

**COLORADO STUDENT OBLIGATION BOND AUTHORITY
SCHOLARS CHOICE FUND
Denver, Colorado**

**FINANCIAL STATEMENTS
June 30, 2001**

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TABLE OF CONTENTS

	PAGE
REPORT SUMMARY	1
FINANCIAL AUDIT REPORT SECTION	
Description of the Colorado Student Obligation Bond Authority – Scholars Choice Fund	2
INDEPENDENT AUDITOR’S REPORT	4
Scholars Choice Fund Statement of Fiduciary Net Assets	5
Scholars Choice Fund Statement of Changes in Fiduciary Net Assets	6
Scholars Choice Fund Notes to Financial Statements.....	7
SUPPLEMENTARY INFORMATION	14
Combining Statement of Fiduciary Net Assets	15
Combining Statement of Changes in Fiduciary Net Assets	16
Combining Schedule of Investments.....	17
Distribution	18



Members of the Legislative Audit Committee:

This report contains the results of a financial audit of the Scholars Choice Fund of the Colorado Student Obligation Bond Authority for the Fiscal Year ended June 30, 2001. This report presents our conclusions, findings and recommendations and the responses of the 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

Denver, Colorado
January 5, 2002

**COLORADO STUDENT OBLIGATION BOND AUTHORITY
SCHOLARS CHOICE 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 Scholars Choice Fund (Scholars Choice 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 Scholars Choice 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 Scholars Choice 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 recommendations which has been fully implemented and one recommendation that has been partially implemented.

Required Communication

Management Judgments and Accounting Estimates. There were no significant accounting estimates of financial data which would be particularly sensitive and require substantial judgment by management.

Significant Audit Adjustments. There were no audit adjustments.

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
SCHOLARS CHOICE 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.

Scholars Choice Fund

The Scholars Choice Fund was established in October 1999 to provide families with an opportunity to save for future college education expenses. The Program provides an opportunity to invest on a tax-favored basis toward the “qualified higher education expenses” of a designated beneficiary (the Student) associated with attending an institution of higher education. These institutions include most community colleges, public and private four-year colleges, universities, graduate and post-graduate programs, and certain proprietary and vocational schools. “Qualified higher education expenses” include tuition, fees, books, supplies, and equipment required for the enrollment or attendance of a Student at an eligible institution of higher education plus, subject to certain limitations, room and board expenses for a student attending such an institution on at least a half time basis.

The Scholars Choice Fund had more than 10,194 active accounts as of June 30, 2001. Officials at the Authority oversee the Fund but contract with a private financial service firm, Salomon Smith Barney, Inc., to manage the Fund.

Scholars Choice accounts can be opened any time during the year. At the time an account is established, the purchaser must select from three investment options; once an investment plan is chosen, the purchaser may not change plans or direct the investments in any way. Below are the five investment options.

- **Age Based Option** – Contributions are invested in a series of portfolios over time. As the beneficiary gets older and closer to college age, the fund manager automatically moves investments from higher risk portfolios to lower risk portfolios.
- **Balanced Option** – Contributions are invested in a portfolio with a median degree of risk, with 50% invested in stocks and 50% invested in bonds.
- **Years-to-Enrollment Option** – Contributions are invested in a series of portfolios depending on the time to account for maturity, similar to the age based option, but with a more limited, lower risk, range of portfolios.

- **All Equity Option** – Contributions are invested in equity mutual funds throughout the life of the account. This option carries the highest potential for risk and return through its focus on the equity markets.
- **Fixed Income Portfolio** – Contributions are invested in bond funds throughout the life of the account. This option seeks stable returns on fixed income investments.

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

**DISPOSITION OF PRIOR AUDIT
RECOMMENDATIONS**

Recommendation

The Authority should evaluate its indirect cost allocation methodology to ensure each program bears a fair share of the indirect costs in reasonable relation to the benefits received from the costs. Also, direct salaries and benefits should be evaluated each month to ensure allocation percentages used continue to reflect actual time spent.

Disposition

Implemented. The new methodology adopted by the Planning and Budget Committee is to allocate indirect costs to the programs based on direct salaries and related expenses of each program. All expenses are reviewed on an annual basis to determine if the direct salaries allocation method is appropriate.

In order to ensure its fiduciary responsibilities are met, the Authority should enhance its current procedures to ensure Salomon Smith Barney, Inc.(SSB), complies with all contract provisions and has proper controls in place to safeguard assets.

