

**COLLEGE ACCESS NETWORK  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
Denver, Colorado**

**FINANCIAL AND COMPLIANCE AUDIT  
Fiscal Years Ended June 30, 2006 and 2005**

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This report contains the results of a financial and compliance audit of the College Access Network, Department of Higher Education, State of Colorado for the Fiscal Year ended June 30, 2006. The audit was conducted pursuant to Section 23-3.1-109, C.R.S., which authorizes the State Auditor to conduct an annual audit of the College Access Network, Department of Higher Education, State of Colorado. The report presents our conclusions, findings and recommendations and the responses of the College Access Network, Department of Higher Education, State of Colorado.

*Clifton Gunderson LLP*

Denver, Colorado  
September 22, 2006

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**COLLEGE ACCESS NETWORK  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
Fiscal Year Ended June 30, 2006**

**Authority, Purpose, and Scope**

This audit was conducted under Section 23-3.1-109, C.R.S., which authorizes the State Auditor to conduct an annual audit of the College Access Network, Department of Higher Education, State of Colorado. The State Auditor contracted with Clifton Gunderson LLP to perform this audit. The audit was conducted in accordance with auditing standards generally accepted in the United States of America as promulgated by the American Institute of Certified Public Accountants in *Statements on Auditing Standards*; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act of 1996, as amended; and the provisions of Office of Management and Budget (“OMB”) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, as amended. The purpose of this report is to present the results of the financial and compliance audit of the College Access Network, Department of Higher Education, State of Colorado for the Fiscal Years ended June 30, 2006 and 2005 and to report on current year findings and on the implementation status of the prior year recommendations.

**Audit Opinions and Reports**

We expressed an unqualified opinion on the College Access Network (the “Enterprise”) and aggregate remaining fund information financial statements, as of and for the Fiscal Years ended June 30, 2006 and 2005. We noted one reportable condition considered to be a material weakness related to the controls over claims processing and approval and two other reportable conditions relating to controls over financial reporting of College Access Network (“CAN”) and controls over disbursements. These are described in Recommendation No. 1, No. 2 and No. 3 in the “Findings and Recommendations” section of this report.

**Additional Required Communications**

**Accounting Policies.** There were no changes to the Enterprise’s accounting policies during the year ended June 30, 2006.

**Management Judgments and Accounting Estimates.** The College Access Network provides an allowance for loan losses of 92% of its purchased loans receivable. The allowance is determined based on historical collection experience of the related receivable. We reviewed management’s methodology for estimating this allowance and determined that the allowance was adequate. There were no other significant accounting estimates of financial data which would be particularly sensitive and require substantial judgment by management.

**Additional Required Communications (continued)**

***Significant Audit Adjustments.***

The following are the significant audit adjustments, identified by the auditors, during our audit for Fiscal Year June 30, 2006:

- Adjustment for \$111,325 to adjust the capital lease obligation to the correct amount.
- Adjustment of \$93,310 to write off old accounts receivable to the reserve for bad debts.
- Adjustment of \$2,256,751 to reverse erroneous client entry from deferred revenue and receivables.
- Adjustment of \$131,943 to adjust accrued compensated absences to the actual balances.
- Net adjustments of \$865,187 to beginning net asset balances for the effect of prior year audit entries not posted.
- Net adjustment of \$373,456 to property and equipment and accumulated depreciation accounts to record and adjust the accounts for various 2006 activity not previously recorded.
- Adjustment of \$3,291,175 to reverse incorrect client entry to cash and warrants payable between College Access Network's proprietary fund and the fiduciary fund cash balances.

There were various other miscellaneous adjustments which were primarily reclassification adjustments to various balance sheet accounts. These and the above adjustments are reflected on the Enterprise's financial statements for the year ended June 30, 2006. There were no other adjustments arising from the audit that could, in our judgment, either individually or in the aggregate, have a significant effect on the Enterprise's financial reporting process.

***Uncorrected Misstatements.*** There were no uncorrected misstatements aggregated by us during our current audit other than the reversal of prior year uncorrected misstatements in the amount of \$49,760. The Enterprise has determined that these uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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

**Current Year Findings and Recommendations**

The Enterprise has three current year findings and recommendations relating to controls over claim system and claim review process controls over financial reporting and controls over disbursements from the College Opportunity Fund. The Enterprise has partially agreed and agreed with these recommendations. A summary of the recommendations and the Enterprise's responses can be found in the Recommendation Locator.

**Summary of Progress in Implementing Prior Year Recommendations**

All recommendations from Fiscal Year June 30, 2004 and June 30, 2005 have been implemented.

## RECOMMENDATION LOCATOR

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<b><u>Rec. No.</u></b>	<b><u>Page No.</u></b>	<b><u>Recommendation Summary</u></b>	<b><u>Enterprise's Response</u></b>	<b><u>Implementation Date</u></b>
1.	9	CAN should implement and strengthen controls over its claims system and claims review process.	Partially Agree	February 2007
2.	12	CAN should improve its internal control over financial reporting.	Agree	March 2007
3.	13	CAN should improve and follow established controls over disbursements from the College Opportunity Fund (its Private Purpose Trust Fund).	Agree	March 2007

## **Enterprise Background (Proprietary Funds)**

College Access Network (the “Enterprise”) was created by an act of the Colorado Legislature in June 1979. During the 2004 legislative session, House Bill 04-1350 allowed the Enterprise, formerly the Colorado Student Loan Program, to change its name to Colorado College Access Network, effective July 1, 2004. College Access Network is a self-supporting enterprise and receives no State appropriation. The primary mission of the Enterprise is to assist Colorado residents with planning for and supporting lenders and Colorado institutions of higher education by administering the Federal Family Education Loan Program for the Federal Government.

On November 1, 2005, the Enterprise entered into an amendment to the original contract with Nelnet, Inc., with its principal offices located in Lincoln, Nebraska, to sell to Nelnet its student loan servicing division and to expand the administrative and support services related to such guarantee operations performed by Nelnet, Inc. Nelnet, Inc., acting as a service provider, performs loan origination services on behalf of the Enterprise, assists with Enterprise activities in accordance with the Lender Participation Agreements, the Voluntary Flexible Agreement (“VFA”), maintenance of the guarantee computer system, data exchange and other agreed upon services. As part of this agreement, Nelnet, Inc. and the Enterprise share revenue receipts with 70% credited to Nelnet, Inc. and 30% to the Enterprise. This amended agreement is for 10 years, expiring on October 30, 2015.

The Enterprise represents a partnership between Nelnet, Inc. lenders, schools, and the Federal government. The loan capital is provided by approximately 49 private lenders including banks, savings and loan associations, credit unions, pension funds, insurance companies, and secondary markets. With the support of Nelnet, Inc., the Enterprise administers the Federal Family Education Loan Program and guarantees the loans made to students and parents in accordance with Federal regulations established pursuant to *Title IV, Part B, of the Higher Education Act of 1965 (P.L. 89-329) as amended, (20 U.S.C. 1071 et seq)*. Student borrowers attend 70 participating Colorado schools, and any federally eligible school located outside of Colorado – colleges, universities, community colleges, career schools (proprietary), graduate and professional. The school certifies both student enrollment and financial costs.

The Enterprise insures the lender against financial loss from default, disability, death, or bankruptcy. Through its partnership with Nelnet, Inc., the Enterprise also provides needed technical and training assistance to schools and lenders to assure that both schools and lenders, are performing in accordance with applicable laws, regulations, and policies. Nelnet, Inc. performs loan-servicing functions for lenders such as loan disbursement and repayment, assists borrowers through default prevention activities, and pursues collection of defaulted loans on behalf of the Enterprise.



The Federal government serves as the reinsurer. If the Enterprise must reimburse a lender for an uncollectible loan, it files a claim for reimbursement to the Federal government pursuant to §428(c)(1) and §682.404(a) and the Voluntary Flexible Agreement (“VFA”). Fiscal Year 2005 is the first year under which the VFA existed between the Enterprise and the Federal government (U.S. Department of Education). Under the VFA, claims paid by the Enterprise are reimbursed at 100% by the Federal government. In addition, the Enterprise is not only compensated for its collection efforts on defaulted loans, but also for its success at preventing such delinquencies and defaults.

### **Federal Family Education Loan Program**

As previously mentioned, the Enterprise administers the Federal Family Education Loan Program (the “FFEL” program) for the Federal government. Since inception of the Enterprise in 1979, approximately \$15.8 billion of loans have been guaranteed. The total loan portfolio (net loans outstanding) at June 30, 2006 is \$9.9 billion. The FFEL program consists of Stafford, PLUS, and Consolidation Loans as described below.

### **Federal Stafford Loans (Subsidized and Unsubsidized)**

Any student, regardless of income, may receive a Federal Stafford Loan. This program makes low-interest rate loans to students enrolled at participating colleges and universities. The interest rates are variable, and they are adjusted on July 1<sup>st</sup> of each year. Subsidized Stafford Loans are those in which the Federal government pays the interest on the loan as long as the student is in school, or in grace period, or in loan deferment. If the student does not qualify financially for federal interest subsidy, the student can still borrow but will be responsible for interest payments (Unsubsidized Stafford Loan). The interest may be paid while in school, or it may accrue and be paid upon leaving school.

Since the creation of the Enterprise in 1979, Stafford loans totaling over \$5.9 billion have been made to students. Students borrowed a total of \$472 million in Stafford Loans in Fiscal Year 2006.

### **Federal PLUS Loans**

Parents of dependent undergraduate students are eligible to borrow under another Federal Loan Program called the Parent Loans for Undergraduate Students (PLUS). PLUS loans are not based on financial need, and have a variable interest rate that is also adjusted on July 1<sup>st</sup> of each year. The maximum amount that can be borrowed is limited only by the cost of school attendance minus any other financial aid. The school financial aid office and/or the lender make the final determination on the amount.

Since 1979, parents participating in the PLUS program have received over \$469 million in loans. In Fiscal Year 2006, the PLUS loans totaled \$51 million.

## **Federal Consolidation Loans**

Students attending a college or university may have more than one type of loan. The Federal Loan Consolidation Program allows student borrowers to combine their Stafford, Perkins, Federally Insured Student Loans (“FISL”), Health Professional Student Loans (“HPSL”), or Federal Supplemental Loans for Students (“SLS”) into one loan. PLUS loans made after October 17, 1986, can be consolidated by parent borrowers. Effective January 1, 1993, defaulted loans may be consolidated provided certain conditions are met. Consolidating loans may result in a lower payment, longer repayment period and no insurance premium is charged. In addition, the interest rate for loan consolidations is fixed for the life of the loan.

Since inception of this program, loan consolidations total \$9.1 billion. In Fiscal Year 2006, \$3.9 billion in net loan consolidations were generated.

Additional information regarding the services and activities of the Enterprise may be obtained from the Director’s Office.

## **College Opportunity Fund (Fiduciary Fund)**

The College Opportunity Fund is a private purpose trust fund with the financial operations managed by the College Access Network, an Enterprise fund of the State of Colorado. The College Opportunity Fund’s activities are accounted for in a fund that resides with the State. On an annual basis, the General Assembly appropriates funds to the Colorado Commission on Higher Education for purposes of supporting the College Opportunity Fund.

### **Background**

The State of Colorado changed its funding system for public higher education to a student-stipend program known as the College Opportunity Fund (or “COF”) in fall 2005. Under the new system, the State no longer makes direct lump-sum financial transactions to its public institutions for undergraduate education. Instead, these funds are provided to public and private higher education institutions on behalf of resident undergraduate students in the form of a stipend.

Stipends are set annually by the General Assembly during the state’s budget process. The allocation is defined on a per-credit-hour basis where the advertised amount is representative of a full-time student taking 30 credit hours each year. For the 2005-06 academic year, the state provided each participating student with a \$2,400 stipend or \$80 per credit hour.

Each student receives an account of 145 lifetime credit hours that may be applied toward the cost of total in-state tuition for undergraduate degree programming. Caps do not exist on the number of credit hours that a student may take in any given academic year. Students who are unable to complete a baccalaureate degree within 145 credit hours may apply through either their institution or the Colorado Commission on Higher Education for a one-time waiver of their lifetime-credit-hour allocation. Those students who exhaust their lifetime credit hour cap and are not provided a waiver will be required to pay the full cost of in-state tuition for the completion of their degree.

Students who receive a baccalaureate degree following July 1, 2005, will be provided an additional 30 credit hours that can be applied toward continuing education conducted at the undergraduate level. In addition, any undergraduate course that is cash or fee-for-service funded, such as is ineligible to receive stipend reimbursement. Any stipend expenditure toward these courses would result in double billing.

#### Students Attending Private Institutions

A portion of the College Opportunity Fund program was established to provide Pell-eligible students attending selected private institutions the ability to receive a half stipend or \$40 per credit hour. For participation purposes, these students must have graduated from a Colorado high school and be considered an in-state resident.

#### Performance Contracts

Under the College Opportunity Fund, all public and participating private institutions are required to enter into a performance contract with the Colorado Department of Higher Education. For the public colleges and universities, the intent of the contracts is to eliminate the current one-size-fits-all practice of quality control while enforcing a system of program accountability.

Legislative provisions within the College Opportunity Fund program established essential goals that are included in each institution's contract. This language states that institutions will continue to focus on improving student access and success, advancing institutional quality and operation, and developing the state's workforce. Additionally, the contracts aim to strengthen statewide efficiency programs that were designed to help students graduate in a timely manner.

Contracts with participating private institutions differ from those signed with the state's public institutions. The quality assurance reporting that is developed with these institutions focuses specifically on the graduation, retention, and success rates of participating Pell-eligible students.

