COLORADO STUDENT OBLIGATION BOND AUTHORITY
STUDENT LOAN PROGRAM FUNDS
Denver, Colorado

FINANCIAL AND COMPLIANCE AUDIT
June 30, 2002 and 2001

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COLORADO STUDENT OBLIGATION BOND AUTHORITY
STUDENT LOAN PROGRAM FUNDS

FINANCIAL AND COMPLIANCE AUDIT

June 30, 2002

Members of the Legislative Audit Committee:

This report contains the results of the financial and compliance audit of the Student Loan Program Fund of the Colorado Student Obligation Bond Authority as of June 30, 2002. 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
August 30, 2002

REPORT SUMMARY

COLORADO STUDENT OBLIGATION BOND AUTHORITY
STUDENT LOAN PROGRAM FUNDS
FINANCIAL AUDIT
FISCAL YEAR ENDED JUNE 30, 2002

Purpose and Scope

The Office of the State Auditor, State of Colorado engaged Clifton Gunderson LLP to conduct the financial and compliance audit of the Colorado Student Obligation Bond Authority Student Loan Program Funds (Student Loan Program Funds) for the fiscal year ended June 30, 2002. Clifton Gunderson LLP performed this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The purpose and scope of our audit was to express an opinion on the Student Loan Program Funds financial statements as of the fiscal year ended June 30, 2002.

Audit Opinions and Reports

We expressed an unqualified opinion on the Student Loan Program Funds financial statements as of June 30, 2002.

Summary of Key Findings and Recommendations

We identified no findings or recommendations for the fiscal year ended June 30, 2002. There were no findings or recommendations reported for the year ended June 30, 2001.

Required Communication

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

Significant Audit Adjustments. Audit adjustments were made during the completion of fieldwork. An adjustment was made to record royalty receivable/revenue of $98,500 that had been originally recorded in the Prepaid Tuition Fund. An adjustment was made to reduce receivables from a third party by $189,473, reduce expenses and revenue by $189,473 and increase receivables due from Scholars Choice by $189,473; this adjustment moved expenses and corresponding reimbursement of expenses to the Scholars Choice Fund. An adjustment in the amount of $361,000 was made to record additional amounts receivable/revenue from a third party for reimbursement of expenses.

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
STUDENT LOAN PROGRAM FUNDS

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.

Student Loan Program Funds

Primary operations of the student obligation bond program commenced in 1981. In meeting its legislative mandate, the Authority issues tax-exempt and taxable financings. The amount of tax-exempt financing authority is limited by Federal volume caps allocated to Colorado and by Colorado's allocation of these caps among State and local governments that issue debt. The proceeds from such financings are used to originate and purchase student loans. The Authority is authorized to issue its own revenue bonds, notes and other obligations in the aggregate amount of $1.3 billion. The bonds do not constitute an indebtedness, debt or liability of the State of Colorado.

The financial statements present the activities of the Bond Funds and the Authority's Administrative Fund. Each Bond Fund represents bond proceeds that are restricted by the financing documents of each individual bond issue. Each Bond Fund is accounted for separately and is a separate trust estate.

The Administrative Fund consists of assets and revenue that are not pledged as collateral to the Bonds Funds. These monies are available for the administration of the Colorado Student Obligation Bond Authority and for use in other programs in accordance with CRS 23-3.1-201 that are authorized by the General Assembly.

Independent Auditor's Report

Members of the Legislative Audit Committee:

We have audited the accompanying statement of net assets of the Colorado Student Obligation Bond Authority (a division of the Department of Higher Education, State of Colorado), Student Loan Program Funds (Student Loan Program Funds) as of June 30, 2002 and 2001, and the related statement of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Colorado Student Obligation Bond Authority, Student Loan Program Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1 – Organization and Summary of Significant Accounting Policies, the financial statements of the Student Loan Program Funds are intended to present the financial position, and results of operations and cash flows for only that portion of the financial reporting entity of the Department of Higher Education, State of Colorado that is attributable to the transactions of the Colorado Student Obligation Bond Authority, Student Loan Program Funds.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of the Colorado Student Obligation Bond Authority, Student Loan Program Funds as of June 30, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2002, on our consideration of the Colorado Student Obligation Bond Authority, Student Loan Program Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an internal part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Colorado Student Obligation Bond Authority, Student Loan Program Funds adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of July 1, 2001. This results in a change in the format and content of the financial statements as of and for the fiscal years ended June 30, 2002 and 2001.

The Management's Discussion and Analysis (MD&A) on pages 6 to 12, is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole.

Clifton Gunderson LLP

Greenwood Village, Colorado
August 30, 2002

COLORADO STUDENT OBLIGATION BOND AUTHORITY
STUDENT LOAN PROGRAM FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2002 AND 2001

This section of the Student Loan Program Fund's (Fund's) financial statements is a discussion and analysis of the financial performance of the Student Loan Program Funds for the years ended June 30, 2002 and 2001. The Student Loan Program Funds is a student obligation bond program and is a unit of the State of Colorado. The Colorado Student Obligation Bond Authority (Authority), a division of the Department of Higher Education (Department) of the State of Colorado administers the Student Loan Program Funds, the Prepaid Tuition Fund and the Scholars Choice Fund. The Student Loan Program Funds financial results are presented as a proprietary fund in the State of Colorado Comprehensive Annual Financial Report. Management of the Authority is responsible for the financial statements, footnotes and this discussion. The management's discussion and analysis should be read in conjunction with the Fund's financial statements.

In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The Authority is presenting financial statements for its enterprise funds with the required Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows.

Overview of the Financial Statements:

This annual report contains two sections – management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows.

The Statement of Net Assets presents information on all of the Fund's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets presents information that reflects how the Fund's net assets changed during the past year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The Statement of Cash Flows reports the Fund's cash flows from operating, investing, non-capital, and capital and related financing.

Analysis of Financial Activities:

The Administrative and Bond Funds are accounted for as separate enterprise funds within the State of Colorado's financial reporting system. However, for financial statement purposes they are presented as a single enterprise fund in a combined financial statement.

In meeting its legislative mandate, the Authority issues tax-exempt and taxable financings. The proceeds from such financings are used to originate and purchase student loans or to make loans to institutions of higher education (College Lender Program). These financial activities are recorded within the Bond Funds in funds and accounts established under the financing documents. The financing documents for each Bond Fund restrict assets held in each respective trust estate for the payment of the outstanding obligations.

COLORADO STUDENT OBLIGATION BOND AUTHORITY
STUDENT LOAN PROGRAM FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2002 AND 2001

Analysis of Financial Activities (continued):

The Authority utilizes the Administrative Fund for payment of general and administrative expenses and other activities of the Bond Funds, the Prepaid Tuition Fund, and the Scholars Choice Fund necessary to fulfill their purposes. The general and administrative expenses and activities have been allocated to the respective Funds. Additionally, net assets in the Administrative Fund are designated by the Authority's Board of Directors (Board) to fund issuance costs of certain Bond Funds, to pay for operating expenses of the Administrative Fund and capital expenditures, to fund the Loan Incentives For Teachers program (a loan forgiveness program), and to fund the College Lender Program.