Partially implemented. The Authority receives monthly statements from SSB assuring that the contribution limitations imposed have not been exceeded by any participants. The Authority has appropriated monies for site visits which will be completed during fiscal year 2002. As of July 1, 2001, SSB subcontracted accounting and custodial functions to State Street Bank. State Street Bank receives a SAS 70 Type II report which reports on the internal controls and the operating effectiveness of the controls. Recommendation to be fully implemented by June 30, 2002.



Independent Auditor's Report

Members of the Legislative Committee

We have audited the accompanying statement of fiduciary net assets of the Colorado Student Obligation Bond Authority - Scholars Choice Fund as of June 30, 2001, and the related statement of changes in fiduciary net assets for the year then ended. These financial statements are the responsibility of the Colorado Student Obligation Bond Authority - Scholars Choice Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The financial statements of the Colorado Student Obligation Bond Authority - Scholars Choice Fund as of and for the nine month period ended June 30, 2000 were audited by other auditors whose report dated February 9, 2001 expressed an unqualified opinion on those financial statements.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of Colorado Student Obligation Bond Authority - Scholars Choice Fund as of June 30, 2001, and the changes in net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for the purposes of additional analysis and is not a required part of the basic financial statements of the Colorado Student Obligation Bond Authority - Scholars Choice Fund. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Clifton Gunderson LLP

Denver, Colorado
October 24, 2001

**COLORADO STUDENT OBLIGATION BOND AUTHORITY
SCHOLARS CHOICE FUND
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2001 AND 2000**

	2001	2000
Fiduciary assets:		
Cash and cash equivalents	\$ 141,375	\$ 219,939
Investments, at fair value	70,950,187	36,084,590
Receivable for portfolio units sold	981,856	301,545
Dividends and interest receivable	177,833	100,508
Total fiduciary assets	72,251,251	37,706,582
Liabilities:		
Payable for investments purchased	606,603	-
Service and administration fees payable	34,885	17,479
Total liabilities	641,488	17,479
Total fiduciary net assets	\$ 71,609,763	36,689,103

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

**COLORADO STUDENT OBLIGATION BOND AUTHORITY
SCHOLARS CHOICE FUND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE PERIOD ENDED JUNE 30**

	Year Ended June 30, 2001	Inception to June 30, 2000
Additions:		
Gross earnings on investments:		
Dividends	\$ 3,190,451	\$ 723,983
Interest	11,096	2,129
Net realized and unrealized loss from security transactions	<u>(3,645,562)</u>	<u>(52,668)</u>
	(444,015)	673,444
Less investment fees	<u>(351,725)</u>	<u>(91,102)</u>
Net investment income (loss)	(795,740)	582,342
 Participant contributions	 <u>39,022,670</u>	 36,674,686
Total additions	 <u>38,226,930</u>	 <u>37,257,028</u>
Deductions:		
Benefits paid to participants and withdrawals	2,998,536	489,253
Administrative fees	153,360	39,482
Service fees	<u>154,374</u>	<u>39,190</u>
Total deductions	 <u>3,306,270</u>	 <u>567,925</u>
Net change in fiduciary net assets	34,920,660	36,689,103
Fiduciary net assets, beginning of period	<u>36,689,103</u>	-
Fiduciary net assets, end of period	<u>\$ 71,609,763</u>	<u>\$ 36,689,103</u>

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

**COLORADO STUDENT OBLIGATION BOND AUTHORITY
SCHOLARS CHOICE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000**

1. Organization and Summary of Significant Accounting Policies:

Pursuant to Colorado Revised Statutes 23-3.1-2 and 23-3.1-3, as amended, the Colorado Student Obligation Bond Authority (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 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 college savings program, operating as the Scholars Choice Fund (Fund), of the Authority are accounted for under generally accepted accounting principles as a private-purpose trust. 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 activity under Section 20, Article X of the Colorado Constitution.

Scholars Choice Fund

The Fund was established to provide families with an additional opportunity to save for future college education expenses. The Fund, which was formed during the 1999 legislative session, began operations on October 19, 1999. As a Section 529 plan under the Internal Revenue Code, the Fund offers certain federal and state tax advantages to investors. The primary tax advantages include tax deferral of investment earnings and distributions taxed at the student's tax rate if used for qualified higher education expenses.