#### Fee-for-Service Contracts

In addition to the funding that public institutions receive from the student stipends, they also collect state general fund dollars by entering into a fee-for-service contract with the Colorado Department of Higher Education. These contracts allow the state to purchase "specified educational services and facilities required for the full development of Colorado's educational and economic opportunities" (SB04-189). Institutional programs that receive fee-for-service funding may not collect stipend reimbursement from participating students.

### **How the College Opportunity Fund Works**

The College Opportunity Fund was established to increase the number of Coloradans pursuing education beyond high school. Fundamentally believing that a post secondary education experience for Coloradans is essential for the state to compete in the new global economy and to develop a new generation of leaders and active participants in state and local affairs. This new funding system should encourage access and student enrollment for undergraduate students while maintaining distinctive missions of universities and colleges and encouraging geographical access. It is intended to fundamentally change the process by which the state finances postsecondary education from funding institutions to funding individuals. While the intent is to

change the process of funding for postsecondary education, funding for postsecondary education is not an entitlement. During periods of revenue shortfalls, the general assembly may use a variety of mechanisms to balance the state's budget, including reducing appropriations to institutions of higher education, decreasing the value of the stipend, or placing a limit on the number of stipends funded under this act based upon the overall budgetary needs of the state.

#### Tuition

Under the College Opportunity Fund, resident students receive a bill for the total cost of in-state tuition, which includes both the student's share of tuition and the stipend. All eligible students who attend participating public institutions receive the same per credit stipend amount from the state.

#### Financial Aid

The College Opportunity Fund is not considered financial aid. The College Opportunity Fund is a way of delivering funding to institutions as stated in statute and the stipend is not classified as student financial aid. The stipend is not included in calculating a student's cost of attendance nor is it a resource to the student for financial aid purposes for students attending a public institution of higher education. When the state's budget for higher education is appropriated, funding for financial aid and the stipend are made through separate allocations.

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## Findings and Recommendations

### Control Over Claim Records

The College Access Network (the Enterprise) is a state agency that operates as a partnership between lenders such as banks, higher education institutions, and the U.S. Department of Education (USDE). The capital for making loans to students is provided by 49 private lenders which include banks, savings and loan associations, credit unions, pension funds, insurance companies, or secondary markets. Under the Federal Family Education Loan Program, the Enterprise insures lenders against financial loss from default, disability, death, or bankruptcy. The USDE serves as the reinsurer. If the Enterprise must reimburse a lender for an uncollectible loan, it files a claim for reimbursement to the USDE which is currently being reimbursed at 100%. The amount of claims filed with the USDE by the Enterprise during the Fiscal Year 2006 was \$105,045,747.

During Fiscal Year ended June 30, 2006, the Enterprise contracted with a third-party, NelNet, Inc. (“NelNet”) to perform various functions related to student loans which includes processing lenders’ claims. Under the contract between NelNet and the Enterprise, lenders’ claims are submitted directly to NelNet for processing, however, USDE issues the payment for the claim to the Enterprise, which is responsible for federal reporting to the USDE.

This contract requires that NelNet maintain the claims system, and all claim records are kept electronically by NelNet. Because the Enterprise is responsible for the payment of the claim to the lender, the Enterprise has access to all claim records. There are currently 14 personnel at NelNet and one at the Enterprise that have access to the claim system. Each employee has his or her own employee code so that access to the system and/or approvals to claims can be monitored and tracked. Access to the system is granted to the employees by NelNet’s information systems department.

During our testwork, we found problems with the claims system and the claims review process. Specifically we found that:

- **Changes to claim files are not maintained on the system.** NelNet does not have a control system in place within the claims system that monitors the integrity of claim files and tracks specific changes performed by the claim examiners. Changes can be made to claim files when, for example, interest needs to be recalculated, the payoff amount to the lender is different than the amount submitted by whom or when a lender submits additional information for a claim file. When these changes are made, modifications to the claim files are not traceable within the claims system. In other words, the claim system lacks a history of specific claim file changes. Although personal codes of employees are recorded on the claims system, the system does not keep a record of information changes and transactions. While it is possible to view up to four personal codes, meaning that there have been four file changes/revisions made, if a particular claim file was modified more than four times, the “oldest” codes will be overwritten within the claim system

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## Findings and Recommendations (continued)

The Enterprise staff stated that although specific changes made to the claim are not tracked, the NelNet claims examiner reviews the original electronic claim file during the final claim file review process to ensure that all information is correct. However, we question the value of the approving examiner review during the final review process if the approving examiner is unable to view all changes made to the claim file on the claim system. When the approving examiner gives final approval on the claims system, the examiner is certifying all information on the screens of the claim system to be true and accurate. Although an archive of the final system file for the approved claim is maintained, an archive of changes in an automated system should be part of the final approved claim so that there is an audit trail to track changes made to the system, reduce the risk of errors in the system, and ensure that financial information is complete and accurate.

- **Approving official's sign-off was not present to confirm accuracy of original claim document.** In addition to claims information kept on the claims system, once the approving examiner certifies that all information is correct, the examiner is required to place his or her electronic signature on the original electronic documentation received from the lender. This control documents the examiners quality control review of the claim file before the file is submitted to the Enterprise for payment. We noted 6 out of 30 transactions tested where the electronic approval was not entered on the original electronic documentation. Although there was evidence of approval by the examiner from their authority code, the electronic approval was not present on the original electronic documentation. By not ensuring that required electronic signatures are present on the original electronic lender documentation, there is no way to verify that the claims reviewer used the original documentation to certify that the claim sent to the Enterprise from the NelNet claim system is accurate.
- **Changes and approvals may be performed by the same individual.** As stated previously, changes to the claim system can be made only by personnel with access codes. However, we found that the same person changing information to the claim file also can approve the changes made to the claim file. Controls should be in place to prevent and detect the risk of inappropriate changes. Without an independent review and approval of all changes, there is the risk that errors may occur and claims paid to the lender may be inaccurate.
- **Lack of documentation for quality control process.** A review of claims paid is done by NelNet on a sample basis to ensure that the payment was proper. As part of the Enterprise's oversight responsibility of the claims process at NelNet, the Enterprise reviews a random sample of claims paid. Through inquiry of the Enterprise staff and NelNet staff, it was noted that neither entity's selection and review process was documented, performed consistently, or performed on a timely basis to ensure that the established quality control procedures were followed. Without documentation of the

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## Findings and Recommendations (continued)

review process, there is no way that the Enterprise can determine whether NelNet is properly processing claims. In addition, NelNet is not able to demonstrate that it has a process in place to evaluate its claims processing. Documentation, timeliness, and consistent processes are important to substantiate that a claims review process is implemented and working effectively and can be relied upon to determine and document the accuracy of the claims filed and improve the quality control review process.

The Enterprise should ensure that the claims system includes a history of all changes made to claim files, the approving electronic signature is present on all claim images, there is segregation of duties between those making changes and approving changes, and that the internal audit process over claims is documented and performed consistently by both NelNet and the Enterprise. Without these controls in place the Enterprise increases the risk of inaccurate or incomplete claims submitted to the Federal Department of Education for reinsurance and errors in the claims paid to lenders.

### Recommendation No. 1

The Enterprise should implement and strengthen controls over the claims system and claims review process by:

- a. Establishing history capabilities within the claims system to reflect all individual changes made to all claims. These capabilities should include the ability to track individual changes to claim information by user code and limit access to appropriate users.
- b. Establishing segregation of duties between those making changes to the system and those approving the changes to the system and ensuring that all approving sign-offs are present to ensure the integrity of the information on the system.
- c. Ensuring that the quality control process over claims performed by the Enterprise and by NelNet are appropriately documented, conducted timely and consistently, and that results are evaluated and used to implement changes to the claims process when needed.

### Enterprise Response:

**1a.** – Partially agree. Implementation Date: February 2007. We agree that the claims system does not track specific claim file changes. However, all changes made to the claims system are documented on the Common Claims Initiative (CCI) form received from the lender. The CCI form is the source document to initiate claims payment and is maintained on the imaged claim file. When a claims examiner performs the final exam and approval of the claim; they check to ensure that all changes made to the claims system are documented, agreed and accurately reflected on the CCI form. We believe that the CCI form provides adequate controls, and any risk associated with the lack of the system tracking specific claim file changes is mitigated by documenting those changes in the imaged claim file. Furthermore, due to the architectural design

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## **Findings and Recommendations (continued)**

of the existing system, enhancements to the system would be cost prohibitive. While we believe that compensating controls are adequate, we anticipate conversion in 2008 to a new relational database system that will capture and maintain transactional level changes.

**1b.** – Partially Agree. Implementation Date: February 2007. We concur that the person approving the claim can also make changes to the claim. However, changes can only be made to system defined unrestricted fields. Additionally, all claims are subject to a quality control review process. 100% of all claims processed by new claim examiners are reviewed by quality control and 10% of all claims by claims examiners are reviewed. Any systematic or recurring errors found are addressed with the appropriate personnel. Implementation of this recommendation would cause performance of two complete independent reviews of all claims processed; rendering it cost prohibitive and not feasible given the federal time constraints placed on the guarantee agency to process such claims. We feel that the quality control process is consistent with industry standards and practices and is adequate control over the claims processing. We concur that the sign-off on the CCI form is a good business practice and will put appropriate controls in place to ensure it is completed.

**1c.** – Agree. Implementation Date: February 2007. Our service provider (Nelnet) has developed and implemented procedures to ensure that all claims selected for quality control review and the results of that review are documented. In addition, the Enterprise also performs a quality control review to ensure the payment to the lender is correct and that it meets federal regulatory requirements. The Enterprise will develop and implement procedures to ensure the quality control review process in place is documented, performed consistently and timely.

### **Internal Control over Financial Reporting**

The College Access Network (the Enterprise) has had significant turnover in its accounting staff over the last five fiscal years, including, during our Fiscal Year 2006 audit. Because of the high turnover rate, we found several instances where this affected the accounting function. This included various transactions that were not recorded in a timely manner, and as a result, adjustments to the financial records were necessary. Specifically, we found:

- \$865,187 of prior year audit adjustments were not made to the general ledger which resulted in incorrect beginning net asset balances for Fiscal Year 2006.
- Various transactions involving property and equipment accounts totaling \$373,456 were not recorded or reconciled until year-end.
- Other adjustments or reclassifications were required to various other balance sheet accounts including amounts due to or from DE of \$2,256,751 and cash and warrants payable of \$3,291,175.
- Staff were unable to provide adequate supporting documentation and explanations for various accounts in a timely manner.



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## **Findings and Recommendations (continued)**

These problems delayed the Enterprise's preparation of the basic financial statements and their submission to the external auditors for review. These problems indicate a lack of procedures and processes in place to adequately ensure that the overall compilation of the accounting information is accurate, complete and reconciled to the general ledger during the year and at year-end. Furthermore, training for new and existing employees should be adequate to ensure the control procedures are properly followed.

The Enterprise has the responsibility of safeguarding the State's assets and ensuring that financial information is complete and accurate. The Enterprise should make improvements in its internal controls over financial reporting to ensure that subsequent year's activities are properly recorded, reconciled to supporting documentation and adjustments are approved and reviewed before recording information into the State's accounting system. Improvements to the internal control procedures will help promote accurate and timely financial statements, in addition to providing timely information for managing Enterprise programs on a proactive basis.

### **Recommendation No. 2**

The Enterprise should improve its internal control over financial reporting by performing a comprehensive review of its current internal control structure for adequacy and strengthening controls where necessary, especially in the areas of account reconciliation to the general ledger for all balance sheet and material revenue and expense accounts, procedures for ensuring that all reclassifications and adjustments necessary are completed prior to year-end. The Enterprise should conduct staff training, as appropriate.

### **Enterprise Response:**

Agree. Implementation Date: March 2007. The Enterprise will establish procedures to ensure account reconciliation workpapers are prepared for all balance sheet accounts and material revenue and expense accounts. Additionally, the Enterprise will undertake a review of its existing internal control structure and implement improvements where necessary. A training program will be established to ensure staff is appropriately trained.

### **Disbursement Procedures for the College Opportunity Fund**

During Fiscal Year 2004, the Colorado Legislature passed Senate Bill 04-189 establishing the College Opportunity Trust fund. The College Opportunity Fund Program ("COF") was established as a trust fund to provide financial assistance or stipends to eligible undergraduate students to attend designated colleges within Colorado. According to the statute, the College Access Network (the Enterprise) has been given the responsibility for the administration of the COF program. To obtain the stipend, an eligible undergraduate student must apply for the stipend and be admitted to the higher education institution. For Fiscal Year 2006, the State Legislature approved a stipend amount of \$80 per credit hour per eligible student per semester. During Fiscal Year 2006, there was \$272,523,122 disbursed from the College Opportunity Fund for stipend payments to higher education institutions.

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## **Findings and Recommendations (continued)**

In addition to meeting criteria at the institution level, students must apply to the Enterprise to receive a stipend from the College Opportunity Fund. By submitting an application, and if all eligibility requirements have been met, the student is authorizing the school he or she attends to receive money from the College Opportunity Fund on their behalf. In order to receive payment, the school the student attends is responsible for separately sending COF a detailed invoice of all eligible students and eligible credit hours.

At the beginning of each semester, each participating Colorado institution sends the Enterprise a complete list of all eligible students. The Enterprise reconciles the school list with each student's application. If all information reconciles, the Enterprise creates a "management report" which contains the calculated disbursement amount to be sent to each participating school by the Enterprise. The disbursement is based on the eligible credit hours and dollar rate per credit hour. Funds are not disbursed until student information is reconciled. For the Fiscal Year ended June 30, 2006, Enterprise personnel were required to approve the management report as part of the disbursement process.