The Executive Director of the Department and the Authority's Board approve the annual budget and exercise financial oversight responsibilities of the Student Loan Program Funds.

Comparison of Current Year Results to Prior Year:

Condensed Statement of Net Assets as of June 30,

	2002			2001		
	Unrestricted	**Restricted**	**Total**	Unrestricted	Restricted	Total
	(dollar amounts expressed in thousands)					
Assets:						
Cash and investments	**$ 11,578**	**$ 94,636**	**$ 106,214**	$ 34,401	$ 100,922	$135,323
Student loans, interest, other receivables	**23,914**	**680,355**	**704,269**	6,403	640,162	646,565
Bond and note issuance costs, net	**-**	**3,390**	**3,390**	-	3,487	3,487
Capital assets, net	**1,804**	**-**	**1,804**	316	-	316
Total assets	**37,296**	**778,381**	**815,677**	41,120	744,571	785,691
Liabilities:						
Accounts payable	**472**	**978**	**1,450**	368	1,186	1,554
Interest payable	**-**	**1,077**	**1,077**	-	1,578	1,578
Arbitrage rebate payable	**-**	**13,425**	**13,425**	-	7,913	7,913
Bonds and notes payable	**-**	**697,743**	**697,743**	-	686,141	686,141
Total liabilities	**472**	**713,223**	**713,695**	368	696,818	697,186
Interfund receivable (payable)	**7,418**	**(7,418)**	-	6,123	(6,123)	-
Total net assets	**$ 44,242**	**$ 57,740**	**$ 101,982**	$ 46,875	$ 41,630	$ 88,505

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

Cash and investments have decreased since 2001 due to higher borrowings by schools in the College Lender Program and higher acquisition volume of student loans. Both the Administrative Fund and the Bond Funds loan money to school lenders to fund the origination of graduate student loans. The Bond Funds purchase these student loans from the schools annually. As of June 30, 2002, borrowings of school lenders were higher than at June 30, 2001 by approximately $21 million dollars. This was due to the timing of student loan purchases from the school lenders and an increase in volume. Additionally, the remaining $8 million decrease was attributable to normal operating activities of the fund.

Student loans, interest and other receivables increased by $57.7 million from fiscal year end 2001 to 2002. Student loans increased due to the acquisition of $137 million in student loans during 2002 and decreased as a result of student loan principal repayments of $79.3 million. Originations were slightly behind last year's origination volume, however, purchases from lenders and schools under the College Lender program were greater than 2001 by approximately $18.2 million. Additionally, the Authority grew its consolidation loan volume by approximately $4.8 million in 2002 from 2001. Interest and other receivables have increased due to a larger student loan portfolio than the previous year and increases in borrowings by school lenders in the College Lender Program.

Capital assets increased by $1.5 million due to the transfer of software development costs from the Prepaid Tuition Fund to the Administrative Fund. An interfund receivable of $1.9 million in the Administrative Fund and an interfund payable of the same amount in the Prepaid Tuition Fund were eliminated as a result of the transfer. Bond and note issuance costs remained consistent due to the write-off of bond issuance costs related to the refunding of certain bonds and a corresponding increase in bond issuance costs from the issuance of new bonds.

The decrease in interest payable of $500,000 from June 30, 2001 is due to lower market interest rates for the year ended June 30, 2002. See the analysis of interest expense below.

The increase in arbitrage rebate payable of approximately $5.5 million from June 30, 2001 is due primarily to an increase in the spread between the permitted investment yield or student loan yield and the bond yield. U.S. Treasury regulations limit the amount of interest income from investments to the bond yield on certain tax-exempt bond issues which is "rebate". Additionally, U.S. Treasury regulations limit the amount of interest income from student loans to 1.5% or 2.0% over bond yield of certain bond issues which is "excess interest". Student loan rates are set each July 1st for the next year based on the 91 day U.S. Treasury Bill rate plus a factor applicable to the disbursement date of the student loan. Variable rates on the outstanding tax exempt bonds change every 7 and 35 days, depending on the obligation. Since interest rates on tax exempt financings continued to decrease from July 1, 2001 through the end of the year 2002, the spread between student loan yield and the bond yield increased by approximately 1.5% greater than the spread for 2001.

Bonds and notes payable increased by $11.6 million dollars. This was due to a combination of issuing $100.1 million in new debt and payment of principal during the year of $88.5 million.

Total net assets increased by $13.5 million due to positive net income in both funds. See the analysis of the Statements of Revenues, Expenses and Changes in Net Assets below.

COLORADO STUDENT OBLIGATION BOND AUTHORITY
STUDENT LOAN PROGRAM FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2002 AND 2001

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

Condensed Statement of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30,

	2002	2001
	(dollar amounts expressed in thousands)	
Interest and special allowance on student loans	**$ 50,178**	$ 54,359
Net investment income	**4,399**	10,435
Reimbursement of operating expenses	**361**	-
Total operating revenues	**54,938**	64,794
Interest expense	**19,217**	36,621
Rebate tax expense, net	**8,097**	5,962
Servicing and bond fees	**6,492**	6,725
Depreciation and amortization	**1,957**	830
Salaries and benefits	**1,096**	961
General and administrative expenses	**734**	808
Total operating expenses	**37,593**	51,907
Net operating income before transfers	**17,345**	12,887
Transfer to Prepaid Tuition Fund	**(3,868)**	-
Net change in net assets	**13,477**	12,887
Net assets, beginning of year	**88,505**	75,618
Net assets, end of year	**$101,982**	$ 88,505

Interest and special allowance on student loans for the fiscal year ended June 30, 2002 was lower than the fiscal year ended June 30, 2001 by $4.2 million. Borrower interest accounted for a decrease of $5.5 million due to a lower interest rate set by the U.S. Department of Education on July 1, 2001 (5.99%) than was set on July 1, 2000 (8.19%). All variable loan rates in the Authority's portfolio are set by this method and remain fixed for one year. The increase of approximately $1.3 million from last year in special allowance income was the effect of the change in the borrower's rate on special allowance rates. On tax-exempt bonds issued before October 1, 1993, the Authority receives a minimum return of 9.5% per annum on all Stafford and Consolidation loans. Approximately thirty percent of the Authority's total student loan portfolio is receiving a minimum return of 9.5%. For these loans, the reduction in the borrower rate increased the special allowance payments from 1.31% in 2001 to 3.51% in 2002.

The decrease in net investment income of approximately $6.0 million for the year ended June 30, 2002 from the previous year was due to reduced cash and investment balances and lower market interest rates on investments during the year.

Reimbursement of operating expenses represents recovery of prior year expenses related to an agreement between the Scholars Choice Fund and Salomon Smith Barney, Inc.

The decrease in interest expense of approximately $17.4 million for the year ended June 30, 2002 from 2001 was due to the reduction in the market interest rates and resulted in a significant amount of cost savings. As of June 30, 2002, 87.0% of the Authority's debt had a variable interest rate.