As the trustee for the Fund, the Authority has entered into an agreement with Salomon Smith Barney, Inc. (SSB), a subsidiary of Citigroup Inc., to manage the Fund. The investment return for the Fund is based on the market performance of investments selected by its manager. Participants may invest in one or more of the following options:

- **Age-based Portfolios:** Contributions are invested in one of seven portfolios according to the age of the student. As the student gets older and closer to college years, the investment shifts from equity funds, which offer greater growth potential but increased volatility, to more stable bond and money market funds as follows:

Student's Age	Portfolio #	Equity Funds	Bond Funds	Money Market Funds
0-3 years	1	80%	20%	0%
4-6 years	2	70%	30%	0%
7-9 years	3	60%	40%	0%
10-12 years	4	50%	50%	0%
13-15 years	5	40%	50%	10%
16-18 years	6	20%	55%	25%
19+ years	7	10%	60%	30%

**COLORADO STUDENT OBLIGATION BOND AUTHORITY
SCHOLARS CHOICE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000**

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

Scholars Choice Fund (continued)

- **Balanced Portfolio:** Contributions are invested 50% in equity mutual funds and 50% in bond funds throughout the life of the investment (Portfolio #4). The Balanced Portfolio may be appropriate for account owners who wish to maintain a more consistent level of risk throughout the life of their investment.
- **Years to enrollment Portfolios:** Contributions are invested in a series of portfolios that shift from equity mutual funds to bond and money market funds as the student approaches school years. This option may be suitable for adults planning to return to college or graduate school. These portfolios are identical to Portfolios 3 through 7 in the Age-based Portfolios.

Years to Enrollment	Portfolio #	Equity Funds	Bond Funds	Money Market Funds
10-12 years	3	60%	40%	0%
7-9 years	4	50%	50%	0%
4-6 years	5	40%	50%	10%
1-3 years	6	20%	55%	25%
Less than 1 year	7	10%	60%	30%

Beginning on October 1, 2000, the following two investment options were added:

- **All Equity Portfolio:** Contributions are invested in equity mutual funds throughout the life of the account. Because of its focus on the equity markets, this options carries the highest return potential of the Scholars Choice options. It is only appropriate for account owners with longer time horizons who are comfortable with an increased level of risk while seeking higher long-term returns, or who use this option as part of an overall college savings strategy that includes less aggressive investments.
- **Fixed Income Portfolio:** Contributions are invested in bond funds throughout the life of the account. This option may be appropriate for account owners who are seeking the typically more stable returns of a fixed income investment, and who are willing to give up the long-term return potential that the stock market has historically offered. It may also be appropriate as part of an overall college savings strategy that includes more aggressive investments.

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

**COLORADO STUDENT OBLIGATION BOND AUTHORITY
SCHOLARS CHOICE FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2001 AND 2000**

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

Reporting Entity:

The Fund was established to account for operations of a private-purpose trust, where both principal and earnings on principal may be spent for the trust's intended purpose. Participant contributions and the earnings thereon are invested to meet the obligations for future higher education expenses of a named student. The payment of general and administrative expenses and other activities of the Fund necessary to fulfill its purposes are recorded within this fund. There are no other funds of the Authority combined in the accompanying financial statements. Thus, the accompanying financial statements are not intended to present the financial position, results of operations, and cash flows of the Authority as a whole in conformity with generally accepted accounting principles.

The Fund is comprised of nine active portfolios as of June 30, 2001. The accompanying financial statements report on the combined portfolios.

Basis of Accounting:

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles and standards of the Governmental Accounting Standards Board (GASB). The accrual basis of accounting is utilized by the Fund. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period they are incurred.

Investments and Revenue Recognition:

SSB has responsibility for investing the assets of each of the Fund's portfolios in equity mutual funds, fixed income mutual funds, money market funds, and other investments (Underlying Funds) in accordance with the Authority's Investment Policy Statement, and the Portfolio selected for investment by the participant.

Security transactions are accounted for on a trade date basis. Investments in the Underlying Funds are valued at the closing net asset value per share of each Underlying Fund on the day of valuation. Income distributions and short-term capital gain distributions from the Underlying Funds are recorded on the ex-dividend date as investment income and interest income is recorded on an accrual basis. Long-term capital gains, if any, from the Underlying Funds are recorded on the ex-dividend date as realized gains. Gains or losses on the sale of the Underlying Funds are calculated by using the specific identification method.