Once the management report is reconciled and approved, the Enterprise approves and processes an adjustment document based on the information from the management report. The adjustment document is sent to the State Treasurer's who transfer the funds to the College Opportunity Fund account. Once the funds are received by COF, an Internal Transfer ("IT") document is generated and approved on-line by the Enterprise. The Enterprise also approves the hard copy of the information. An e-mail is sent to the schools to let them know of the available funds. The schools on the State's system approve the IT disbursement within the State's accounting system and provide the banking information for the funds to be disbursed. Some schools, including private schools not on the State's accounting system, provide written authorization for the disbursement rather than approving an IT document. In these instances, the Enterprise waits for written authorization and then wires the funds directly to those schools.

For all schools on the State's accounting system, the Enterprise should have three supporting documents for COF transfers: the management report, the adjustment document, and the IT transfer document. The hard copy of all three documents is required to be physically signed to evidence approval. In addition to the hard copy signature, evidence of approval should be recorded by the Enterprise within the COF system for the adjusting document and the IT documents. For those schools not on the State's accounting system, the Enterprise must maintain as supporting evidence of approval the approved management report and the adjustment document for disbursement documentation.

During our audit for Fiscal Year 2006, we selected 25 payments totaling about \$236 million from the College Opportunity Fund to individual schools and reviewed the documentation to support the disbursement at the Enterprise. We found 14 instances where the physical approval was not on the hard copy of either the adjustment or the IT documents, although final approval on the system was made and funds were disbursed to the school.

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## **Findings and Recommendations (continued)**

We also noted 16 instances where the management report was not maintained as part of the disbursement packet at the Enterprise to support the disbursements. The documentation was provided and included within the disbursement packet after our request.

Controls over the disbursement process and supporting documentation for funds disbursed from the College Opportunity Fund need to be improved and requirements clearly communicated to Enterprise staff. The Enterprise has the responsibility to ensure that all COF funds are disbursed in the correct amounts and agree with the documentation generated by all parties. By not ensuring that controls are maintained and that the established process is followed, increases the risk of incorrect payments and differences between the COF and the schools.

### **Recommendation No. 3**

The Enterprise should improve and follow established controls over disbursements from the College Opportunity Fund by ensuring all disbursements are properly approved and evidence is documented for such approval. Furthermore, all documentation required for approval should be maintained in each disbursement file to support the disbursement.

### **Enterprise Response:**

Agree. Implementation Date: March 2007. The Enterprise will ensure that established controls already in place over College Opportunity Fund disbursements are followed by conducting periodic internal training classes for appropriate personnel. To improve controls, College Opportunity Fund staff duties will be defined to include responsibilities for ensuring all disbursements are properly approved and supporting documentation is evidenced as part of the disbursement packet.

## **Disposition of Prior Year Audit Findings**

The following is a summary of audit recommendations made as part of the financial audit for the year ended June 30, 2005 and June 30, 2004 and the current disposition of these recommendations.

### **2005 Recommendations:**

#### **Recommendation No. 1**

The Enterprise should establish control procedures over the repurchase liability accounts.

#### **Disposition**

Implemented.

#### **Recommendation No. 2**

The Enterprise should establish control procedures over collection liability accounts

#### **Disposition**

Implemented.

### **2004 Recommendation:**

#### **Recommendation No. 3**

The Enterprise should properly capitalize assets and record costs incurred relating to capital assets.

#### **Disposition**

Implemented.

**FINANCIAL SECTION**

## **Independent Auditor's Report**

Members of the Legislative Audit Committee:

We have audited the accompanying business-type activities and the aggregate remaining fund information of the College Access Network, Department of Higher Education, State of Colorado (the "Enterprise") as of and for the years ended June 30, 2006 and 2005, which collectively comprise the Enterprise's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Enterprise's management. Our responsibility is to express opinions 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 General 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 opinions.

As discussed in Note 1, the basic financial statements of the Enterprise are intended to present the financial position, and results of operations and cash flows for only that portion of the financial reporting entity, the State of Colorado, that is attributable to the transactions of the Enterprise. They do not purport to, and do not present fairly, the financial position of the State of Colorado as of June 30, 2006 and 2005 and the changes in its financial position and its cash flows, where applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate remaining fund information of the Enterprise as of June 30, 2006 and 2005 and the results of its operations and, cash flows, where applicable, thereof 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 September 22, 2006, on our consideration of the Enterprise's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 20 through 38 is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. 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 conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Enterprise's financial statements. The accompanying supplemental information for the Enterprise 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 Enterprise's basic financial statements taken as whole.

*Clifton Gunderson LLP*

Denver, Colorado  
September 22, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The Management's Discussion and Analysis (MD & A) is required by Governmental Accounting Standards. It was prepared by the College Access Network's ("Enterprise") management and is designed to provide an analysis of the Enterprise's financial condition and operating results for the Fiscal Years ended June 30, 2006, 2005 and 2004. The MD & A also informs the reader of the financial issues and activities related to the Enterprise. It should be read in conjunction with the Enterprise's financial statements, which begin on page 39. College Access Network, formerly the Colorado Student Loan Program, is a state agency that provides origination, servicing, and collection services on behalf of private and non-profit lenders participating in the Federal Family Education Loan Program ("FFEL") pursuant to the *Higher Education Act as amended*. See the Management's Discussion and Analysis ("MD&A") for the College Opportunity Fund on page 35.

### **Basic Financial Statements – College Access Network**

The financial report includes the report of independent auditors, the management's discussion and analysis, and the basic financial statements. The financial statements are interrelated and represent the financial status of the Enterprise.

The Balance Sheet is now referred to as the Statement of Net Assets, which includes the assets, liabilities, and net assets at the end of the Fiscal Year. Over time, increases or decreases in the net assets continue to serve as a useful indicator of whether the financial position of the Enterprise is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the Fiscal Year. Revenues and expenses are reported on the accrual basis. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future fiscal periods.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, non-capital, investing and capital and related financing activities. Operating activities represent the day-to-day activities of the Enterprise. Non-capital activities represent transfers to other agencies. Capital and related financing activities represent acquisitions of capital assets and payments on capital debt and capitalized leases. Investing activities represent investment earnings on temporary cash investments.

### **Financial Overview**

The College Access Network ("Enterprise") is an Enterprise Fund of the State of Colorado. The Enterprise's activities are accounted for in two separate funds residing with the State Treasurer – the Agency Operating and Loan Servicing Fund and the Federal Reserve Fund. The following condensed financial statements distinguish between the Agency Operating (operating funds) for the guarantor functions of the Enterprise and the Federal Reserve Fund. The Federal Reserve Fund is designated only for paying lender claims and/or returning funds owed to the United States Department of Education ("DE"), respectively. The Federal Reserve Fund is the property of the federal government.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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### Management Highlights

During the 2004 legislative session, House Bill 04-1350 allowed the Enterprise, formerly the Colorado Student Loan Program, to change its name to *Colorado College Access Network, d.b.a College Access Network* effective July 1, 2004. The name change was to position the Enterprise to capitalize on new markets internal and external to Colorado.

The Enterprise's largest source of revenue in the Federal Reserve Fund is reinsurance from the U.S. Department of Education ("DE") on claims paid to lenders on defaulted loans. For Fiscal Year 2006, the Enterprise claims were reimbursed at 100% reflecting the Voluntary Flexible Agreement (VFA) entered into between the Enterprise and DE, effective July 1, 2004. For Fiscal Year 2006, this represented \$103,880,565 of the \$105,413,852 in revenue for the Federal Reserve Fund. For Fiscal Year 2005, revenue from reinsurance was \$65,263,224. Total claims paid to lenders for the Fiscal Year 2006 from Federal Fund were \$105,045,747, an increase of 62% from Fiscal Year 2005. The Enterprise re-implemented on July 1, 2004 a Guarantee Fee – a 1% fee paid by students or lenders on the disbursed principal of a loan for the purpose of sustaining the Federal Reserve Fund. The Guarantee Fee terminated on June 30, 2005. A small amount of the Fiscal Year 2005 Guarantee Fee revenue was collected in Fiscal Year 2006. Guarantee Fee revenue earned by the fund in Fiscal Year 2006 totaled \$102,578 while Fiscal Year 2005 totaled \$4,131,024, a decrease of 98%. The total Federal Reserve Fund assets increased 192% between Fiscal Years 2005 and 2006. Effective July 1, 2006, the Higher Education Act, as amended, established a 1% default fee that was to be either collected by the Enterprise from lenders or borrowers or on behalf of borrowers. This is a required fee under the Higher Education Act, as amended. The establishment of the default fee terminates the ability of the Enterprise to collect a 1% guarantee fee.

On November 1, 2005, the Enterprise entered into an amendment to the original Loan Servicing contract with Nelnet, Inc. to sell its student loan servicing division and to expand the administrative and support services related to such guarantee operations performed by Nelnet, Inc. Nelnet, Inc., acting as a service provider, performs, on behalf of the Enterprise, loan origination services, assists with Enterprise activities in accordance with the Lender Participation Agreements, the VFA, maintenance of the guarantee computer system, data exchange and other agreed upon services. As part of this agreement, Nelnet, Inc. and the Enterprise share revenue receipts with 70% credited to Nelnet, Inc. and 30% to the Enterprise. In addition to the revenue sharing provision of the agreement, Nelnet, Inc. also paid \$41.2 million to the State of Colorado for the ability to perform these services. This agreement is for 10 years.

The Enterprise is in the business of guaranteeing student loans and should a loan default, continuing collection efforts on these loans. During Fiscal Year 2006, the new gross loan volume guaranteed totaled \$4,405,313,722. The gross new loan volume guaranteed in Fiscal Year 2005 was \$3,581,286,904. The difference, \$824,026,818, represents a 23% increase in new loans guaranteed.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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A large portion of this increase in new loan guarantees resulted from consolidation loan volume. Consolidation volume is created when borrowers combine all outstanding loans into a single loan that is often repaid over a longer term. In Fiscal Year 2006, new consolidation loans guaranteed totaled \$3,883,078,475, compared to \$3,060,751,345 in consolidation loan guarantees in Fiscal Year 2005. The growth rate of new consolidations guaranteed in Fiscal Year 2006 over Fiscal Year 2005 was 27%. Consolidation loans from many lenders increased in Fiscal Year 2006 as students took advantage of low interest rates. Near the end of Fiscal Year 2004, DE determined that students already in school could take advantage of consolidation options for existing loans, which added to the consolidation loan volume as lenders and schools encouraged students to consolidate outstanding debt at the lower rates.

The Enterprise's total loan portfolio (net outstanding loans guaranteed) on June 30, 2006, was \$9,901,157,162. The net outstanding loans are computed by subtracting loan cancellations from gross loan volume. The total loan portfolio increased 49% or \$3,258,598,668 in Fiscal Year 2006. The Fiscal Year 2005 net outstanding loans were \$6,642,558,494.

The Enterprise entered into a new funding agreement with the DE, effective July 1, 2004. The Voluntary Flexible Agreement (VFA) allowed the Enterprise to receive compensation performance incentives based on its success at preventing student loan defaults. Instead of receiving a majority of its fees for collecting on defaulted loans, fees are also earned by implementing strategies to prevent defaults. The Enterprise is required to prove to the DE that the VFA benefits student borrowers is cost effective to Federal taxpayers, and saves the U.S. Department of Education resources.

Operating for the second full fiscal year under its VFA with DE and the agreement with Nelnet, Inc., the Enterprise's revenue streams changed significantly in Fiscal Year 2006. With the Nelnet, Inc. agreement in place, the amount of operating expenditures were significantly reduced as Nelnet, Inc. became responsible for the majority of operating expenses.

The net increase in net assets for the Agency Operating and Loan Servicing Fund is due to revenue increases in multiple revenue sources. Net assets grew by 34.7% from \$32,572,766 in Fiscal Year 2005 to \$43,885,538 in Fiscal Year 2006. Revenue changes for all Funds, including the Federal Reserve Fund, resulting from the VFA included:

- Reinsurance from DE to the Enterprise for claim payments to lenders at 100%, rather than at 95-98% as in past years. Claims are paid from the Federal Reserve Fund and the dollar-for-dollar reimbursement offsets those payments.
- Collections reimbursement at a variable rate rather than a fixed rate of 23%. The VFA's emphasis is on preventing defaults, not on collecting on accounts in default.
- Payment of the Default Aversion Fee at a variable rate with 1.01% being the floor and rising to 1.10%. Formerly, the rate was a flat 1% on all eligible default aversion requests.

**MANAGEMENT’S DISCUSSION AND ANALYSIS (continued)**

In addition, the Enterprise may re-bill DE for diversion requests on eligible loans that are older than 12 months. Default Aversion payments also are made directly to the Enterprise by DE rather than as a transfer from the Federal Reserve Fund.

- Account Maintenance Fee and Loan Processing Issuance Fee are invoiced to DE monthly rather than quarterly as in the past.
- A Delinquency Prevention fee is based on how successful the Enterprise is in preventing delinquencies. This fee is also invoiced to DE on a monthly basis.
- The Enterprise is allowed to rehabilitate a loan based on a borrower making nine consecutive payments rather than 12 as has been done in the past. The Enterprise benefits from rehabilitating student loans, a process that allows student borrowers to rehabilitate their credit rating and bring their loans out of default.

The Federal Balanced Budget Act of 1997 and the 1998 Reauthorization of the Higher Education Act required the Enterprise to return funds to the Federal Government. In Fiscal Year 2003, two payments were made. One payment of \$23,268,032 and a second payment of \$1,577,957 were made from the Federal Reserve Fund for a total of \$24,845,989. Two additional recall payments of \$1,531,547 and \$1,531,546 will be paid to DE in Fiscal Year 2007 and Fiscal Year 2008, respectively, from the Federal Reserve Fund.