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

Rebate tax expense includes excess interest, rebate and consolidation rebate expenses. The increase in excess interest expense of approximately $2.3 million for the year ended June 30, 2002 from the previous year was due to the excess spread between student loan yield and bond yield as discussed above in arbitrage rebate payable. The rebate expense is the amount of excess spread between income from investments and bond yield. The decrease in rebate expense of $337,000 for the year ended June 30, 2002 from 2001 was due to a narrowing of the spread between investment income and the bond cost as market rates reduced throughout the year. Consolidation rebate expense is a fee paid quarterly to the U.S. Department of Education on any loans consolidated by the Authority after October 1, 1993. Consolidation rebate fees increased during the fiscal year ended June 30, 2002 over the fiscal year ended June 30, 2001 by approximately $121,000. This was due to a higher dollar amount of loans consolidated by the Authority during the fiscal year ended June 30, 2002.

Servicing and bond fees were $233,000 lower in the fiscal year ended June 30, 2002 than for the fiscal year ended June 30, 2001. Even though the dollar amount of loans serviced was higher, there were fewer notes serviced and therefore costs were lower by approximately $91,000. Bond fees were reduced by approximately $152,000 due primarily to lower bond insurance, liquidity and auction agent fees due to lower principal amounts subject to these charges.

Salaries and benefits were $135,000 higher during the year ended June 30, 2002 than for the previous year due to more direct time allocated to the student loan program funds.

Depreciation and amortization was $1.1 million higher during the year ended June 30, 2002 than for the year ended June 30, 2001. This was due to a combination of higher depreciation on fixed assets of approximately $263,000 due to the transfer of the software development costs from the Prepaid Tuition Fund to the Administrative Fund and higher amortization of bond issuance costs of approximately $837,000 due to the refinancing.

General and administrative expenses remained consistent between the two years.

Capital Assets and Debt Administration:

Capital Assets:

The Fund's investment in capital assets at June 30, 2002 amounts to $1.8 million, net of accumulated depreciation. The capital assets consist of furniture, equipment, software and leasehold improvements. The changes in capital assets were as follows:

	June 30, 2001	Additions Deletions	Depreciation & Amortization	June 30, 2002
	(dollar amounts expressed in thousands)			
Software	$ 172	$ 1,859	$ 302	$ 1,729
Furniture and equipment	95	-	33	62
Leasehold improvements	49	-	36	13
Total capital assets, net	$ 316	$ 1,859	$ 371	$ 1,804

Capital Assets and Debt Administration (continued):

Capital Assets (continued):

As noted above, the addition of $1.9 million was a transfer of software development costs from the Prepaid Tuition Fund of the Authority to the Administrative Fund.

Long-term Debt:

As of June 30, 2002, the Funds had $697.7 million in bonds and notes payable. The changes in bonds and notes payable were due to the issuance of $100.1 million in new debt, the current refunding and redemption of $63.8 million and scheduled redemptions of $24.7 million. Additionally, the Funds amortized $78,000 of loss on defeasance on bonds and notes and $2,000 of discount on bonds and notes. Subsequent to June 30, 2002, the Authority issued an additional $110 million of bonds and notes (see Note 13).

Restricted Net Assets:

Restricted net assets include net assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Student Loan Program Funds had restricted net assets of $57.7 million and $41.6 million as of June 30, 2002 and 2001, respectively. The Bond Funds restrict net assets to uses prescribed in the respective financing documents. All financings are revenue bonds or notes that are collateralized as provided in the financing agreements, by an assignment and pledge to a Trustee of all the Authority's rights, title and interest in the investments, student loans, and College Lender Program loans and the revenues and receipts derived there from.

Economic Factors and Future Years' Rates:

- Every five years the U.S. Department of Education must reintroduce the Reauthorization Bill of the Higher Education Act of 1965, as amended, to Congress. The next Reauthorization Bill will be reintroduced in calendar year 2003.

- Every July 1st in accordance with the Higher Education Act of 1965, as amended, the borrower's interest rate is reset. Stafford borrower rates decreased by approximately 2.5% and PLUS borrower rates decreased by approximately 2.0%. Next year's change in net assets may be lower than this year's change in net assets.

Economic Factors and Future Years' Rates (continued):

- Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenses under the terms of the grants. Such audits could lead to reimbursement to the grantor agency or the U.S. Department of Education. Management believes that any liabilities arising from such audits will be immaterial to the financial statements.

Requests for Information:

This report is designed to provide a general overview of the Fund's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Douglas R. Angell, Chief Financial Officer, CollegeInvest, 1801 Broadway, Suite 1300, Denver, CO 80202.

COLORADO STUDENT OBLIGATION BOND AUTHORITY
STUDENT LOAN PROGRAM FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2002 AND 2001
(dollar amounts expressed in thousands)

	2002	2001
Assets:		
Unrestricted assets:		
Cash deposits	**$ 10,848**	$ 33,425
Investments	**730**	976
Student loans, net	**-**	14
Interest and other receivables	**23,550**	4,455
Due from Prepaid Tuition Fund	**347**	1,901
Due from Bond Funds	**7,418**	6,123
Prepaid expenses	**17**	33
Capital assets, net	**1,804**	316
Total unrestricted assets	**44,714**	47,243
Restricted assets:		
Investments	**94,636**	100,922
Student loans, net	**658,334**	623,575
Interest and other receivables	**21,205**	15,436
Due from other agencies	**524**	840
Prepaid expenses	**292**	311
Bond and note issuance costs, net	**3,390**	3,487
Total restricted assets	**778,381**	744,571
Total assets	**823,095**	791,814
Liabilities:		
Liabilities payable from unrestricted assets:		
Accounts payable and accrued expenses	**379**	271
Accrued compensated absences	**93**	76
Due to other agencies	**-**	21
Total liabilities payable from unrestricted assets	**472**	368
Liabilities payable from restricted assets:		
Accounts payable and accrued expenses	**677**	598
Due to other agencies	**301**	588
Interest payable	**1,077**	1,578
Due to Administrative Fund	**7,418**	6,123
Arbitrage rebate payable	**13,425**	7,913
Bonds and notes payable	**697,743**	686,141
Total liabilities payable from restricted assets	**720,641**	702,941
Total liabilities	**721,113**	703,309
Net assets:		
Invested in capital assets	**1,804**	316
Restricted	**57,740**	41,630
Unrestricted	**42,438**	46,559
Total net assets	**$ 101,982**	$ 88,505

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

COLORADO STUDENT OBLIGATION BOND AUTHORITY
STUDENT LOAN PROGRAM FUNDS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001
(dollar amounts expressed in thousands)

	2002	2001
Operating revenues:		
Interest and special allowance on student loans	$ 50,178	$ 54,359
Net investment income	4,399	10,435
Reimbursement of operating expenses	361	-
Total operating revenues	54,938	64,794
Operating expenses:		
Interest expense	19,217	36,621
Rebate tax expense, net	8,097	5,962
Loan servicing costs	4,416	4,506
Bond fees	2,076	2,219
Depreciation and amortization	1,957	830
Salaries and benefits	1,096	961
General and administrative expenses	734	808
Total operating expenses	37,593	51,907
Change in net assets before transfers	17,345	12,887
Transfer to Prepaid Tuition Fund from Administrative Fund unrestricted assets	(3,868)	-
Change in net assets	13,477	12,887
Net assets, beginning of year	88,505	75,618
Net assets, end of year	$ 101,982	$ 88,505