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

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

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

Participant Contributions:

The combined maximum amount of aggregate contribution for the Fund and all other Colorado Section 529 programs (including the Prepaid Tuition Fund, which also is offered by the Authority) for a particular student from all sources is \$150,000. The maximum contribution limit is subject to change. In particular, if the Internal Revenue Service adopts final regulations, they may require or permit a maximum contribution limit that differs from the \$150,000 contribution limit set under the Fund. In such event, participants may be required to reduce the contribution level by making non-qualified withdrawals, which could be subject to the applicable penalty and taxes.

Withdrawals:

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.

Investment, Service and Administrative Fees:

The Authority has entered into a service agreement (Agreement) with SSB, pursuant to which SSB provides administrative, record keeping, marketing and investment management services to the Fund. According to the Agreement, each portfolio is charged no more than 0.99% annually of its average daily net assets for SSB's service fees. Such fees are payable to SSB monthly, solely from the earnings of the Fund.

Additionally, the Agreement allows for administrative fees, as shown in the Statement of Changes in Fiduciary Net Assets, which represent charges to the Scholars Choice Fund for actual administrative costs of the Authority, not to exceed 0.30% annually of the average daily net assets of each portfolio. Such fees are payable to the Authority monthly, solely from the earnings of the Fund.

Tax Exempt Status:

The income generated by the Authority, as a division of the State, is excluded from federal income taxes under section 115(a) of the Internal Revenue Code. Income generated from activities unrelated to the Authority's exempt purpose is subject to tax under Internal Revenue Code section 511.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY
SCHOLARS CHOICE FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2001 AND 2000**

2. Cash, Cash Equivalents and Investments:

Cash and Cash Equivalents:

As contributions are received from participants, SSB holds the cash in the Fund until such time as it may be invested in the Underlying Funds of the chosen investment Portfolios. Depending upon the timing of the cash receipts, there could be a few days delay between the actual receipt of cash and the investment made on behalf of the participant.

Investments:

For government entities, GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*, specifies reporting of investments into the following three categories of credit risk:

- (1) Insured or registered, or securities held by the Fund or its agent in the Fund's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Fund's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Fund's name.

At June 30, 2001 and 2000, all of the Fund's investments were uncategorized because they are not evidenced by securities that exist in physical or book entry form. With respect to these investments, the Fund is subject to market risk, which represents exposure to changes in the market, such as a change in interest rates or a change in price or principal value of a security.

3. Units:

The beneficial interest of each participant and beneficiary in the net assets of the portfolios are represented by units. Contributions to and redemptions from the portfolios are subject to terms and limitations defined in the participation agreement between the participant and the Fund. Contributions (other than by electronic funds transfers) will purchase units in a portfolio at the net asset value per unit for that portfolio calculated on the business day following the day payment is received by SSB. Contributions by electronic funds transfers will purchase units at the unit value calculated on the day of transfer or, in certain cases, on the day that the funds become available. Withdrawals result in the redemption of units, based on the unit value next determined following SSB's approval of the withdrawal request. Unit values for each portfolio are determined daily. There are no distributions of net investment gains or net investment income to the portfolios' participants or beneficiaries.

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

4. Risk Management:

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority has retained these risks, except where it has determined that commercial insurance is more cost beneficial or legally required. The Colorado Governmental Immunity Act establishes limits for claims made against governmental entities. These limits are \$150,000 per injury or \$600,000 per occurrence. Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

For the year ended June 30, 2001, and for the period from inception through June 30, 2000, no claims have been brought against the Scholars Choice Fund.

5. Subsequent Event:

Effective July 15, 2001, the SSB agreement was amended to reduce the administrative fee paid to the Authority from 0.30% to 0.10% from the Scholars Choice Fund.

SUPPLEMENTARY INFORMATION

Colorado Student Obligation Bond Authority
Supplementary Schedule - Combining Statement of Fiduciary Net Assets
June 30, 2001