**CONDENSED SCHEDULE OF NET ASSETS**

June 30,	Agency Operating and Loan Servicing Funds		Percent Change	Federal Reserve and Drawdown Funds		Percent Change
	2006	2005		2006	2005	
<b>ASSETS</b>						
Current Assets	\$ 45,620,207	\$ 35,072,926	30%	\$ -	\$ -	
Restricted Assets	-	-		31,246,740	13,041,957	140%
Capital Assets	918,393	1,243,933	-26%	-	-	
Total Assets	<u>\$ 46,538,600</u>	<u>\$ 36,316,859</u>	28%	<u>\$ 31,246,740</u>	<u>\$ 13,041,957</u>	140%
<b>LIABILITIES</b>						
Current Liabilities	\$ 2,527,308	\$ 3,422,838	-26%	\$ -	\$ -	
Noncurrent Liabilities	125,754	321,255	-61%	-	-	
Liabilities Payable from Restricted Assets	-	-		5,466,599	4,221,993	
Total Liabilities	<u>\$ 2,653,062</u>	<u>\$ 3,744,093</u>	-29%	<u>\$ 5,466,599</u>	<u>\$ 4,221,993</u>	29%
<b>NET ASSETS</b>						
Invested in Capital Assets, Net of Related Debt	\$ 918,393	\$ 1,029,741	-11%	\$ -	\$ -	
Restricted	-	-		25,780,141	8,819,964	192%
Unrestricted	42,967,145	31,543,025	36%	-	-	
Total Net Assets	<u>\$ 43,885,538</u>	<u>\$ 32,572,766</u>	35%	<u>\$ 25,780,141</u>	<u>\$ 8,819,964</u>	192%

**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

June 30,	Agency Operating and Loan Servicing Funds		Percent Change	Federal Reserve and Drawdown Funds		Percent Change
	2005	2004		2005	2004	
<b>ASSETS</b>						
Current Assets	\$ 35,072,926	\$ 24,090,034	46%	\$ -	\$ -	
Restricted Assets	-	-		13,041,957	7,690,188	70%
Capital Assets	1,243,933	732,502	70%	-	-	
Total Assets	<u>\$ 36,316,859</u>	<u>\$ 24,822,536</u>	46%	<u>\$ 13,041,957</u>	<u>\$ 7,690,188</u>	70%
<b>LIABILITIES</b>						
Current Liabilities	\$ 3,422,838	\$ 3,640,500	-6%	\$ -	\$ -	
Noncurrent Liabilities	321,255	1,086,726	-70%	-	-	
Liabilities Payable from Restricted Assets	-	-		4,221,993	4,541,600	
Total Liabilities	<u>\$ 3,744,093</u>	<u>\$ 4,727,226</u>	-21%	<u>\$ 4,221,993</u>	<u>\$ 4,541,600</u>	-7%
<b>NET ASSETS</b>						
Invested in Capital Assets, Net of Related Debt	\$ 1,029,741	\$ 386,451	166%	\$ -	\$ -	
Restricted	-	-		8,819,964	3,148,588	180%
Unrestricted	31,543,025	19,708,859	60%	-	-	
Total Net Assets	<u>\$ 32,572,766</u>	<u>\$ 20,095,310</u>	62%	<u>\$ 8,819,964</u>	<u>\$ 3,148,588</u>	180%

*Agency Operating and Loan Servicing Funds – Fiscal Year 2006*

Unrestricted Net Assets of the Agency Operating and Loan Servicing Funds increased from \$31,543,025 to \$42,967,145 or 36% in Fiscal Year 2006. With the amended Nelnet agreement in place, both the Enterprise revenue and expenditures were affected. Two significant revenue changes affected Fiscal Year 2006. The first was a substantial decrease in contractual service fees related to loan servicing fees. Loan Servicing fees were reduced by \$3.1 million due to the sale of this division to Nelnet, Inc. The other significant change was the receipt of \$41.2 million from Nelnet under the agreement. New origination and consolidation volume increased the Enterprise's gross overall loan portfolio. Normally, this would have increased Agency revenues but with the amended Nelnet agreement in place, 70% of these revenues from November 1, 2005 to June 30, 2006 were shared with Nelnet, Inc. for their share and 30% remained with the Agency due to the revenue sharing provisions of the amended agreement. (See Condensed Statement of Revenues and Condensed Statement of Expenses on the following pages.) Total liabilities decreased 29% because of a reduction in the amount owed to vendors as well as the transfer of loan collections due to DE from the Agency Operating Fund to the Federal Reserve Fund compounded by a 42% reduction in accrued salaries and benefits.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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### *Agency Operating and Loan Servicing Funds – Fiscal Year 2005*

Unrestricted Net Assets of the Agency Operating and Loan Servicing Funds increased from \$19,708,859 to \$31,543,025 or \$11,834,166 (60%) in Fiscal Year 2005 due to the increase in collection fees as well as an increase in the Federal Account Maintenance Fee. Current liabilities decreased 6% from \$3,640,500 to \$3,422,838 or a reduction of \$217,662 in Fiscal Year 2005. The most significant change occurred in accounts payable and accrued liabilities, which resulted from a decrease in accounts payable. The reduction in accounts payable was due to a \$274,783 reduction in vouchers payable which is a timing difference between when a voucher is prepared and the State Treasury releases the voucher, and a \$122,555 reduction in deferred revenues.

### *Federal Reserve Fund – Fiscal Year 2006*

Total assets increased in Fiscal Year 2006 by 140% reflecting one significant change. As part of the Nelnet agreement, the Enterprise transferred \$14,000,000 into the Federal Reserve Fund from the Agency Operating Fund to assist in meeting the Federal Reserve requirement of 25 basis points for future years. Guarantee fees were not collected in Fiscal Year 2006 as they terminated at the end of Fiscal Year 2005. The amount collected in Fiscal Year 2006 was from loans guaranteed prior to July 1, 2005 with the guarantee fees being collected shortly thereafter in Fiscal Year 2006.

The total change in net assets was an increase of \$16,960,177 (192%) from \$8,819,964 to \$25,780,141. The total increase reflects a net transfer of \$15,847,530, which included the \$14,000,000 transferred during November 2005 into the Federal Reserve Fund from the Agency Operating and Loan Servicing Fund that was mentioned in the preceding paragraph.

### *Federal Reserve Fund – Fiscal Year 2005*

Total assets increased in Fiscal Year 2005 from \$7,690,188 to \$13,041,957 or \$5,351,769 (70%). The increase resulted from an increase in the amount of Federal Reinsurance due to the Enterprise as well as a decrease in Federal insurance receivable. Beginning with Fiscal Year 2005, the Agency received 100% reinsurance on claims paid to lenders rather than the 95% received in Fiscal Year 2004. Also, the amount of Federal receivables decreased due to the receipt of reinsurance funds due the agency from the DE prior to the end of the Fiscal Year 2005. Normally, funds due are received in the following fiscal year.

The total change in net assets was an increase of \$5,671,376 (180%) from \$3,148,588 to \$8,819,964. This increase resulted from the receipt of guarantee fees (\$4,131,024) based on 1% of the principal amount of guaranteed loans disbursed to borrowers.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### CONDENSED SCHEDULE OF CHANGES IN NET ASSETS

Years Ended June 30,	Agency Operating and Loan Servicing Funds			Percent Change	Federal Reserve and Drawdown Funds			Percent Change
	2006	2005			2006	2005		
Operating Revenues	\$ 20,776,700	\$ 31,103,550		-33%	\$ 105,413,852	\$ 71,047,303		48%
Operating Expenses	10,669,547	20,040,311		-47%	105,082,969	64,740,853		62%
<b>Operating Income or (Loss)</b>	<b>10,107,153</b>	<b>11,063,239</b>		-9%	<b>330,883</b>	<b>6,306,450</b>		-95%
Earnings on Investments	1,018,332	534,385		91%	781,764	346,953		125%
Loss on Sale of Equipment	(85,204)	-		100%	-	-		
Net intergovernmental non- operating expenses and transfers	(40,927,509)	879,832		-4752%	15,847,530	(982,027)		-1714%
Special Item	41,200,000	-		100%	-	-		
<b>NET INCREASE/(DECREASE) IN NET ASSETS</b>	<b>11,312,772</b>	<b>12,477,456</b>		-9%	<b>16,960,177</b>	<b>5,671,376</b>		199%
<b>NET ASSETS, BEGINNING</b>	<b>32,572,766</b>	<b>20,095,310</b>		62%	<b>8,819,964</b>	<b>3,148,588</b>		180%
<b>NET ASSETS, ENDING</b>	<b>\$ 43,885,538</b>	<b>\$ 32,572,766</b>		35%	<b>\$ 25,780,141</b>	<b>\$ 8,819,964</b>		192%

Years Ended June 30,	Agency Operating and Loan Servicing Funds			Percent Change	Federal Reserve and Drawdown Funds			Percent Change
	2005	2004			2005	2004		
Operating Revenues	\$ 31,103,550	\$ 20,946,214		48%	\$ 71,047,303	\$ 51,275,215		39%
Operating Expenses	20,040,311	21,061,620		-5%	64,740,853	51,760,586		25%
<b>Operating Income or (Loss)</b>	<b>11,063,239</b>	<b>(115,406)</b>		9686%	<b>6,306,450</b>	<b>(485,371)</b>		1399%
Earnings on Investments	534,385	44,052		1113%	346,953	29,578		1073%
Loss on Sale of Equipment	-	(49,944)		-100%	-	-		
Net Total Transfers In/(Out)	879,832	1,951,220		-55%	(982,027)	(2,098,662)		-53%
<b>NET INCREASE/(DECREASE) IN NET ASSETS</b>	<b>12,477,456</b>	<b>1,829,922</b>		582%	<b>5,671,376</b>	<b>(2,554,455)</b>		322%
<b>NET ASSETS, BEGINNING</b>	<b>20,095,310</b>	<b>18,265,388</b>		10%	<b>3,148,588</b>	<b>5,703,043</b>		45%
<b>NET ASSETS, ENDING</b>	<b>\$ 32,572,766</b>	<b>\$ 20,095,310</b>		62%	<b>\$ 8,819,964</b>	<b>\$ 3,148,588</b>		180%

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### CONDENSED SCHEDULE OF REVENUES

Years Ended June 30,	Agency Operating and Loan Servicing Funds		Percent Change	Federal Reserve and Drawdown Funds		Percent Change
	2006	2005		2006	2005	
<b>OPERATING REVENUES</b>						
Federal Grants and Contracts	\$ 17,762,986	\$ 25,155,493	-29%	\$ 104,233,070	\$ 65,642,773	59%
Charges for Goods and Services	2,594,108	5,667,484	-54%	102,578	4,131,024	-98%
Interest on Purchased Loans	402,842	259,891	55%	-	-	
Other	16,764	20,682	-19%	1,078,204	1,273,506	-15%
Total Operating Revenues	20,776,700	31,103,550	-33%	105,413,852	71,047,303	48%
<b>NONOPERATING REVENUES</b>	1,018,332	534,385	91%	781,764	346,953	125%
<b>INTERFUND TRANSFERS IN</b>	-	982,027		15,847,530	-	100%
<b>SPECIAL ITEM</b>	41,200,000	-	100%	-	-	
<b>TOTAL REVENUES</b>	<u>\$ 62,995,032</u>	<u>\$ 32,619,962</u>	<u>99%</u>	<u>\$ 122,043,146</u>	<u>\$ 71,394,256</u>	<u>71%</u>

Years Ended June 30,	Agency Operating and Loan Servicing Funds		Percent Change	Federal Reserve and Drawdown Funds		Percent Change
	2005	2004		2005	2004	
<b>OPERATING REVENUES</b>						
Federal Grants and Contracts	\$ 25,155,493	\$ 15,277,292	65%	\$ 65,642,773	\$ 51,106,407	28%
Charges for Goods and Services	5,667,484	5,217,078	9%	4,131,024	168,808	2347%
Interest on Purchased Loans	259,891	414,475	-37%	-	-	
Other	20,682	37,369	-45%	1,273,506	-	100%
Total Operating Revenues	31,103,550	20,946,214	48%	71,047,303	51,275,215	39%
<b>NONOPERATING REVENUES</b>	534,385	44,052	1113%	346,953	29,578	1073%
<b>INTERFUND TRANSFERS IN</b>	982,027	2,098,662	-53%	-	-	
<b>TOTAL REVENUES</b>	<u>\$ 32,619,962</u>	<u>\$ 23,088,928</u>	<u>41%</u>	<u>\$ 71,394,256</u>	<u>\$ 51,304,793</u>	<u>39%</u>

#### *Agency Operating and Loan Servicing Funds – Fiscal Year 2006*

Federal Grants and Contracts decreased in Fiscal Year 2006 from \$25,155,493 to \$17,762,986 or 29% in the Agency Operating and Loan Servicing Funds. As previously discussed, most changes in guarantee-related revenue resulted from decreased revenue due to the revenue sharing with Nelnet, Inc. Nearly \$3.9 million in collections revenue was shared directly with Nelnet. In addition, all revenue related to the VFA was also shared, decreasing the amount of revenue the agency received. In addition, contractual service fees related to loan servicing decreased nearly \$3.1 million. Total operating revenues actually decreased 33%, again mainly due to the revenue sharing between the Agency and Nelnet, Inc. The overall Enterprise cash flow continued to improve due to monthly invoicing of fees due from DE compared to previous quarterly payment of those revenues. Special items increased 100%, due to the receipt of \$41.2 million from Nelnet, Inc. in a one time transaction.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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Non-operating revenues in the Agency Operating and Loan Servicing Funds consist of earnings on temporary cash investments. Investment earnings increased from \$534,385 in Fiscal Year 2005 to \$1,018,332 (90.6%) in Fiscal Year 2006 – a reflection of larger cash flow available on a monthly basis in the Enterprise funds invested by the State Treasurer and somewhat higher interest rates.