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

COLORADO STUDENT OBLIGATION BOND AUTHORITY
STUDENT LOAN PROGRAM FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001
(dollar amounts expressed in thousands)

	2002	2001
Cash Flows from Operating Activities:		
Cash received from student loans	$ 141,308	$ 117,371
Cash received from the federal government	11,169	10,538
Cash purchases of student loans	(139,524)	(112,466)
Cash received from educational institutions	19,083	9,627
Cash loaned to educational institutions	(41,370)	(13,626)
Cash payments to suppliers for goods and services	(10,739)	(4,052)
Cash payments to employees for service	(1,096)	(956)
Net cash (used) provided by operating activities	(21,169)	6,436
Cash Flows from Investing Activities:		
Proceeds from maturities of investments	498,886	365,675
Purchase of investments	(492,354)	(322,903)
Income received from investments	4,870	10,392
Net cash provided by investing activities	11,402	53,164
Cash Flows from Non-Capital Financing Activities:		
Transfer to Prepaid Tuition Fund	(3,868)	-
Payment of bond and note issuance costs	(746)	-
Issuance of bonds and notes	100,050	-
Repayment of bonds and notes	(88,528)	(30,110)
Interest paid on bonds and notes	(19,718)	(37,340)
Net cash (used) in non-capital financing activities	(12,810)	(67,450)
Cash Flows from Capital Financing Activities:		
Purchase of capital assets	-	(24)
Net cash (used) in capital financing activities	-	(24)
Decrease in cash and cash equivalents	(22,577)	(7,874)
Cash and cash equivalents, beginning of year	33,425	41,299
Cash and cash equivalents, end of year	$ 10,848	$ 33,425

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

COLORADO STUDENT OBLIGATION BOND AUTHORITY
STUDENT LOAN PROGRAM FUNDS
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001
(dollar amounts expressed in thousands)

	2002	2001
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	**$ 17,345**	$ 12,887
Items reflected as investing and non-capital financing activities:		
Income received from investments	**(4,870)**	(10,392)
Interest paid on bonds and notes	**19,718**	37,340
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Amortization of loss on defeasance	**78**	213
Amortization of bond discount	**2**	2
Amortization of bond and note issuance costs	**843**	466
Amortization of premium costs	**743**	256
Depreciation expense	**371**	108
Change in allowance for loan losses	**(98)**	(211)
Changes in operating assets and liabilities:		
Student loans	**(35,390)**	(32,619)
Interest and other receivables	**(24,659)**	(5,116)
Prepaid expenses	**35**	51
Interfund receivable	**(194)**	328
Accounts payable and accrued expenses	**(104)**	636
Interest payable	**(501)**	(932)
Amounts due to federal government	**5,512**	3,419
Net cash (used) provided by operating activities	**$ (21,169)**	$ 6,436

Noncash transactions:

The change in the interfund receivable does not include the elimination of the receivable exchanged for recordkeeping software of $1.9 million.

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

COLORADO STUDENT OBLIGATION BOND AUTHORITY
STUDENT LOAN PROGRAM FUNDS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001

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) is a division of the Colorado Department of Higher Education. 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 is 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 financial statements presented here do not include operations of the post secondary education expense program or the college savings program.

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.

Primary operations of the student obligation bond program commenced in 1981. In meeting its legislative mandate, the Authority issues tax-exempt and taxable financings. The proceeds from such financings are used to originate and purchase student loans and to make loans to institutions of higher education for the College Lender Program. The Authority is authorized to issue its own revenue bonds, notes and other obligations in the aggregate amount of $1.3 billion, which are not deemed to constitute indebtedness, a debt or liability of the State of Colorado.

Reporting Entity:

The Student Loan Program Funds present the combined financial statements of the Administrative Fund and the Bond Funds. The Administrative and Bond Funds are accounted for as separate enterprise funds. An enterprise fund is established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the fund be self-supporting.

The accompanying financial statements of the Student Loan Program Funds 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.

Administrative Fund

The Authority utilizes an Administrative Fund for payment of general and administrative expenses and other activities of the Bond Funds, the Prepaid Tuition Fund and the Scholars Choice Fund necessary to fulfill their purposes. These expenses and activities have been allocated to the respective Funds.

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

Reporting Entity (continued):

Assets and revenues of the Administrative Fund are not pledged as collateral for the Bond Funds. As of June 30, 2002, the Administrative Fund has loaned $7.4 million to various Bond Funds to pay bond and note issuance costs and operating expenses and $347,000 to the Prepaid Tuition Fund to pay operating expenses.

Bond Funds

The financial activities of the Bond Funds are recorded in funds and accounts established under various financing documents. The financing documents for each Bond Fund restrict assets held in the respective trust estate for the payment of the outstanding obligations. Each Bond Fund is accounted for separately and is a separate trust estate. All obligations are revenue bonds or notes and are collateralized as provided in the bond or note indentures, by an assignment and pledge to the Trustee of all the Authority's right, title and interest in the investments, student loans, and College Lender Program loans, and the revenues and receipts derived there from.

Budgets and Budgetary Accounting:

By statute, the Student Loan Program Funds 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 Student Loan Program Funds for the fiscal year ended June 30, 2002 were $50.0 million, compared with actual expenses of $37.6 million. The total expenditures of $12.4 million under budget due primarily to decreases in bond interest expense of the Student Loan Program Funds. Total budgeted revenues of the Student Loan Program Funds were $54.7 million as compared with actual revenues of $54.9 million. 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 Authority 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 the GASB. As enterprise activities, the Student Loan Program Funds use the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

The Student Loan Program Funds implemented the new financial reporting requirements of GASB No. 34 as of July 1, 2001.

Cash and Cash Equivalents:

The Authority considers all cash, demand deposit accounts and State Treasurer's cash pool to be cash equivalents.

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

Investments:

Investments are carried at fair value, which are determined primarily based on quoted market prices at June 30, 2002.

Student Loans:

Student loans are carried at their uncollected principal balances net of an allowance for loan losses. The Bond Funds may purchase student loans from lenders at a premium or discount. The Bond Funds also originate student loans directly to borrowers. The Bond Funds pay an origination fee of 1% on behalf of the borrower when the loan is disbursed. Premiums, guarantee, and origination fees are capitalized and amortized over the estimated life of the loan using a method approximating the effective interest method. Unamortized premiums, guarantee, and origination fees collectively were $3.9 million and $2.2 million at June 30, 2002 and 2001, respectively.

Allowance for Loan Losses:

The provision for loan losses is included in general and administrative expenses and is determined by management's evaluation of the student loan portfolios. This evaluation considers such factors as historical loss experience, quality of student loan servicing and collection, and economic conditions. When this evaluation determines that an exposure to loss is probable and can be reasonably estimated, a provision against current operations net of student loan recoveries is recorded. Actual losses are charged against the allowance for loan losses as they occur. The allowance for loan loss was $760,000 and $834,000 at June 30, 2002 and 2001, respectively.

Due from Other Agencies:

Due from other agencies of $524,000 and $840,000 for the fiscal years ended June 30, 2002 and 2001, respectively, is for amounts collected from borrowers by the Colorado Student Loan Program as a servicer of Authority loans that has not been transferred to the Authority by year end.