	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	Portfolio 5	Portfolio 6	Portfolio 7	Fixed Income	Equity	Total
Assets:										
Cash and cash equivalents	\$ 28,126	\$ (4,328)	\$ 10,455	\$ 52,463	\$ 7,913	\$ 15,470	\$ (8,489)	\$ 39	\$ 39,726	\$ 141,375
Investments, at fair value	12,167,990	8,638,274	10,174,662	24,770,060	5,279,374	3,223,945	945,770	368,194	5,381,918	70,950,187
Receivable for portfolio units sold	230,878	25,136	17,152	72,166	30,954	1,229	22,530	600	581,211	981,856
Dividends and interest receivable	22,520	20,625	26,840	72,438	14,926	10,276	2,451	1,771	5,986	177,833
Total Fiduciary Assets	<u>12,449,514</u>	<u>8,679,707</u>	<u>10,229,109</u>	<u>24,967,127</u>	<u>5,333,167</u>	<u>3,250,920</u>	<u>962,262</u>	<u>370,604</u>	<u>6,008,841</u>	<u>72,251,251</u>
Liabilities:										
Payable for investments purchased	166,653	27,361	21,055	84,360	37,013	15,570	1,511	639	252,441	606,603
Service and administrative fees payable	5,528	4,076	4,871	12,444	2,778	1,857	612	186	2,533	34,885
Total Liabilities	<u>172,181</u>	<u>31,437</u>	<u>25,926</u>	<u>96,804</u>	<u>39,791</u>	<u>17,427</u>	<u>2,123</u>	<u>825</u>	<u>254,974</u>	<u>641,488</u>
Total Fiduciary Net Assets	<u>\$ 12,277,333</u>	<u>\$ 8,648,270</u>	<u>\$ 10,203,183</u>	<u>\$ 24,870,323</u>	<u>\$ 5,293,376</u>	<u>\$ 3,233,493</u>	<u>\$ 960,139</u>	<u>\$ 369,779</u>	<u>\$ 5,753,867</u>	<u>\$ 71,609,763</u>
Units Outstanding	<u>1,178,063</u>	<u>804,971</u>	<u>977,905</u>	<u>2,273,348</u>	<u>508,152</u>	<u>301,084</u>	<u>88,173</u>	<u>35,010</u>	<u>618,251</u>	
Unit Value	<u>\$ 10.42</u>	<u>\$ 10.74</u>	<u>\$ 10.43</u>	<u>\$ 10.94</u>	<u>\$ 10.42</u>	<u>\$ 10.74</u>	<u>\$ 10.89</u>	<u>\$ 10.56</u>	<u>\$ 9.31</u>	

See accompanying independent auditors' report.

Colorado Student Obligation Bond Authority
Supplementary Schedule - Combining Statement of Changes in Fiduciary Net Assets
For the fiscal year ended June 30, 2001

	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	Portfolio 5	Portfolio 6	Portfolio 7	Fixed Income	Equity	Total
Additions:										
Gross earnings on investments:										
Dividends	\$ 668,762	\$ 467,887	\$ 479,548	\$ 1,148,731	\$ 220,757	\$ 127,223	\$ 34,546	\$ 5,926	\$ 37,071	\$ 3,190,451
Interest	1,701	1,535	2,242	3,293	1,003	593	168	12	549	11,096
Net realized and unrealized loss from security transactions	<u>(1,230,209)</u>	<u>(653,355)</u>	<u>(571,826)</u>	<u>(922,612)</u>	<u>(149,320)</u>	<u>(919)</u>	<u>6,554</u>	<u>(3,747)</u>	<u>(120,128)</u>	<u>(3,645,562)</u>
Less investment fees	<u>(559,746)</u>	<u>(183,933)</u>	<u>(90,036)</u>	<u>229,412</u>	<u>72,440</u>	<u>126,897</u>	<u>41,268</u>	<u>2,191</u>	<u>(82,508)</u>	<u>(444,015)</u>
Net investment income	<u>(629,348)</u>	<u>(234,095)</u>	<u>(141,671)</u>	<u>100,679</u>	<u>49,160</u>	<u>113,455</u>	<u>38,010</u>	<u>1,620</u>	<u>(93,550)</u>	<u>(795,740)</u>
Participant contributions	<u>7,877,495</u>	<u>3,766,930</u>	<u>4,909,213</u>	<u>11,211,990</u>	<u>2,558,015</u>	<u>1,312,125</u>	<u>1,084,281</u>	<u>375,216</u>	<u>5,927,405</u>	<u>39,022,670</u>
Total additions	<u>7,248,147</u>	<u>3,532,835</u>	<u>4,767,542</u>	<u>11,312,669</u>	<u>2,607,175</u>	<u>1,425,580</u>	<u>1,122,291</u>	<u>376,836</u>	<u>5,833,855</u>	<u>38,226,930</u>
Deductions:										
Benefits paid to participants and withdrawals	523,426	408,970	240,005	769,556	92,635	74,573	802,487	6,500	80,384	2,998,536
Administrative fees	28,542	21,024	21,881	57,125	10,889	6,882	1,935	262	4,820	153,360
Service fees	<u>24,594</u>	<u>19,221</u>	<u>20,572</u>	<u>59,778</u>	<u>12,654</u>	<u>9,269</u>	<u>3,127</u>	<u>295</u>	<u>4,864</u>	<u>154,374</u>
Total deductions	<u>576,562</u>	<u>449,215</u>	<u>282,458</u>	<u>886,459</u>	<u>116,178</u>	<u>90,724</u>	<u>807,549</u>	<u>7,057</u>	<u>90,068</u>	<u>3,306,270</u>
Portfolio exchanges, net	<u>(2,082,394)</u>	<u>(121,112)</u>	<u>363,167</u>	<u>567,519</u>	<u>509,906</u>	<u>420,909</u>	<u>331,925</u>	-	<u>10,080</u>	-
Net change in fiduciary net assets	<u>4,589,191</u>	<u>2,962,508</u>	<u>4,848,251</u>	<u>10,993,729</u>	<u>3,000,903</u>	<u>1,755,765</u>	<u>646,667</u>	<u>369,779</u>	<u>5,753,867</u>	<u>34,920,660</u>
Fiduciary net assets, at beginning of period	<u>7,688,142</u>	<u>5,685,762</u>	<u>5,354,932</u>	<u>13,876,594</u>	<u>2,292,473</u>	<u>1,477,728</u>	<u>313,472</u>	-	-	<u>36,689,103</u>
Fiduciary net assets, at end of period	<u>\$ 12,277,333</u>	<u>\$ 8,648,270</u>	<u>\$ 10,203,183</u>	<u>\$ 24,870,323</u>	<u>\$ 5,293,376</u>	<u>\$ 3,233,493</u>	<u>\$ 960,139</u>	<u>\$ 369,779</u>	<u>\$ 5,753,867</u>	<u>\$ 71,609,763</u>