### *Agency Operating and Loan Servicing Funds – Fiscal Year 2005*

Federal Grants and Contracts increased in Fiscal Year 2005 from \$15,277,292 to \$25,155,493 or \$9,987,201 (64.7%) in the Agency Operating and Loan Servicing Funds primarily due to increased defaulted loan collections and an increase in the account maintenance and loan processing and issuance fee. Purchased Loan interest decreased by \$154,584 from \$414,475 to \$259,891 in Fiscal Year 2005.

Non-operating revenues in the Agency Operating and Loan Servicing Funds consist of earnings on temporary cash investments. Investment earnings increased from \$44,052 to \$534,385 in Fiscal Year 2005 or \$490,333 (1,113.1%) due to a larger amount of cash available on a monthly basis for investment, higher investment interest rates and a market adjustment to the state's pool investments at the end of the Fiscal Year 2005.

### *Federal Reserve Fund – Fiscal Year 2006*

Federal Grants and Contracts increased in Fiscal Year 2006 by 58.8%, from \$65,642,773 in 2005 to \$104,233,070 in 2006. The increase reflects both an increase in the number of default claims paid to lenders and a slight increase in the size of some individual lender claims. The latter results from borrowers with larger-balance consolidation loans entering default. Reimbursement of claims by DE at 100% also impacted the increase in this revenue element. The revenue from guarantee fees paid is reflected in the Charges for Goods and Services in this fund (\$102,578) while other reflects the amount of a transfer (\$1,078,204) to clear revenue that had been recorded in the Agency Operating Fund over a number of years that was due to the Federal Reserve Fund.

### *Federal Reserve Fund – Fiscal Year 2005*

Federal Grants and Contracts increased in Fiscal Year 2005 from \$51,106,407 to \$65,642,773 or \$14,536,366 (28.4%) in the Federal Reserve Fund. This increase was caused mainly by an increase in the amount of claims reinsurance received from DE. The Enterprise received 100% reinsurance on all claims paid to lending institutions. Non-operating revenues (earnings on temporary cash investments) increased from \$29,578 to \$346,953 in Fiscal Year 2005 or \$317,375 (1,073%) in the Federal Reserve Fund. The main reason for the difference is the investment market adjustment on the State Treasury pooled investments as of June 30, 2005.



**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**CONDENSED SCHEDULE OF EXPENSES**

Years Ended June 30,	Agency Operating and Loan Servicing Funds		Percent Change	Federal Reserve and Drawdown Funds		Percent Change
	2006	2005		2006	2005	
<b>OPERATING EXPENSES</b>						
Guarantee Claims Paid to Lending Institutions	\$ -	\$ -		\$ 105,045,747	\$ 64,740,853	62%
Salaries and Fringe Benefits	5,564,503	11,855,407	-53%	-	-	
Contracted Collection Costs	522,183	1,470,786	-64%	-	-	
Other Operating and Travel	4,273,699	6,342,322	-33%	37,222	-	100%
Depreciation	309,162	371,796	-17%	-	-	
Total Operating Expenses	<u>10,669,547</u>	<u>20,040,311</u>	<u>-47%</u>	<u>105,082,969</u>	<u>64,740,853</u>	<u>62%</u>
<b>INTERGOVERNMENTAL NON-OPERATING EXPENSES</b>						
	25,079,979	102,195	24441%	-	-	
<b>INTERFUND TRANSFERS OUT</b>	<u>15,847,530</u>	<u>-</u>	<u>100%</u>	<u>-</u>	<u>982,027</u>	<u>-100%</u>
<b>TOTAL EXPENSES</b>	<u>\$ 51,597,056</u>	<u>\$ 20,142,506</u>	<u>156%</u>	<u>\$ 105,082,969</u>	<u>\$ 65,722,880</u>	<u>60%</u>

Years Ended June 30,	Agency Operating and Loan Servicing Funds		Percent Change	Federal Reserve and Drawdown Funds		Percent Change
	2005	2004		2005	2004	
<b>OPERATING EXPENSES</b>						
Guarantee Claims Paid to Lending Institutions	\$ -	\$ -		\$ 64,740,853	\$ 51,760,586	25%
Salaries and Fringe Benefits	11,855,407	12,722,611	-7%	-	-	
Contracted Collection Costs	1,470,786	2,548,645	-42%	-	-	
Other Operating and Travel	6,342,322	5,376,354	18%	-	-	
Depreciation	371,796	414,010	-10%	-	-	
Total Operating Expenses	<u>20,040,311</u>	<u>21,061,620</u>	<u>-5%</u>	<u>64,740,853</u>	<u>51,760,586</u>	<u>25%</u>
<b>OPERATING TRANSFERS OUT</b>	102,195	147,442	-31%	-	-	
<b>INTEFUND TRANSFERS OUT</b>	<u>-</u>	<u>-</u>		<u>982,027</u>	<u>2,098,662</u>	<u>-53%</u>
<b>TOTAL EXPENSES</b>	<u>\$ 20,142,506</u>	<u>\$ 21,209,062</u>	<u>-5%</u>	<u>\$ 65,722,880</u>	<u>\$ 53,859,248</u>	<u>22%</u>

*Agency Operating and Loan Servicing Funds – Fiscal Year 2006*

Salaries and Fringe Benefits decreased from \$11,855,407 to \$5,564,503 or (53%) in Fiscal Year 2006. The shifting of a majority of employees from the payroll of the Enterprise to Nelnet, Inc. caused this reduction. Once the agreement had been finalized between the Enterprise and Nelnet, Inc., employees previously employed by the Enterprise became employees of Nelnet, Inc. Contracted Collection Costs decreased 64.5% from \$1,470,786 in Fiscal Year 2005 to \$522,183 in Fiscal Year 2006 due to the agreement between the Enterprise and Nelnet, Inc. Nelnet became responsible for all collections and was reimbursed for their cost by the sharing of collection revenue. The only costs associated with outside collection agencies were costs attributed to the first four months of Fiscal Year 2006 that were directly related to the operation of the Enterprise.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Other Operating and Travel decreased from \$6,342,322 to \$4,273,699 (32.6%) due to the sale of the Loan Servicing division to Nelnet, Inc. by the Enterprise. Non-operating expenses due to other agencies increased from \$102,195 to \$25,079,979. The majority of this non-operating expense (\$25,000,000) was a payment from the Enterprise to CollegeInvest for the establishment of a statewide scholarship program to benefit Colorado higher education students. The remaining portion of the transfer (\$79,979) was to the Colorado Commission on Higher Education (CCHE). This transfer was to reimburse CCHE for the Enterprise's share of higher education indirect cost allocation.

### *Agency Operating and Loan Servicing Funds – Fiscal Year 2005*

Salaries and Fringe Benefits decreased from \$12,722,611 to \$11,855,407 or \$867,204 (6.8%) in Fiscal Year 2005. The majority of the reduction was due to an effort by CSLP to reduce staff throughout the Enterprise to more appropriate levels. Contracted Collection Costs decreased from \$2,548,645 to \$1,470,786 or \$1,077,859 (42.3%) in Fiscal Year 2005 due to a shift in collections focus from consolidations to regular borrower and rehabilitated loans. This shift in collections focus dramatically reduced the costs paid to outside collection agencies since consolidation out of default are easier to obtain than trying to rehabilitate loans and make regular borrower collections. Other Operating and Travel increased from \$5,376,354 to \$6,342,322 or \$965,968 (18%) which was a result of the purchase of the loan servicing unit from DE. Non-operating transfers to other agencies decreased from \$147,442 to \$102,195 or \$45,247 (30.6%) in Fiscal Year 2005 due to a decrease in the statewide indirect cost allocation of expenses to the Enterprise from CCHE.

### *Federal Reserve Fund – Fiscal Year 2006*

Guarantee Claims Paid to Lending Institutions increased from \$64,740,853 in Fiscal Year 2005 to \$105,045,747 in Fiscal Year 2006 (62.3%) due to factors noted under the revenue analysis above.

### *Federal Reserve Fund – Fiscal Year 2005*

Guarantee Claims Paid to Lending Institutions decreased from \$51,760,586 to \$64,740,853 or \$12,980,267 (25%) in Fiscal Year 2005 as noted under the revenue analysis above.

### ***Budget versus Actual***

The Enterprise prepared an annual budget for Fiscal Year 2006, based on fiscal year projected revenues and expenses that was reviewed and approved by its Board of Directors (created by the Legislature in 2004) and by the Executive Director of the Department of Higher Education.

Prior to Fiscal Year 2006, during the preparation of the annual budget, the Agency Operating and Loan Servicing Fund were budgeted as two funds. On February 17, 2005, the Enterprise completed the purchase of the Loan Servicing Fund from DE. Therefore, beginning with the Fiscal Year 2006 audit, the Loan Servicing Fund and the Agency Operating Fund is budgeted and

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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reported as the Agency Operating Fund. Also, as of November 1, 2005, an agreement was reached between the Enterprise and Nelnet, Inc. to sell the loan servicing division to Nelnet, Inc. Therefore, the only revenues and expenses related to the Loan Servicing division as reported in the Enterprise audit is for the first four months of Fiscal Year.

The proposed Fiscal Year 2006 budget was prepared and adopted six months prior to the finalization of the agreement between the Enterprise and Nelnet, Inc. Therefore, the amounts of change are rather substantial in some areas. When the budget was developed, it was with the understanding that the Enterprise would operate as it had in the past.

### *Agency Operating and Loan Servicing Funds – Fiscal Year 2006*

There was a small budgeted change in net assets for the Agency Operating and Loan Servicing Funds between Fiscal Year 2005 and Fiscal Year 2006. The amount projected to change was decrease of \$1,705,175. The actual change in net assets was \$11,312,772. The change which caused a substantial decrease in operating expenses from the original budget amount (\$21.8 million) and a slight decrease in projected revenues (\$10.7 million), net of the \$41.2 million received from Nelnet, Inc. as part of the agreement.

Of the nearly \$10.7 million decrease in projected revenues, the majority of the change was in the amount received by the Enterprise from payments made by DE for VFA revenue items and subsequently shared on a 70/30 basis with Nelnet, Inc. receiving 70% of the revenue stream. Also as part of the agreement, the Enterprise sold the Loan Servicing division to Nelnet, Inc. thus the amount of revenues received from servicing loans were no longer available.

The reduction in expenditures came mainly from reduced personnel costs. As part of the agreement between the Enterprise and Nelnet, Inc., the majority of employees who were originally part of the Enterprise ended their employment with the Enterprise and became employees of Nelnet, Inc. Thus, the amount of funds projected for salaries and benefits were substantially reduced. Other expenses for the Loan Servicing division were also reduced due to the sale of that division to Nelnet, Inc. as part of the agreement.

The change in net assets includes non-operating payments and transfers of \$40,927,509 (see definition of inter-fund transfers and detail of payments and transfers in section Inter-fund Transfers) from the Agency Operating Fund to CollegeInvest for a scholarship program (\$25,000,000), CCHE for indirect cost allocation payment (\$79,979), and the Federal Reserve Fund (\$15,847,530).

### *Agency Operating and Loan Servicing Funds – Fiscal Year 2005*

There was no budgeted change in net assets for the Agency Operating and Loan Servicing Funds between Fiscal Year 2004 and Fiscal Year 2005. The actual change in net assets was \$12,477,456. The change was caused by two major factors. These factors were an increase in revenues of \$10,157,336 and a reduction of anticipated expenditures of \$1,021,309 with the

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

remaining difference of \$3,341,429 coming from changes in earnings on investments and interfund transfers. Of the nearly \$10 million in increased revenues, the majority of the change was in the amount received by the Enterprise from payments made by DE for VFA revenue items including the new revenue stream entitled the Delinquency Prevention Fee ("DPF"). Approximately \$3.7 million of the increased revenues were related to the DPF and nearly \$4.2 million was related to an increase in Default Prevention Fees.

The reduction in expenditures came mainly from reduced personnel costs. In March 2005, nearly 25 classified employees voluntarily separated from the Enterprise. By not replacing them, this saved nearly 25% of their annual salary and benefits in actual expenditures. In addition to the classified staff, six non-classified management and professional staff also took advantage of the voluntary separation package.

The change in net assets also includes non-operating revenue of \$982,027 in interfund transfers (see definition of interfund transfers and detail of transfers in section Interfund Transfers) from the Federal Reserve Fund to the Agency Operating Fund.

### *Federal Reserve Fund – Fiscal Year 2006*

The original budgeted net gain for the Federal Reserve Fund was \$5,746,705. The actual change in net assets was an increase of \$16,960,177. The additional revenue caused the majority of this increase especially from the transfer of \$14,000,000 in funds received from Nelnet, Inc. as well as the transfer of \$1,078,204 of funds that had previously been recorded in the Agency Operating and Loan Servicing Fund due to the DE. In November 2005, the Enterprise transferred those funds.

### *Federal Reserve Fund – Fiscal Year 2005*

The original budgeted net gain for the Federal Reserve Fund was \$4,606,303.00. The actual change in net assets was an increase of \$5,671,376. The additional revenue, \$4.1 million, was received with the implementation of a guarantee fee for Fiscal Year 2005.