Capital Assets:

Equipment is carried at cost less accumulated depreciation. Costs of major additions and improvements are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation of equipment is computed on the straight-line method over the estimated life of the equipment ranging from three to five years. Leasehold improvements are carried at cost, less accumulated amortization. Amortization is computed on the straight-line method over the office facility lease term.

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

Capital Assets (continued):

During fiscal year ended June 30, 2002, the Prepaid Tuition Fund of the Authority transferred software development costs to the Administrative Fund for the unamortized cost of the software of $1.9 million. The Administrative Fund eliminated a corresponding interfund receivable for the same dollar amount. The Administrative Fund will charge each fund for use of the software based on its corresponding computer utilization.

As of June 30, 2001, the Prepaid Tuition Fund was current on its payments for computer usage. For the fiscal year ended June 30, 2002, the Administrative Fund forgave the computer usage charge of the Prepaid Tuition Fund of $118,000.

Software is carried at cost less accumulated amortization. Amortization is calculated on the straight-line method over the estimated life of the software ranging from five to ten years.

Bond and Note Issuance Costs:

Bond and note issuance costs are carried at cost, less accumulated amortization. Amortization of issuance costs is computed using a method approximating the effective interest method over the life of the bond or note issue, unless the bonds or notes are retired early, at which time the remaining issuance costs related to the retired bonds or notes are expensed.

Compensated Absences:

Compensated absences, known as general leave, includes vacation and is included in accrued compensated absences. Compensated absences are based on an employee's length of service and are earned ratably during the term of employment. Vested and accumulated vacation that is expected to be liquidated is accrued and charged against current operations.

Due to Other Agencies:

Due to other agencies of $301,000 and $588,000 as of June 30, 2002 and 2001, respectively, is for loan servicing fees charged to the Student Loan Program Funds by the Colorado Student Loan Program that were not paid as of year end.

Arbitrage Rebate Payable:

Interest income in the Bond Funds from investments is limited by U. S. Treasury regulations to the bond yield on certain tax-exempt bond issues. Interest income in excess of this limit has been deposited in rebate accounts in accordance with applicable financing documents. These rebate funds are remitted to the federal government as required by the applicable laws and regulations.

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

Arbitrage Rebate Payable (continued):

Interest income from student loans is limited to 1.5% or 2% over bond yield of the respective tax-exempt bond issue. Student loans, including principal and accrued interest, and cash have been deposited in Excess Earnings accounts in the amount of the interest income which exceeded the limit. The Bond Funds may utilize losses on non-performing, non-guaranteed student loans; reduction of principal on performing guaranteed loans; or pay the federal government to liquidate the liability for excess earnings as required by the applicable laws and regulations.

Transfers to the Prepaid Tuition Fund:

During the fiscal year ended June 30, 2002, the Administrative Fund of the Authority transferred $3.75 million as a contribution to the Prepaid Tuition Fund and forgave $118,000 of computer utilization charges.

Net Assets:

Administrative Fund has interfund loans of $7.4 million and $6.1 million as of June 30, 2002 and 2001, respectively, to the Bond Funds to pay bond and note issuance costs, and operating expenses. Additionally, the Administrative Fund has interfund loans of $347,000 and $1.9 million as of June 30, 2002 and 2001, respectively, to the Prepaid Tuition Fund to pay software development costs and operating expenses. The $347,000 and $1.9 million loans are reflected in the interest and other receivables amount on the statements of net assets. In addition, as of June 30, 2002 and 2001, the Authority has designated $30.0 million and $25.0 million, respectively, of net assets in the Administrative Fund to provide for the College Lender Program and $4.8 million and $6.0 million as of June 30, 2002 and 2001, respectively, to provide for a Loan Incentives For Teachers program.

Revenues:

Revenue consists of interest income on student loans, investment income and a special allowance on student loans. Pursuant to the Higher Education Act (Act), special allowance payments are intended to assure that the limitation on interest rates and other conditions imposed by the Act do not impede the carrying out of the purposes of the Act or cause the return to holders of loans made and insured under the Act to be less than equitable. The rate of special allowance payments for loans depends on the date of disbursement of the loan, and the source of the holder’s funding to acquire the loan.

Reclassifications:

Certain amounts in the June 30, 2001 financial statements have been reclassified to conform to the current year’s presentation.

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

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:

Cash Deposits:

All cash deposits are held by a bank, a trustee as agent for the Authority, or the State Treasurer. 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. Monies held by the trustee are collateralized with U.S. government securities. Collected balances are transferred daily into money market funds.

Cash deposits as of June 30 are as follows:

	2002	2001
	(dollar amounts expressed in thousands)	
Demand deposit account	**$ 2**	$ 2
State Treasurer's cash pool	**10,846**	33,423
Total cash deposits	**$ 10,848**	$ 33,425

The carrying amount and bank balance of demand deposit accounts of $2,000 and $2,000 as of June 30, 2002 and $2,000 and $2,000 as of June 30, 2001, were fully insured by the FDIC.

Investments:

In accordance with GASB Statement No. 3, as amended by GASB Statement No. 31, the Authority's cash, cash equivalents, and investments have been categorized into the following three categories of credit risk:

Category 1 --- includes 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.

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

COLORADO STUDENT OBLIGATION BOND AUTHORITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2002 AND 2001

2. Cash Deposits and Investments (continued):

Investments (continued):

The Board approves the investment policy for the Authority. The investment policy allows investment in direct obligations of the U.S. government and its agencies, demand deposits, certificates of deposit, bankers acceptances, commercial paper, money market funds, written reverse and repurchase agreements, general or revenue obligations of any state in the United States, and investment agreements as authorized by the Colorado Revised Statutes Section 24-75-6. With respect to these investments, the Authority 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.

Investment agreements are between the trustees as agent for the Authority, and various AAA or AA rated financial institutions. The agreements pay interest monthly at a rate of the London Inter Bank Offering Rate (LIBOR) between plus 4 and minus 26 basis points.

Investments in money market funds and investment agreements are not categorized 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:

	2002		2001	
	Total Fair Value		Total Fair Value	
	Unrestricted Assets	**Restricted Assets**	Unrestricted Assets	Restricted Assets
	(dollar amounts expressed in thousands)			
Uncategorized investments				
Money market funds	**$ 730**	**$ 32,865**	$ 976	$ 5,866
Investment agreements	**-**	**61,771**	-	95,056
Total Investments	**$ 730**	**$ 94,636**	$ 976	$ 100,922

Net investment income as of June 30, 2002 and 2001 was comprised of the following:

	2002	2001
	(dollar amounts expressed in thousands)	
Interest and dividends	**$ 4,664**	$ 9,918
Change in fair value of investments	**(265)**	517
Net investment income	**$ 4,399**	$ 10,435

3. Student Loans:

The Bond Funds originate student loans directly to the borrower and purchase student loans from originating lenders in accordance with the provisions of the Higher Education Act (Act). The U. S. Department of Education administers and regulates the Federal Family Education Loan Program (FFELP). Student loans in the Bond Funds have been originated under the FFELP. The FFELP includes loans originated in the Federal Stafford Loan program, formerly the Guaranteed Student Loan Program, the Federal Parent Loan for Undergraduate Students program, and the Federal Consolidation Loan program. Loan terms and interest rates vary depending on the respective loan program and date of origination. Loan terms generally provide repayment of principal and interest on a monthly basis over a period of up to thirty years. Interest rates range from 4 to 12%. Interest to the borrower is either at a fixed or variable rate subject to a maximum rate. The loan yield to the Bond Funds is the maximum interest rate to the borrower or a rate indexed to the 91-day Treasury bill rate for each calendar quarter, for loans originated before January 1, 2000 or a rate indexed to the 91-day commercial paper rate for each calendar quarter for loans originated on or after January 1, 2000.