See accompanying independent auditors' report.

Colorado Student Obligation Bond Authority
Supplementary Schedule - Combining Schedule of Investments
June 30, 2001

	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	Portfolio 5	Portfolio 6	Portfolio 7	Fixed Income	Equity	Total
Underlying Funds:										
Smith Barney Small Cap Core Fund, Inc.	\$ 1,906,156	\$ 913,790	\$ 1,067,123	\$ 1,311,977	\$ 278,735	\$ -	\$ -	\$ -	\$ 554,226	\$ 6,032,007
Smith Barney Managed Governments Fund Inc.	1,195,608	1,278,996	2,033,165	4,905,573	1,045,675	1,120,232	-	220,772	-	11,800,021
Smith Barney Investment Funds - Smith Barney Investment Grade Bond Fund	1,193,389	1,276,215	1,521,525	3,670,492	521,106	-	-	91,784	-	8,274,511
Smith Barney Funds, Inc. - Short-Term High Grade Bond Fund	-	-	511,069	3,707,857	1,051,652	645,291	565,992	55,638	-	6,537,499
Smith Barney Funds, Inc. - Large Cap Value Fund	2,996,420	2,131,920	1,997,225	4,914,448	787,434	320,565	47,311	-	1,865,590	15,060,913
Smith Barney Money Funds, Inc. - Cash Portfolio	-	-	-	-	528,426	810,795	284,521	-	-	1,623,742
Smith Barney Investment Trust - Smith Barney Large Capitalization Growth Fund	3,049,059	2,171,516	2,037,217	5,009,637	800,006	327,062	47,946	-	2,962,102	16,404,545
Smith Barney World Funds, Inc. - International All Cap Growth Fund	1,827,358	865,837	1,007,338	1,250,076	266,340	-	-	-	-	5,216,949
Total Investments, at fair value	\$ <u>12,167,990</u>	\$ <u>8,638,274</u>	\$ <u>10,174,662</u>	\$ <u>24,770,060</u>	\$ <u>5,279,374</u>	\$ <u>3,223,945</u>	\$ <u>945,770</u>	\$ <u>368,194</u>	\$ <u>5,381,918</u>	\$ <u>70,950,187</u>

See accompanying independent auditors' report.

**COLORADO STUDENT OBLIGATION BOND AUTHORITY
SCHOLARS CHOICE FUND
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