### *Intergovernmental Non-Operating Expenses and Inter-fund Transfers – Fiscal Year 2006*

Inter-fund transfers are made to reclassify revenues and expenditures that have been classified to a particular fund during the Fiscal Year and are now owed to another fund. In Fiscal Year 2006, the Enterprise made several transfers from the Agency Operating and Loan Servicing Fund. There were transfers to the Federal Reserve Fund to satisfy its Federal Fund Reserve requirement. In addition, for a number of years, DE has required the Enterprise to pay itself the Account Maintenance Fee from the Federal Fund. The Enterprise was required to do so this past fiscal year. The Enterprise also paid \$25,000,000 to CollegeInvest for purposes of establishing a scholarship program for Colorado higher education students. The Enterprise also transferred \$20,000,000 to the Federal Fund to help stabilize that fund. The total payments and transfers made during Fiscal Year 2006 was \$40,927,509.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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The Enterprise made the following payments and transfers during Fiscal Year 2006:

Transfers from Federal Fund to Agency Operating Fund:	
Account Maintenance Fee Shortfall	\$ 4,152,470
Transfers from Agency Operating Fund to Federal Fund:	
Stabilization of Federal Fund (from Nelnet proceeds)	(14,000,000)
Stabilization of Federal Fund (internal transfer)	<u>(6,000,000)</u>
Net Transfers from the Agency Operating Fund to the Federal Fund	<u>\$ (15,847,530)</u>
Intergovernmental non-operating expense from	
Agency Operating Fund to CollegeInvest	
Establish Scholarship Program (from Nelnet proceeds)	\$ (25,000,000)
Transfer from Agency Operating Fund to CCHE	
Indirect Cost Allocation	<u>(79,979)</u>
Net non-operating expenses to other agencies	<u>\$ (25,079,979)</u>

*Inter-fund Transfers – Fiscal Year 2005*

Inter-fund transfers are made to reclassify revenues and expenditures that have been classified to a particular fund during the Fiscal Year and are now owed to another fund. For a number of years, DE has required the Enterprise to pay itself the Account Maintenance Fee from the Federal Fund in the fourth quarter of the federal fiscal year. The Enterprise was required to do so this past fiscal year. The Enterprise also settled an audit finding from a prior Office of Inspector General (OIG) audit. At the time, the interest associated with this finding was calculated by OIG to be \$451,824. The Enterprise appealed and subsequently prevailed in its appeal and reduced the interest cost to \$244,249.

The Enterprise made the following transfers during Fiscal Year 2005:

Transfers from Federal Fund to Agency Operating Fund:	
Account Maintenance Fee Shortfall	\$ 1,226,276
Transfers from Agency Operating Fund to Federal Fund:	
DE Audit Finding	<u>(244,249)</u>
Net Transfers from the Federal Fund to the Agency Operating Fund	<u>\$ 982,027</u>

*Capital Assets – Fiscal Year 2006*

The Enterprise spent \$238,988 for the purchase and installation of various pieces of information technology equipment, the largest being a \$214,588 purchase of a disk storage array during Fiscal Year 2006.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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### ***Capital Assets – Fiscal Year 2005***

The Enterprise spent \$1,087,860 for purchasing, installation, and upgrade of the phone equipment during Fiscal Year 2005. The Enterprise also capitalized \$454,107 in software development costs. These transactions were the only significant changes in capital outlay items in Fiscal Year 2005.

### ***Economic Facts and Conditions for the Future***

Effective July 1, 2004, the U.S. Department of Education (“DE”) granted the Enterprise a three-year contract with the DE known as a Voluntary Flexible Agreement (VFA). Provisions within the contract entitle either the DE or the Enterprise to rescind the agreement with 90 days notice.

The VFA has a number of provisions that impact the revenue of the Enterprise, many of which have been reviewed in the revenue sections of this Management Discussion and Analysis.

DE notified the Enterprise that it would need to renegotiate the terms of its VFA in March 2005 along with the four other agencies that are operating under separate VFA's. Agencies with applications pending also were notified by DE that it would not consider applications where the DE paid 100% reimbursement to an agency for its claims. Similarly, agencies were informed that despite past waivers, no agency would be exempt from maintaining a .25% reserve ratio in its federal fund. In addition, agencies would not be allowed to waive guarantee fees on loans originated by new borrowers.

The Enterprise submitted changes to its current VFA to DE in May 2005. Action on the revised VFA proposal is still pending at this submission and the Enterprise continues in the interim to operate under the terms of the original VFA agreement.

With the agreement between the Enterprise and Nelnet, Inc. finalized during Fiscal Year 2006, revenues and expenditures will be substantially less than in the past. Because of this partnership, it is imperative that both organizations prosper. As loan volume increases and thus revenues, both parties will benefit not only in fees received but also in greater economies of scale and thus reduced expenditures.

During February 2006, Congress and the President approved the Reauthorization of the Higher Education Act. There were several significant changes made in this reauthorization. Two of the most significant were changes to the lender reimbursement rate as well as the establishment of a mandatory default fee.

The Enterprise began assessing a 1% default fee for loans disbursed after July 1, 2006, a factor that will increase the health of the Federal Reserve Fund during Fiscal Year 2006 and beyond. This fee is based on the net loan disbursement multiplied by 1%. Currently, the Enterprise has decided to not charge either the lender or borrower this fee for Fiscal Year 2006 but fund the default fee from its Agency Operating Fund by making a transfer into the Federal Reserve Fund

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

on a monthly basis. The decision to continue funding the default fee from the Agency Operating Fund or charging the lender or borrower the 1% fee or a combination will be made on an annual basis.

During Fiscal Year 2006, legislation was passed that put the Enterprise management under the direction of the Director of CollegeInvest. Along with this change, the name of the Enterprise was re-established as Colorado Student Loan Program d.b.a. College Access Network. Beginning with calendar year 2007, the d.b.a. will change from College Access Network to College Assist.

The Management's Discussion and Analysis (MD & A) below was prepared by the Enterprise's management on behalf of the College Opportunity Fund and is designed to provide an analysis of the College Opportunity Fund's financial condition and operating results for the Fiscal Year ended June 30, 2006. Fiscal Year 2006 was the first year of existence for the College Opportunity Fund. The MD & A also informs the reader of the financial issues and activities related to the College Opportunity Fund. It should be read in conjunction with the College Opportunity Fund's financial statements, which begin on page 44.

### **Basic Financial Statements – College Opportunity Fund (Fiduciary Fund)**

The financial report includes the report of independent auditors, the management's discussion and analysis, and the basic financial statements. The financial statements are interrelated and represent the financial status of the College Opportunity Fund.

The Balance Sheet is referred to as the Statement of Net Assets, which includes the assets, liabilities, and net assets at the end of the Fiscal Year. Over time, increases or decreases in the net assets continue to serve as a useful indicator of whether the financial position of the College Opportunity Fund is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the Fiscal Year. Revenues and expenses are reported on the accrual basis. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future fiscal periods.

### **Financial Overview**

The College Opportunity Fund is a special purpose trust fund with the financial operations administered by the College Access Network, an Enterprise fund of the State of Colorado. The College Opportunity Fund's activities are accounted for in a fund that resides with the State. On an annual basis, the General Assembly appropriates funds to the Colorado Commission on Higher Education for purposes of supporting the College Opportunity Fund.

**MANAGEMENT’S DISCUSSION AND ANALYSIS (continued)**

**Management Highlights**

Under S.B.04-189, Colorado changed its funding system for public higher education to a student-stipend program known as the College Opportunity Fund in Fall 2005. Under the new system, the state no longer makes direct lump-sum financial transactions to its public institutions for undergraduate education. Instead, these funds are provided to public and private higher education institutions on behalf of resident undergraduate students in the form of a stipend.

Stipends are set annually by the General Assembly during the state’s budget process. The allocation is defined on a per-credit-hour basis where the advertised amount is representative of a full-time student taking 30 credit hours each year. For the 2005-06 academic year, the state provided each participating student with a \$2,400 stipend or \$80 per credit hour.

**Inception Date**

The College Opportunity Fund is a new program for State Fiscal Year 2006. Thus, all financial statements and related schedules are for one year only. There are no comparative schedules presented.

**FIDUCIARY FUND  
(COLLEGE OPPORTUNITY FUND)  
CONDENSED SCHEDULE OF NET ASSETS**

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Total Assets - All Current	\$ 3,344,176	\$ -
<b>LIABILITIES</b>		
Accounts Payable - Total Current Liabilities	\$ 3,291,175	\$ -
<b>NET ASSETS</b>		
Restricted	\$ 53,001	\$ -
Total net assets	\$ 53,001	\$ -

*Schedule of Net Assets – Fiscal Year 2006*

Restricted Net Assets of the College Opportunity Fund ended the year with \$53,001. During the Fiscal Year there was \$272,576,123 appropriated to the Colorado Commission on Higher Education for use under the College Opportunity Fund statutes. Of the total amount appropriated for College Opportunity Fund, nearly 100% was used for stipends for Colorado students attending Colorado Higher Education Institutions. Current liabilities for the Fiscal Year 2006 are \$3,291,175. This amount represented stipend amounts paid to schools during the month of July 2006 for spring semester reconciliations. During the College Opportunity Fund’s first year of operation, it ended the year with total assets of \$3,344,176. Of this amount, \$3,291,175 was paid the month following the end of the Fiscal Year. The accounts payable is due to the timing of when the final spring semester reconciliations are completed by the individual institutions and sent to College Access Network (the “Enterprise”) for processing and payment.



**MANAGEMENT’S DISCUSSION AND ANALYSIS (continued)**

**FIDUCIARY FUND  
(COLLEGE OPPORTUNITY FUND)  
CONDENSED SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS**

	<b>2006</b>	<b>2005</b>
<b>ADDITIONS</b>		
Trust Revenues	\$ 272,576,123	\$ -
<b>DEDUCTIONS</b>		
Trust Fund Expenses	272,523,122	-
<b>CHANGE IN NET ASSETS</b>	53,001	-
<b>NET ASSETS, BEGINNING OF YEAR</b>	-	-
<b>NET ASSETS, END OF YEAR</b>	\$ 53,001	\$ -

*Revenue and Expenditures – Fiscal Year 2006*

During Fiscal Year 2006, the General Assembly appropriated \$272,576,123 of which \$272,523,122 was sent to Colorado Higher Education Institutions for student stipend payments used to offset tuition costs. All state universities and university systems are eligible to participate in the College Opportunity Fund program per statute. In addition, two private colleges participate, Denver University and Regis University. Of the total amount appropriated for the College Opportunity Fund, \$720,000 was specifically provided to the two private institutions participating in the program.

***Budget versus Actual***

The College Opportunity Fund prepares an annual operating budget. By statute, the College Opportunity Fund is continuously funded through appropriations authorized and approved by the General Assembly. The operating budget appropriations and revisions thereto are reviewed by the Colorado Commission on Higher Education and the College Access Network Director (the “Enterprise”).

To support the College Opportunity Fund, the Enterprise supports the Fund’s operation as part of its budget on an annual basis. For Fiscal Year 2006, College Access Network budgeted \$438,515. This support includes data support including programming costs, direct contact with higher education institutions, and direct contact with all middle and high schools in the State of Colorado as required by the statute. Of the total amount budgeted, only \$211,141 was spent on this support. Two major factors caused this difference; one being a substantial decrease in the amount anticipated for employees and the second was costs associated with audit and other technology contingencies that were not expended during the Fiscal Year 2006.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### *Economic Facts and Conditions for the Future*

On an annual basis, the General Assembly of the State of Colorado makes an appropriation in trust for eligible undergraduate students to the College Opportunity Fund. Monies appropriated to the College Opportunity Fund are for the sole purpose of disbursement on behalf of eligible undergraduate students and not for the general operation of the Colorado Access Network. Any unexpended and unencumbered monies remaining in the College Opportunity Fund at the end of a Fiscal Year are the property of the trust fund and shall remain in the fund and shall not be credited or transferred to the general fund or any other fund.

Because the College Opportunity Fund is statutory in nature, changes to the program in terms and amounts are regulated by only the General Assembly.