Principally, the Colorado Student Loan Program (CSLP) guarantees FFELP loans against the borrower's default, death, disability and bankruptcy. CSLP is reinsured under the Act. The loan guarantee is subject to applicable procedures relating to the origination and servicing of student loans. There are penalties up to loss of guarantee if the applicable procedures are not met. The Authority can reinstate guarantees under certain circumstances. The Authority also has recourse provisions with its lenders and its servicers for any loss of guarantee. Loans disbursed on or after October 1, 1993 are insured up to 98% of principal and accrued interest in the case of default. Management has provided an allowance for loan losses of principal and/or interest due to claim penalties, loss of guarantee and insurance below 100%.

4. Capital Assets:

Capital assets activity for the fiscal years ended June 30 was as follows:

	Balance June 30, 2001	Additions Deletions	Depreciation	**Balance June 30, 2002**
	(dollar amounts expressed in thousands)			
Software	$ 172	$ 1,859	$ 302	**$ 1,729**
Furniture and equipment	95	-	33	**62**
Leasehold improvements	49	-	36	**13**
Total capital assets, net	$ 316	$ 1,859	$ 371	**$ 1,804**

Depreciation expense for the years ended June 30, 2002 and 2001 was $371,000 and $108,000, respectively and was charged to operations.

5. Bond and Note Issuance Costs:

Bond and note issuance costs as of June 30 are as follows:

	2002	2001
	(dollar amounts expressed in thousands)	
Bond and note issuance costs	**$ 5,382**	$ 4,636
Less accumulated amortization	**(1,992)**	(1,149)
Bond and note issuance costs, net	**$ 3,390**	$ 3,487

6. Bonds and Notes Payable:

The Authority issues bonds and notes to originate and purchase student loans. Each bond or note payable is a separate financing. All financings are revenue bonds or notes that are collateralized as provided in the financing agreements, by an assignment and pledge to a Trustee of all the Authority's rights, title and interest in the investments, student loans, and College Lender Program loans and the revenues and receipts derived there from. The Authority has issued bonds and notes in different series under master indentures which allows cross collateralizing, greater efficiency and the ability to issue additional bonds and notes.

Restrictive Covenants:

Certain indentures of trust and insurance policies include, among other requirements, covenants relative to restrictions on additional indebtedness, limits as to direct and indirect administrative expenses, restrictions to student loan portfolio mix, and requirements for maintaining certain financial ratios. Also, certain indentures of trust require the establishment of reserve accounts. The Authority was in compliance with such covenants as of June 30, 2002 and 2001.

The serial bonds and notes may, at the option of the Authority, be redeemed, without premium, from available surpluses in the respective Bond Funds. The term bonds and notes are subject to mandatory redemption at the principal amount plus accrued interest to the redemption date; to the extent monies are available in the respective Bond Funds.

Refunding:

In addition to the bond issues discussed on subsequent pages, other bonds previously issued by the Authority have been defeased (debt legally satisfied) by the issuance of refunding bonds.

The refunding resulted in a deferred loss, which is the difference between the reacquisition price and the net carrying amount of the old debt, of $2.5 million. This difference is reported as a deduction from notes and bonds payable and is charged to operations through the fiscal year 2003 using a method approximating the effective interest method. For the fiscal year ended June 30, 2002, $78,000 was amortized against operations.

6. Bonds and Notes Payable (continued):

Refunding (continued):

The refunding resulted in an economic gain (difference in the present values of the old and new debt service payments) of $ 1.5 million, based on gross savings of $312,000.

The detail of the defeased bonds' outstanding as of June 30, 2002 is as follows:

Defeased Bond Series (dollar amounts expressed in thousands)	
Series 1992E/F/G/H	$ 11,230
Series 1994J/K/L	4,300
Total defeased bonds	$ 15,530

The following bonds and notes payable are outstanding:

	Authorized And Issued	Outstanding June 30, 2001	Issued/Amortized (Redeemed) During 2002	**Outstanding June 30, 2002**
	(dollar amounts expressed in thousands)			
1999 Series A Master Indenture, Variable Rate Notes/Bonds:				
Weekly Adjustable Interest Rate Bonds				
1989A, Jun. 8, 1989	$ 80,000	$ 80,000	$ -	**$ 80,000**
1990A, Jan. 4, 1990	66,655	60,655	-	**60,655**
1999A-1, Mar. 24, 1999	16,950	10,200	-	**10,200**
1999A-2, Mar. 24, 1999	56,000	56,000	-	**56,000**
1999A-3, Mar. 24, 1999	32,300	32,300	-	**32,300**
Monthly Adjustable Interest Rate Notes				
1999A-4, Mar. 24, 1999	209,000	172,986	(24,728)	**148,258**
1999 Series IV Master Indenture, Variable Rate Notes/Bonds:				
Monthly Adjustable Interest Rate Bonds				
Series 1995III-A1, Nov. 29, 1995	32,000	12,400	-	**12,400**
Series 1999IV-A1, Nov. 1, 1999	96,800	96,800	(31,900)	**64,900**
Series 1999IV-A2, Nov. 1, 1999	96,800	96,800	(31,900)	**64,900**
Series 1999IV-A3, Nov. 1, 1999	21,800	21,800	-	**21,800**
Series 1999IV-A4, Nov. 1, 1999	19,300	19,300	-	**19,300**
Series 2001V-A, July 31, 2001	36,250	-	36,250	**36,250**
Fixed Interest Rate Notes				
Series 2001VI-A, July 31, 2001	63,800	-	63,800	**63,800**
Fixed Interest Rate Subordinate Notes/Bonds				
Series 1993I-B, Dec. 1, 1993	6,000	5,999	-	**5,999**
Series 1995II-B, Jun. 29, 1995	21,000	20,989	2	**20,991**
	854,655	686,229	11,524	**697,753**
Less Unamortized loss of defeasance on bonds and notes	-	88	(78)	**10**
Bonds and notes payable	$ 854,655	$ 686,141	$ 11,602	**$ 697,743**

6. Bonds and Notes Payable (continued):

Liquidity and Insurance Agreements:

The Authority entered into an agreement with a liquidity provider on March 24, 2000. Pursuant to the Standby Agreement, the Liquidity Provider agreed, subject to the terms and conditions therein, to purchase certain 1999 Series A-1, A-2, and A-3 Bonds, Series 1989A Bonds or Series 1990A Bonds which are tendered by the owners thereof to the Tender Agent or are subject to mandatory purchase but are not remarketed by the Remarketing Agents. The liquidity fee on principal and interest is paid quarterly. The term of the agreement is for ten years.

