monthly payment plan has a preset number of months based on the payout year. The full term monthly payment plans range from 40 months for payout year 2003 to 201 months for payout year 2019. Contracts for monthly payment plans generally provide for payment of a contract base price and a charge for paying over time (at an approximate effective rate of 6.78%). Advance payment contract receivables are $28,618,000 and $35,469,000 as of June 30, 2001 and 2000, respectively.

4. Other Assets:

Other assets as of June 30 are as follows:	**2001**	2000
	(dollar amounts in thousands)	
Software development costs	**$ 2,618**	$ 2,500
Less accumulated amortization	**(759)**	(501)
Other Assets, Net	**$ 1,859**	$ 1,999

5. Contracts and Benefits Payable:

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

COLORADO STUDENT OBLIGATION BOND AUTHORITY
PREPAID TUITION FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2001 AND 2000

5. Contracts and Benefits Payable (continued):

As of June 30:	2001	2000
	(dollar amounts in thousands)	
APV of Future Contracts and Benefits Payable	**$ 79,715**	$ 77,937
Net Assets are as follows:		
Cash deposits	**$ 138**	25
Investments	**51,763**	52,571
Advance payment contract receivables	**28,618**	35,469
Interest receivable	**332**	227
Other assets, net	**1,859**	1,999
Less		
Accounts payable and accrued expenses	**(87)**	(227)
Due to Student Loan Program Funds	**(1,901)**	(2,191)
Net Assets	**$ 80,722**	$ 87,582
Excess Assets	**$ 1,007**	$ 9,936
Net Assets as a Percentage of Contracts and Benefits Payable	**101%**	113%

The following assumptions developed by the actuary were used in the actuarial valuation as of June 30, 2001 and 2000. The actuary has developed assumptions for future periods based on historical data both for the State and national trends.

Investment rates — The investment yield assumption is based on estimates of the yields that will be available on the investment portfolio and cash. Starting July 1, 2001, the investment yield assumption will be 7.5% per year. For the period from inception to June 30, 2001, the annualized yield on investments and advance payment contract receivables has been 2.4%.

Tuition increases — Tuition increases are based on the current best estimate of future tuition increases for Colorado public four-year colleges and universities in existence at such time plus the State community colleges. Starting July 1, 2001, the tuition increases assumption will be 5.5% per year. For the period from inception to June 30, 2001, the annualized tuition increase has been 3.1%.

6. Retirement Plan:

Plan Description

Virtually all of the Authority's employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203.

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

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

Funding Policy

Most employees contribute 8.0% (10.0% for state troopers) of their gross covered wages to an individual account in the plan.

During FY00-01, the state contributed 10.4% (13.1% for state troopers and 14.0% for the Judicial Branch) of the employee's gross covered wages which was allocated by PERA before January 1, 2001, as follows:

- 1.1% was allocated to the Health Care Trust Fund.
- 9.3% was allocated to the defined benefit plan.

After January 1, 2001, the state contribution was allocated to three separate programs by PERA according to a statutory change in funding policy:

- 1.42% was allocated to the Health Care Trust Fund.
- The amount needed to meet the match requirement established by the PERA Board was allocated to the Matchmaker program (See Note 7 below).

6. Retirement Plan (continued):

Funding Policy (continued)

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

The annual gross covered wages subject to PERA is the gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code. The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly.

The Authority's contribution to the three programs described above for the fiscal year ending June 30, 2001 and for the nine months ended June 30, 2000 was $21,000 and $1,000 respectively. This contribution met the contribution requirements for each year.

7. Voluntary Tax-deferred Retirement Plans:

Beginning on January 1, 2001, the Matchmaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. The match was 100% of up to 3% of the employee's gross covered wages paid during the month (7% for judges in the Judicial Branch). The PERA Board sets the level of the match annually – based on the actuarial funding of the defined benefit pension plan. Two percent of gross salary plus 50% of any reduction in the overall contribution rate due to overfunding of the pension plan was available for the match. PERA offers a voluntary 401k plan entirely separate from the defined benefit pension plan. The state offers a 457 deferred compensation plan and certain agencies and institutions of the state offer a 403b plan. Members who contribute to any of these plans also receive the state match.

8. Postretirement Health Care and Life Insurance Benefits:

Healthcare Program

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During FY 00-01, the premium subsidy was $115.00 for those with 20 years of service credit ($230 for members under age 65), and it was reduced by 5% for each year of service fewer than 20. Medicare eligibility also affects the premium subsidy.

The Health Care Trust Fund is maintained by an employer's contribution as discussed above in Note 6.

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. As of December 31, 1999 there were 31,266 participants, including spouses and dependents, from all contributors to the plan.

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

Life Insurance Program

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

10. Risk Management:

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

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

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

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

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

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

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

11. Restatement:

Beginning retained earnings as of October 1, 1999 and for the nine months ended June 30, 2000 has been restated to account for a change in accounting principle among acceptable alternatives.

	Amount Previously Reported	Amount of Change	Restated Amount
Retained Earnings	$1,449,000	$6,737,000	$8,186,000
Stabilization reserve	6,785,000	(6,785,000)	-
Net income	1,702,000	48,000	1,750,000
	$9,936,000	$ -	$9,936,000

The Fund had established a stabilization reserve designed to minimize the effect on the Fund of significant tuition increases and/or low investment returns. In prior years the stabilization reserve was reflected as deferred revenue to be recognized as revenue when distributions are made to colleges or universities for contract benefit expenses. Since the deferred revenue – stabilization reserve is considered to be part of the actuarial surplus and not a liability by the Fund's actuary, the Fund changed its method of accounting to more clearly reflect its financial position.

The stabilization reserve is now considered to be part of retained earnings. The stabilization component of the contract price is now reflected as part of the contract and benefit liability which is adjusted annually for the effects of projected tuition increases and investment returns. From an actuarial viewpoint, there was no change in the actuarial surplus as the only change was presentation. The effect on income for the years presented was minimal.

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