### **Financial Contact**

If you have any questions about this report, please contact

College Access Network  
1801 Broadway, Suite 360  
Denver, Colorado 80202  
Attention: Chief Financial Officer

**COLLEGE ACCESS NETWORK  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
PROPRIETARY FUNDS  
COMBINED STATEMENTS OF NET ASSETS  
June 30, 2006 and 2005**

**ASSETS**

	<b>2006</b>	<b>2005</b>
<b>CURRENT ASSETS</b>		
Cash and pooled cash investments	\$ 42,997,608	\$ 31,690,010
Due from other governments		
Federal account maintenance fee	825,021	553,457
Federal loan processing and issuance fee	68,192	66,852
Other federal receivables	1,524,136	1,572,610
Other receivables, net	153,669	1,059,935
Supplies inventory	4,767	68,555
Prepaid expenses	46,814	61,507
	<b>45,620,207</b>	<b>35,072,926</b>
<b>RESTRICTED ASSETS</b>		
Restricted cash and pooled cash investments	31,219,738	13,019,526
Federal reinsurance receivable	27,002	14,682
Other receivables, net	-	7,749
	<b>31,246,740</b>	<b>13,041,957</b>
<b>CAPITAL ASSETS</b>		
Office furniture and equipment	1,616,182	2,038,877
Computer hardware and software	3,614,088	3,444,200
Property held under capital lease	-	329,144
Leasehold improvements	97,946	97,946
	<b>5,328,216</b>	<b>5,910,167</b>
Less accumulated depreciation	<b>(4,409,823)</b>	<b>(4,666,234)</b>
Capital assets, net	<b>918,393</b>	<b>1,243,933</b>
 <b>TOTAL ASSETS</b>	 <b>\$ 77,785,340</b>	 <b>\$ 49,358,816</b>

## LIABILITIES AND NET ASSETS

	2006	2005
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 301,083	\$ 1,041,172
Payable to the U.S. Department of Education:		
Loan collections and other liabilities due to federal government	-	1,078,204
Accrued compensated absences	27,227	419,969
Other current liabilities		
Current portion of obligation under capital lease	-	111,325
Other	2,187,829	760,999
Interfund payable - other agencies	11,169	11,169
Total current liabilities	2,527,308	3,422,838
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Recall reserves due to DE	3,063,093	3,063,093
Loan collections and other liabilities due to federal government	2,403,506	1,158,900
Total liabilities payable from restricted assets	5,466,599	4,221,993
<b>NONCURRENT LIABILITIES</b>		
Accrued compensated absences	125,754	218,388
Obligation under capital leases, net of current portion	-	102,867
Total noncurrent liabilities	125,754	321,255
Total liabilities	8,119,661	7,966,086
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	918,393	1,029,741
Restricted	25,780,141	8,819,964
Unrestricted	42,967,145	31,543,025
Total net assets	69,665,679	41,392,730
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 77,785,340</b>	<b>\$ 49,358,816</b>

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

**COLLEGE ACCESS NETWORK  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
PROPRIETARY FUNDS  
COMBINED STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
For the Years Ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>OPERATING REVENUES</b>		
Federal grants and contracts		
Division's share of collections on loans and bankruptcies	\$ 13,802,783	\$ 19,180,313
Federal account maintenance fee	3,176,090	4,847,234
Federal loan processing and issuance fee	1,136,618	1,507,495
Federal reinsurance	103,880,565	65,263,224
Charges for goods and services		
Contractual service fees	2,594,108	5,667,484
Guarantee fees	102,578	4,131,024
Interest on purchased loans and other	402,842	259,891
Gifts and donations	-	5,000
Other revenue	1,094,968	1,289,188
Total operating revenues	<u>126,190,552</u>	<u>102,150,853</u>
<b>OPERATING EXPENSES</b>		
Guarantee claims paid to lending institutions	105,045,747	64,740,853
Salaries and fringe benefits	5,564,503	11,855,407
Operating and travel		
Contracted collection costs	522,183	1,470,786
Other operating and travel	4,310,921	6,342,322
Depreciation	309,162	371,796
Total operating expenses	<u>115,752,516</u>	<u>84,781,164</u>
<b>OPERATING INCOME</b>	<u>10,438,036</u>	<u>17,369,689</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Earnings on temporary cash investments	1,800,096	881,338
Loss on sale of equipment	(85,204)	-
Income (loss) before non-operating expenses to other agencies and special item	<u>12,152,928</u>	<u>18,251,027</u>
<b>INTERGOVERNMENTAL NON-OPERATING EXPENSES TO OTHER AGENCIES</b>	(25,079,979)	(102,195)
<b>SPECIAL ITEM - Nelnet sale proceeds</b>	41,200,000	-
<b>CHANGE IN NET ASSETS</b>	28,272,949	18,148,832
<b>NET ASSETS, BEGINNING OF YEAR</b>	41,392,730	23,243,898
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 69,665,679</u>	<u>\$ 41,392,730</u>

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

**COLLEGE ACCESS NETWORK  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
PROPRIETARY FUNDS  
COMBINED STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from:		
Fees for service	\$ 3,602,952	\$ 9,453,045
Federal grants and contracts	121,925,710	92,897,276
Interest on purchased loans and other	402,842	259,891
Gifts and donations	-	5,000
Other sources	1,094,966	1,289,188
	<u>127,026,470</u>	<u>103,904,400</u>
Cash disbursed for:		
Guarantee claims paid to lending institutions	(105,037,998)	(64,749,869)
Employees	(6,049,879)	(12,089,584)
Suppliers	(3,545,700)	(6,727,799)
Contracted collection costs	(522,183)	(1,470,786)
	<u>(115,155,760)</u>	<u>(85,038,038)</u>
Net cash provided by operating activities	<u>11,870,710</u>	<u>18,866,362</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Intergovernmental payment	(25,079,979)	(102,195)
Proceeds from Nelnet sale	41,200,000	-
Net cash provided by noncapital activities	<u>16,120,021</u>	<u>(102,195)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(238,988)	(883,227)
Capital lease payments	(44,029)	(131,859)
Net cash used in capital and related financing activities	<u>(283,017)</u>	<u>(1,015,086)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Earnings on temporary cash investments	<u>1,800,096</u>	<u>881,338</u>
<b>NET INCREASE IN CASH AND TEMPORARY CASH INVESTMENTS</b>	29,507,810	18,630,419
<b>CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF YEAR</b>	<u>44,709,536</u>	<u>26,079,117</u>
<b>CASH AND TEMPORARY CASH INVESTMENTS, END OF YEAR</b>	<u>\$ 74,217,346</u>	<u>\$ 44,709,536</u>

	<u>2006</u>	<u>2005</u>
<b>RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Net operating income	\$ 10,438,036	\$ 17,369,689
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	309,162	371,796
Effects of changes in net assets and liabilities:		
Receivables	677,264	2,186,693
Supplies inventory	63,788	7,037
Prepaid expenses	14,693	102,028
Accounts payable and accrued liabilities	(740,089)	(636,808)
Other current liabilities	1,426,829	469,922
Loan collections and other liabilities due to federal government	166,403	(310,591)
Accrued compensated absences	(485,376)	(234,177)
Interfund payable other agencies	-	(336,672)
Deferred revenue	-	(122,555)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>\$ 11,870,710</u></u>	<u><u>\$ 18,866,362</u></u>

During the year ended June 30, 2006, capital lease obligations in the amount of \$170,163 were transferred with assets to Nelnet.

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

**COLLEGE ACCESS NETWORK  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
FIDUCIARY FUND  
STATEMENT OF NET ASSETS  
June 30, 2006**

**ASSETS**

	<b>Private Purpose Trust Fund</b>
<b>CURRENT ASSETS</b>	
Operating cash	\$ 3,325,296
Loans receivable - current	18,880
Total current assets	3,344,176
<b>TOTAL ASSETS</b>	\$ 3,344,176

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 3,291,175
Total current liabilities	3,291,175
<b>NET ASSETS</b>	
Restricted	53,001
Total net assets	53,001
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 3,344,176

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



**COLLEGE ACCESS NETWORK  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
FIDUCIARY FUND  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
For the Year Ended June 30, 2006**

	<b>Private Purpose Trust Fund</b>
<b>ADDITIONS</b>	
Trust revenues	\$ 272,576,123
Total additions	272,576,123
<b>DEDUCTIONS</b>	
Trust Fund expenses	272,523,122
Total deductions	272,523,122
<b>CHANGE IN NET ASSETS</b>	53,001
<b>NET ASSETS, BEGINNING OF YEAR</b>	-
<b>NET ASSETS, END OF YEAR</b>	\$ 53,001

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

**COLLEGE ACCESS NETWORK  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity – College Access Network**

College Access Network (the “Enterprise”) is a self-supporting business of the State of Colorado. It was established as an entity of the Colorado Department of Higher Education pursuant to *Title 23, Article 3.1, Part 1, Colorado Revised Statutes, 1973*, as amended, and was created July 1, 1979. It was formerly called the Colorado Student Loan Program until July 1, 2004. The Enterprise administers the Federal Family Education Loan Program (“FFEL”), which consists of Stafford, Parent Loans for Undergraduate Students (“PLUS”), Supplemental Loans for Students (“SLS”), and Consolidation Loans Programs. The Enterprise guarantees loans by lending institutions to students attending post-secondary schools, in compliance with operating agreements (the “Agreements”) with the U.S. Department of Education (the “DE”), pursuant to *Section 428 of the Higher Education Act of 1965* as amended (the “Act”).

The financial statements of the Enterprise include all integral parts of its operations.

During the 2004 legislative session, House Bill 04-1350 allowed the Enterprise, formally the Colorado Student Loan Program, to change its name to Colorado College Access Network, d.b.a. College Access Network, effective July 1, 2004. The name change positioned College Access Network to capitalize on new markets internal and external to Colorado (see Note 17).

The Enterprise entered into a new funding agreement with the DE effective July 1, 2004. The Voluntary Flexible Agreement (“VFA”) allows the Enterprise to receive compensation performance incentives based on its success at preventing student loan defaults. Instead of receiving a majority of its fees for collecting on defaulted loans, fees are also earned by implementing strategies to prevent defaults. The Enterprise is required to prove to the DE that the VFA benefits student borrowers, is cost effective to Federal taxpayers, and saves the U.S. Department of Education resources.

The Enterprise was notified by DE in March 2005 that it would need to renegotiate the terms of its original VFA. Agencies, including the Enterprise with applications pending, also were notified by DE that it would not consider applications where the department paid 100% reimbursement to an agency for its claims. Similarly, agencies were informed that despite past waivers, no agency would be exempt from maintaining a .25% reserve ratio in its Federal Fund (see Note 7).

**COLLEGE ACCESS NETWORK  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The Enterprise submitted changes to its current VFA to DE in May 2005. Action on the revised VFA proposal is currently pending. The Enterprise will continue to operate under the terms of the original VFA agreement that was effective July 1, 2004 until the DE either agrees to a new VFA or terminates the existing VFA.

College Opportunity Fund is a trust fund of the State of Colorado and is presented as fiduciary fund with this report. It was established as a private purpose trust fund of the Colorado Department of Higher Education pursuant to and managed by Colorado College Access Network. The College Opportunity Fund (“COF”) was established to forward stipend funds to higher education institutions on behalf of eligible students to pay tuition costs.

The financial statements of the College Opportunity Fund include all integral parts of its operations.

Stipends are set annually by the General Assembly during the state’s budget process. The allocation is defined on a credit hour basis where the advertised amount is representative of a full-time student taking 30 credit hours each year. For 2005-2006 academic year, the state provided each student with a \$2,400 stipend or \$80 per credit hour.

**Basis of Accounting and Presentation**

The Enterprise uses the accrual basis of accounting to summarize its activities. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation is incurred.

The financial statements of the Enterprise have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), Financial Accounting Standards Board (FASB) and other applicable guidelines or pronouncements. The Enterprise uses self-balancing accounting funds to record its financial accounting transactions. However, GASB reporting guidelines require the Enterprise to report its assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows from an entity-wide perspective, rather than by accounting fund. The guidelines further require that intra-fund accounting transactions be eliminated. The Enterprise has the option to apply all FASB pronouncements issued after November 30, 1989, unless those pronouncements conflict with GASB standards. The Enterprise has elected not to apply FASB pronouncements after the applicable date.

**COLLEGE ACCESS NETWORK  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Use of Estimates in Preparation of Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 periods. Actual results could differ from those estimates.

**Cash and Pooled Cash Investments**

Cash and pooled cash investments consist of cash on deposit with the State Treasurer, cash on hand, and cash on deposit with financial institutions. For purposes of the statement of cash flows, cash and temporary cash investments are defined as instruments with maturities of three months or less at date of acquisition, and pooled cash held by the Colorado State Treasurer. Cash and pooled cash investments that are restricted in nature are distinguished as such in the financial statements.

**Receivables**

Amounts owed from the DE are reported as due from other governments. Loans purchased from lenders are reported as other receivables. Other receivables are reported net of the estimated allowance for uncollectible accounts. Receivables that are restricted in nature are reported as such in the financials.

In COF, amounts owed from the higher education institutions are reported as due from other governments. Receivables that are restricted in nature are reported as such in the financials.

**Supplies Inventory**

Supply commodities are carried in an inventory account at cost, which approximates market and are subsequently charged to expense when consumed.

**Capital Assets**

Depreciable capital assets are recorded at cost on the date of acquisition, or fair market value on the date of donation, in the case of gifts. The Enterprise's capitalization policy is \$5,000 or more, per individual piece of equipment, with an estimated useful life of greater than one year.

**COLLEGE ACCESS NETWORK  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Renovation cost to leased property in excess of \$5,000 is also capitalized. Cost to renovated leased property is reported as leasehold improvements.

Depreciation is charged using a straight-line method over the estimated useful lives of the assets. Generally, furniture, equipment, and software are depreciated over 3 to 10 years. Leasehold improvements are depreciated over the lesser of 5 years, or the life of the lease in which the renovation was made.

**Liabilities**

Amounts due to suppliers and others within one year are reported as current liabilities. Amounts owed after one year are reported as noncurrent liabilities. Noncurrent liabilities include capital lease obligations and compensated absences. The principal amount due in the next accounting period for capital leases is reported as a current liability. The balance of this obligation is shown as a noncurrent liability. Liabilities restricted in nature are distinguished as such in the financial statements.

In COF, amounts due to higher education institutions within one year are reported as current liabilities. Amounts owed after one year are reported as noncurrent liabilities.

**Compensated Absences**

Employees of the Enterprise are entitled to paid vacations, sick days, and personal days off, depending on job classification, length of service, and other factors. The Enterprise has recorded the amount of compensation for future absences as an accrued liability in the accompanying financial statements. The estimated liability is based on hours earned up to assigned maximums. Unused vacation days are paid to employees leaving the Enterprise. One-fourth of unused sick days may be paid to employees upon retirement or death.

**Deferred Revenues**

Deferred revenues represent amounts received prior to the end of the Fiscal Year, but the revenue will not be reported as earned until the subsequent accounting period.

**COLLEGE ACCESS NETWORK  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Loan Processing and Issuance Fee**

Under the *Higher Education Act as amended*, the U.S. Department of Education pays the Enterprise a quarterly loan processing and issuance fee of .40% on net loans guaranteed by the Enterprise, effective October 1, 2003. Prior to October 1, 2003, the fee was .65%.