On March 24, 1999, the Authority entered into an agreement to obtain municipal bond insurance on the Series 1999A-1, A-2, A-3, and A-4 Bonds, Series 1989A Bonds and Series 1990A Bonds. The policy insures payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. The term of the policy is for the life of the bonds and requires an annual fee.

Weekly Adjustable Interest Rate Bonds:

The weekly adjustable interest rate bonds are subject to purchase on demand of the holder at a price equal to principal plus accrued interest on seven days notice and delivery to the Authority's Remarketing Agent and Trustee. The Remarketing Agent is authorized to sell the repurchased bonds at par by adjusting the interest rate. Interest is paid quarterly at a variable rate established weekly by the Remarketing Agent. The annual effective interest rate for such bonds was 1.77% for the year ended June 30, 2002. Under certain conditions, the bonds may be converted to a variable rate with varying interest rate periods or to a fixed rate. Bond principal matures on September 1, 2034.

Monthly Adjustable Interest Rate Notes/Bonds:

The Authority issued Taxable Senior Asset-Backed Notes that are subject to an auction every 28 days when the Auction Agent determines the interest rate for the subsequent period. The annual effective interest rate for such notes was 2.64% for the year ended June 30, 2002. Note principal matures on December 1, 2034.

The Authority issued its Tax-Exempt Senior Asset-Backed Bonds that are subject to an auction every 35 days when the Auction Agent determines the interest rate for the subsequent period. The effective interest rate for such bonds was 1.84% for the year ended June 30, 2002. Bond principal matures on December 1, 2002 and November 27, 2012.

The Authority issued its Taxable Notes under a master indenture. Interest on such taxable notes is paid monthly at a variable rate equal to a predetermined percentage above the LIBOR rate. The annual effective interest rate for such notes was 2.77% for the year ended June 30, 2002. Note principal matures on December 1, March 1, June 1 and September 1 through March 1, 2009.

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6. Bonds and Notes Payable (continued):

Fixed Interest Rate Notes:

The Authority issued its Taxable Senior Asset-Backed Notes in accordance with the terms of the master indenture. Interest on the notes is paid on September 1, December 1, March 1 and June 1. The annual effective interest rate for such notes was 5.65% for the year ended June 30, 2002. Note principal matures on December 1, 2011.

Fixed Interest Rate Subordinate Notes/Bonds (net of discount):

The Authority issued its Tax-Exempt Subordinate Asset-Backed Notes/Bonds concurrently with the issuance of the Taxable Senior Asset-Backed Notes/Bonds. The Subordinate Notes/Bonds are payable from the Trust Estate on a subordinate basis to the Senior Notes/Bonds in accordance with the terms of the master indenture. Interest on the subordinate notes/bonds is paid on June 1 and December 1. The annual effective interest rate for such notes/bonds was 6.09% for the year ended June 30, 2002. Note/bond principal matures on December 1, 2006 and 2008.

The scheduled principal and interest payments (based on interest rates at June 30, 2002) relating to the Authority's bonds and notes is as follows (excluding the unamortized loss on defeasance of $10,000):

	Principal	Interest	Total
	(dollar amounts expressed in thousands)		
2003	$71,268	$14,826	$86,094
2004	29,032	14,021	43,053
2005	26,988	13,377	40,365
2006	25,544	12,814	38,358
2007	29,851	12,079	41,930
2008-2012	100,774	47,990	148,764
2013-2017	19,300	30,693	49,993
2018-2022	21,000	30,023	51,023
2023-2027	140,655	23,606	164,261
2028-2032	35,000	17,473	52,473
2033-2037	198,331	9,125	207,456
Total bonds and notes payable	**$ 697,743**	**$ 226,027**	**$ 923,770**

7. Commitments and Contingencies:

Grants and Other:

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenses under the terms of the grants. Such audits could lead to reimbursement to the grantor agency or the U.S. Department of Education. Management believes that any liabilities arising from such audits will be immaterial to the financial statements.

7. Commitments and Contingencies (continued):

Purchase Commitments:

The Authority has entered into agreements to purchase student loans from lenders throughout Colorado. Approximately $107.3 million of remaining purchase commitments was outstanding as of June 30, 2002. See Note 13 for description of additional debt issued to finance purchase commitments.

Lease Commitments:

The Authority leases certain office facilities under an operating lease agreement which expires on February 14, 2003. The total rent expense for the fiscal years ended June 30, 2002 and 2001 was $188,000 and $181,000, respectively. Minimum future lease payments under the agreement are $122,000.

8. 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.

8. Retirement Plan (continued):

Funding Policy:

Most employees contribute 8.0 percent (10.0 percent for state troopers) of their gross covered wages to an individual account in the plan. During fiscal year 2002, the state contributed 9.9 percent (12.6 percent for state troopers and 13.5 percent for the Judicial Branch) of the employee's gross covered wages. Before January 1, 2002, 1.42 percent was allocated to the Health Care Trust Fund, and after January 1, 2002, 1.64 percent was allocated to the Health Care Trust Fund. Throughout the fiscal year, the amount needed to meet the match requirement established by the PERA Board was allocated to the Matchmaker program (See Note 9 below.) The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

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

The Authority's contributions to the three programs described above for the fiscal years ending June 30, 2002 and 2001 were $91,000 and $78,000, respectively. These contributions met the contribution requirement for each year.

9. Voluntary Tax-deferred Retirement Plans:

Beginning on January 1, 2001, the Matchmaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. For calendar years 2001 and 2002, the match was 100 percent of up to 3 percent of the employee's gross covered wages paid during the month (7 percent 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 percent of any reduction in the overall contribution rate due to over funding 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.

10. Postretirement Health Care and Life Insurance Benefits:

Health Care Program

PERACare (formerly known as the PERA Health Care Program) began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care 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 fiscal year 2002, the premium subsidy was $115.00 for those with 20 years of service credit ($230.00 for members under age 65), and it was reduced by 5 percent for each year of service fewer than 20. Medicare eligibility also affects the premium subsidy.

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

Health Care Program (continued)

The Health Care Trust Fund is maintained by an employer's contribution as discussed above in Note 8.

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, 2001 there were 34,235 participants, including spouses and dependents, from all contributors to the plan.

Life Insurance Program

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

11. 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.

11. Risk Management (continued):

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

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.

12. Net Assets:

The Student Loan Program Funds has net assets consisting of three components – invested in capital assets, net of related debt, restricted and unrestricted.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by any outstanding balances of bonds, mortgages, notes or other borrowing that is attributable to the acquisition, construction, or improvement of those assets. As of June 30, 2002 and 2001, the Student Loan Program Funds had invested in capital assets, net of related debt of $1.8 million and $316,000, respectively.

Restricted assets include net assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Student Loan Program Funds had restricted net assets of $57.7 million and $41.6 million as of June 30, 2002 and 2001, respectively. The Bond Funds restrict net assets to uses prescribed in the respective financing documents.

Unrestricted net assets consists of net assets that do not meet the definition of invested in capital assets, net of related debt or restricted. As of June 30, 2002 and 2001, the Student Loan Program Funds had unrestricted net assets of $42.4 million and $46.6 million, respectively. Although the Student Loan Program Funds report unrestricted net assets on the face of the statement of net assets, unrestricted net assets are to be used by the Authority for the payment of obligations incurred by the Authority in carrying out its statutory powers and duties and are to remain in the fund and not be transferred or revert to the general fund of the State of Colorado as outlined in 23.3-1-205.4 of the Colorado Revised Statutes.

13. Subsequent Event:

On August 20, 2002, the Authority issued its Tax-Exempt Bonds Series 2002VII-A1 and 2002VII-A2 of $32.0 million and $16.0 million, respectively, and its Taxable Notes Series 2002VII-A3 of $62.0 million. The Series 2002VII-A1, A2 and A3 obligations were issued on a parity basis with the 1999 Series IV Master Indenture.

The proceeds of the Series 2002VII-A1 and A2 bonds will be used to currently refund and redeem the following bonds and notes:

Series	Amount	Date of Refunding
1999IV-A3 bonds	$21.8 million	September 1, 2002
1995III-A1 Bonds	$12.4 million	October 24, 2002
1999A-1 bonds	$10.2 million	October 24, 2002

The Series 2002 VII-A3 proceeds will be used to acquire student loans.

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

Members of the Legislative Audit Committee:

We have audited the financial statements of Colorado Student Obligation Bond Authority, Student Loan Program Funds, Department of Higher Education, State of Colorado as of and for the year ended June 30, 2002, and have issued our report thereon dated August 30, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

This report is intended solely for the information and use of the Legislative Audit Committee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Clifton Gunderson LLP

Greenwood Village, Colorado
August 30, 2002

SUPPLEMENTARY INFORMATION

Colorado Student Obligation Bond Authority
Supplementary Schedule - Student Loan Program Funds Combining Statement of Net Assets
June 30, 2002
(dollar amounts expressed in thousands)

	1999A Bond Fund	1999IV Bond Fund	Total Bond Funds (Restricted)	Administrative Fund (Unrestricted)	Total Student Loan Program Funds 2002	Total Student Loan Program Funds 2001
Unrestricted assets:						
Cash deposits	$ -	$ -	$ -	$ 10,848	$ 10,848	$ 33,425
Investments	-	-	-	730	730	976
Student loans, net	-	-	-	-	-	14
Interest and other receivables	-	-	-	23,897	23,897	4,488
Interfund receivable	-	-	-	7,418	7,418	7,991
Prepaid expenses	-	-	-	17	17	33
Equipment, net	-	-	-	1,804	1,804	316
Total unrestricted assets	-	-	-	44,714	44,714	47,243
Restricted assets:						
Investments	36,248	58,388	94,636	-	94,636	100,922
Student loans, net	384,096	274,238	658,334	-	658,334	623,575
Interest and other receivables	10,282	10,923	21,205	-	21,205	16,276
Due from other agencies	305	219	524	-	524	
Prepaid expenses	273	19	292	-	292	311
Bond and note issuance costs, net	1,660	1,730	3,390	-	3,390	3,487
Total restricted assets	432,864	345,517	778,381	-	778,381	744,571
Total assets	432,864	345,517	778,381	44,714	823,095	791,814
Liabilities payable from unrestricted assets:						
Accounts payable and accrued expenses	-	-	-	379	379	271
Accrued compensated absences	-	-	-	93	93	76
Due to other agencies	-	-	-	-	-	21
Total liabilities payable from unrestricted assets	-	-	-	472	472	368
Liabilities payable from restricted assets:						
Accounts payable and accrued expenses	424	253	677	-	677	598
Due to other agencies	190	111	301	-	301	588
Interest payable	479	598	1,077	-	1,077	1,578
Interfund payable	3,290	4,128	7,418	-	7,418	6,123
Amounts due to Federal government	10,265	3,160	13,425	-	13,425	7,913
Bonds and notes payable	387,413	310,330	697,743	-	697,743	686,141
Total liabilities payable from restricted assets	402,061	318,580	720,641	-	720,641	702,941
Total liabilities	402,061	318,580	720,641	472	721,113	703,309
Invested in capital assets, net of related debt	-	-	-	1,804	1,804	316
Restricted	30,803	26,937	57,740	-	57,740	41,630
Unrestricted	-	-	-	42,438	42,438	46,559
Total net assets	$ 30,803	$ 26,937	$ 57,740	$ 44,242	$ 101,982	$ 88,505

See accompanying independent auditors' report.

Colorado Student Obligation Bond Authority
Supplementary Schedule - Student Loan Program Funds Combining Statement of Revenues, Expenses and Changes in Net Assets
For the year ended June 30, 2002
(dollar amounts expressed in thousands)

	1999A Bond Fund	1999IV Bond Fund	Total Bond Funds (Restricted)	Administrative Fund (Unrestricted)	Total Student Loan Program Funds 2002	Total Student Loan Program Funds 2001
Operating revenues:						
Interest and special allowance on student loans	$ 31,408	$ 18,770	$ 50,178	$ -	$ 50,178	$ 54,359
Investment income (loss)	1,016	2,356	3,372	1,027	4,399	10,435
Reimbursement of Scholars Choice Fund operating expenses	-	-	-	361	361	
Total operating revenues	32,424	21,126	53,550	1,388	54,938	64,794
Operating expenses:						
Interest expense	8,785	10,432	19,217	-	19,217	36,621
Rebate tax expense, net	6,035	2,062	8,097	-	8,097	5,962
Loan servicing costs	2,699	1,709	4,408	8	4,416	4,506
Bond fees	1,372	704	2,076	-	2,076	2,219
Salaries and benefits	277	185	462	634	1,096	961
Depreciation and amortization	652	934	1,586	371	1,957	830
General and administrative expenses	937	657	1,594	(860)	734	808
Total operating expenses	20,757	16,683	37,440	153	37,593	51,907
Operating income before transfers	11,667	4,443	16,110	1,235	17,345	12,887
Transfer to Prepaid Tuition Fund from Administrative Fund, unrestricted assets	-	-	-	(3,868)	(3,868)	-
Net assets, beginning of year	19,136	22,494	41,630	46,875	88,505	75,618
Net assets, end of year	$ 30,803	$ 26,937	$ 57,740	$ 44,242	$ 101,982	$ 88,505

See accompanying independent auditors' report.

COLORADO STUDENT OBLIGATION BOND AUTHORITY
STUDENT LOAN PROGRAM FUNDS
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SECTION 2-3-103 (2) states in part:

> All reports shall be open to public inspection except for that portion of any report containing recommendations, comments, and any narrative statements which is **released only upon the approval of a majority vote of the committee (emphasis supplied).**

SECTION 2-3-103.7 (1) states in part:

> Any state employee **or other individual acting in an oversight role as a member of a committee, board, or commission** who willfully and knowingly discloses the contents of any report prepared by, or at the direction of, the Office of the State Auditor prior to **the release of such report by a majority vote** of the committee as provided in Section 2-3-103 (2) is guilty of a misdemeanor and, upon conviction thereof, shall be punished by a fine of not more than five hundred dollars (emphasis supplied).

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