**Account Maintenance Fee**

Under the *Higher Education Act as amended*, the U.S. Department of Education pays the Enterprise a quarterly account maintenance fee of .10% of the original principal amount of outstanding loans.

**Net Assets**

The net assets of the Enterprise are classified as follows:

**Invested in capital assets, net of related debt:** This amount represents the Enterprise's total investment in capital assets, net outstanding debt obligations related to those capital assets. Debt incurred but not yet expended for capital assets is not included as a component of this category.

**Restricted net assets:** Restricted net assets represent resources in which the Enterprise is contractually obligated to spend or reserve in accordance with restrictions imposed by external parties.

**Unrestricted net assets:** Unrestricted net assets represent resources derived from services provided to borrowers, lenders, and collection activities. These resources are used to pay the operating cost of the Enterprise. Although they are reported as unrestricted, the officers of the Enterprise internally designated these funds.

The net assets of the College Opportunity Fund are classified as follows:

**Restricted net assets:** Restricted net assets represent resources in which the College Opportunity Fund is contractually obligated to spend or reserve in accordance with restrictions imposed by external parties.

**Unrestricted net assets:** Unrestricted net assets represent resources derived from activities related to the trust fund such as interest earnings.

**COLLEGE ACCESS NETWORK  
DEPARTMENTS OF HIGHER EDUCATION  
STATE OF COLORADO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Classification of Revenues and Expenses**

The Enterprise has classified its revenues and expenses as either operating or non-operating. Operating revenues and expenses generally result from providing services or incurring expenses in connection with the Enterprise's principal activities. Non-operating revenues and expenses include transactions such as interest revenue earned on deposits and interest expense on capital debt.

**Loan Defaults**

Student Loans guaranteed by the Enterprise that subsequently fall into default status are purchased by the Enterprise. This occurs after a claim is paid to the lending institution. Once a claim is paid to a lender, the Enterprise becomes the holder of the loan and seeks to collect on the loan. Although claim payments are made on defaults, deaths, disabilities and bankruptcies, only loans in default and loans included under Chapter 7 and Chapter 13 bankruptcies are collectible by the Enterprise. It is the Enterprise's policy under the Voluntary Flexible Agreement ("VFA") to retain from 17% to 25% of subsequent loan collections to cover the costs associated with collection efforts. The balance (83% to 75%) is remitted to the U.S. Department of Education ("DE").

**Defaulted Loans**

The Enterprise subrogates or assigns loans that meet certain criteria to the DE. In addition, the Enterprise uses the U.S. Treasurer's Offset Program to pursue collections of defaulted loans. Under this program, Federal Income Tax refunds are applied or offset against student loans in default.

**Federal Reinsurance**

Under the agreement with the DE, in accordance with Section 428 of the Act, the Enterprise is reimbursed by the DE for 100% of claims under the Voluntary Flexible Agreement. Statutorily Federal reinsurance on defaulted loans is paid according to the following schedule:

**COLLEGE ACCESS NETWORK  
DEPARTMENTS OF HIGHER EDUCATION  
STATE OF COLORADO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

<u>Rate of Annual Losses (Defaults)</u>	<u>Federal Reinsurance on Loans Made Prior to October 1, 1993</u>	<u>Federal Reinsurance on Loans Made October 1, 1993 Through September 30, 1998</u>	<u>Federal Reinsurance on Loans Made October 1, 1998 Through June 30, 2004 and after July 1, 2004 (VFA)</u>
0% to 5%	100%	98%	95%
More than 5% but less than or equal to 9%	90%	88%	85%
Over 9%	80%	78%	75%

The rate of annual losses (defaults) for purposes of the application for Federal reinsurance is a result of the year-to-date incurred losses divided by the original amount of guaranteed loans in repayment status at the beginning of the year. The annual rate of default for the federal years ended September 30, 2005 and September 30, 2004 did not exceed 5% in either period.

**Budgets and Budgetary Accounting**

The Enterprise prepares an annual operating budget. By statute, the Enterprise is continuously funded through user service charges. Therefore, the budget is not legislatively adopted and a Budget to Actual Statement of Revenues and Expenses is not a required part of these financial statements. However, the operating budget and revisions thereto are reviewed by the Enterprise Director, and approved by the Executive Director of the Colorado Commission on Higher Education.

In summary, the total estimated revenues of the Enterprise were \$135.2 million as compared with actual revenues of about \$167.4 million for the Fiscal Year ended June 30, 2006. The total budgeted expenses for the Fiscal Year ended June 30, 2006 were \$131.2 million compared to actual expenses of more than \$115.7 million.

By statute, the College Opportunity Fund is continuously funded through appropriations authorized and approved by the General Assembly. The operating budget its appropriations and revisions thereto are reviewed by the Colorado Commission on Higher Education and the Colorado College Access Network Director.



**COLLEGE ACCESS NETWORK  
DEPARTMENTS OF HIGHER EDUCATION  
STATE OF COLORADO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005**

**NOTE 2 – CASH AND INVESTMENTS**

**College Access Network (Propriety Fund)**

The Enterprise deposits cash with the Colorado State Treasurer as required by the Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. The Enterprise reports its share of the Treasurer’s unrealized gains and losses based on its participation in the State Treasurer’s pooled cash investments. All of the investments are reported at fair value, which is determined based on quoted market prices at June 30, 2006 and 2005. The State Treasurer will not invest pooled resources in external investments, and there is no assignment of income related to participation in the pool. Detailed information on the State Treasurer’s pooled cash and investments is available from that office. It may also be obtained in the State of Colorado’s Comprehensive Annual Financial Report.

Including restricted amounts, the Enterprise had \$73,689,853 and \$43,773,714 on deposit with the State Treasurer at June 30, 2006 and 2005, respectively. Cash on hand, including petty cash funds at June 30, 2006 and 2005, was \$200 and \$12,570, respectively.

At June 30, 2006 and 2005, the Enterprise had cash deposited in banks with a book or carrying value of \$527,293 and \$923,252, respectively. However, at June 30, 2006 and 2005, the bank balance of this cash is \$1,728,922 and \$2,504,691, respectively. These amounts are federally insured deposits, or deposits fully collateralized with securities held by the State, or the banks’ trust department or its agent, in the name of the Enterprise. The Enterprise had no uninsured or uncollateralized deposits in the bank. The following summarizes cash and investments:

	<u>2006</u>	<u>2005</u>
Cash on deposit with State Treasurer	\$ 74,754,432	\$ 43,893,970
State Treasurer pooled cash investments – unrealized gain/(loss)	(1,064,579)	(120,256)
Cash on hand in transit to bank		12,370
Petty cash	200	200
Cash on deposit with banks	<u>527,293</u>	<u>923,252</u>
<b>Total</b>	<u>\$ 74,217,346</u>	<u>\$ 44,709,536</u>

**COLLEGE ACCESS NETWORK  
DEPARTMENTS OF HIGHER EDUCATION  
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NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005**

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

Cash and temporary cash investments are presented in the accompanying statement of net assets as follows:

	<b>2006</b>	<b>2005</b>
Cash and pooled cash investments	\$ 42,997,608	\$ 31,690,010
Restricted cash and pooled cash investments	31,219,738	13,019,526
<b>Total</b>	<b>\$ 74,217,346</b>	<b>\$ 44,709,536</b>

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral determined by the PDPA. The institution is allowed to create a single collateral pool for all public funds held. The pool is maintained by another institution or held in trust for all the uninsured public deposits as a group. The fair value of the collateral must be at least equal to 102% of the uninsured deposits.

**College Opportunity Fund (Fiduciary Fund)**

The General Assembly deposits cash on behalf of the College Opportunity Fund with the Colorado State Treasurer as required by the Colorado Revised Statutes (CRS). The College Opportunity Fund is a non-interest bearing trust fund and thus does not receive interest earnings from the State Treasury Pooled Cash account nor does it participate in the unrealized gains/(losses) of the State Treasury.

The College Opportunity Fund had \$3,325,296 on deposit with the State Treasurer at June 30, 2006. There was no cash on hand or petty cash attributable to the College Opportunity Fund as of June 30, 2006.

Cash on deposit with State Treasurer	<u>\$ 3,325,296</u>
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Cash and temporary cash investments are presented in the accompanying statement of net assets as follows:

Cash and pooled cash investments	<u>\$ 3,325,296</u>
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The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible

**COLLEGE ACCESS NETWORK  
DEPARTMENTS OF HIGHER EDUCATION  
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NOTES TO FINANCIAL STATEMENTS  
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**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

collateral determined by the PDPA. The institution is allowed to create a single collateral pool for all public funds held. The pool is maintained by another institution or held in trust for all the uninsured public deposits as a group. The fair value of the collateral must be at least equal to 102% of the uninsured deposits.

**NOTE 3 – OTHER RECEIVABLES – NET**

**College Access Network**

Other receivables – net, includes purchased student loans. Purchased student loans represent loan balances not reinsured by the DE that are the property of the Enterprise. Since the loans are purchased by the Enterprise and become an asset of the Enterprise, they do not fall within the scope of reinsurance from the DE. An allowance for the uncollectible loans equal to 93% and 92% of the purchased loan receivable has been recorded at June 30, 2006 and 2005. These rates are based on historical collection activity for purchased student loans. The net purchased loans receivable included in Other receivables – net at June 30, 2006 and 2005 is \$81,065 and \$99,058, respectively.

**College Opportunity Fund (Fiduciary Fund)**

As part of the College Opportunity Fund, state higher education institutions may request temporary cash flow loans during the Fiscal Year. These loans must be paid back to the College Opportunity Fund by June 30 of the Fiscal Year in which the funds are borrowed. During Fiscal Year 2006, four higher education institutions borrowed \$3,789,557 which were repaid by the end of the Fiscal Year. During the year, the COF fund at any time had these loans as receivable. These temporary cash flow loans are interest free.

Also included in receivables are amounts sent to higher education institutions at the end of the Fiscal Year based on the anticipated number of students reported who never attended. At June 30, 2006, \$18,880 was reported as due from institutions of higher education.

**NOTE 4 – ACCRUED PAYROLL**

Under Senate Bill 03-197, salaries and wages for June 2006 and 2005 that were earned at the end of the month were paid at the beginning of July. This created an accrued liability at June 30,

**COLLEGE ACCESS NETWORK  
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**NOTE 4 – ACCRUED PAYROLL (CONTINUED)**

2006 and 2005 of \$167,556 and \$801,338, respectively, for incurred but unpaid salaries and wages which is included in accounts payable and accrued liabilities on the accompanying combined statements of net assets.

**NOTE 5 – CAPITAL ASSETS**

A summary of changes in capital assets is as follows for the years ended June 30, 2006 and 2005:

	<b>Balance</b>			<b>Balance</b>
	<b>July 1, 2005</b>	<b>Additions</b>	<b>Disposals</b>	<b>June 30, 2006</b>
Office furniture and equipment	\$ 2,038,877	\$ -	\$ (422,695)	\$ 1,616,182
Computer hardware	3,444,200	238,988	(69,100)	3,614,088
Property held under capital lease	329,144	-	(329,144)	-
Leasehold improvements	<u>97,946</u>	<u>-</u>	<u>-</u>	<u>97,946</u>
Total	5,910,167	238,988	(820,939)	5,328,216
Less accumulated depreciation	<u>(4,666,234)</u>	<u>(309,162)</u>	<u>565,573</u>	<u>(4,409,823)</u>
<b>Capital assets, net</b>	<b><u>\$ 1,243,933</u></b>	<b><u>\$ (70,174)</u></b>	<b><u>\$ (255,366)</u></b>	<b><u>\$ 918,393</u></b>

	<b>Balance</b>			<b>Balance</b>
	<b>July 1, 2004</b>	<b>Additions</b>	<b>Transfers</b>	<b>June 30, 2005</b>
Office furniture and equipment	\$ 951,017	\$ 429,120	\$ 658,740	\$ 2,038,877
Computer hardware	2,990,093	454,107	-	3,444,200
Property held under capital lease	987,884	-	(658,740)	329,144
Leasehold improvements	<u>97,946</u>	<u>-</u>	<u>-</u>	<u>97,946</u>
Total	5,026,940	883,227	-	5,910,167
Less accumulated depreciation	<u>(4,294,438)</u>	<u>(371,796)</u>	<u>-</u>	<u>(4,666,234)</u>
<b>Capital assets, net</b>	<b><u>\$ 732,502</u></b>	<b><u>\$ 511,431</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,243,933</u></b>

**COLLEGE ACCESS NETWORK  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005**

**NOTE 6 – LEASES AND LONG-TERM DEBT**

The Enterprise had capital lease agreements for equipment with an original cost of \$329,144 at June 30, 2005. Accumulated depreciation of \$74,125 is recorded for these items as of June 30, 2005. There were no existing capital leases at June 30, 2006 as the equipment under capital leases and the related obligation was transferred to Nelnet during 2006.

The Enterprise leased its office space and various other office equipment under operating leases for a period of eight months during 2006. At the end of the eight months, all operating and capital leases were assigned to Nelnet, Inc. The Enterprise continues to sublease a new office facility on a month-to-month basis.

Total rent expense for the years ended June 30, 2006 and 2005 was \$395,808 and \$713,820, respectively.

During the Fiscal Years ended June 30, 2006 and 2005, the following changes occurred with long-term debt.

	<u>Balance</u> <u>July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Capital lease obligations	\$ 214,192	\$ -	\$ (214,192)	\$ -	\$ -
Accrued compensated Absences	<u>638,357</u>	<u>-</u>	<u>(485,376)</u>	<u>152,981</u>	<u>27,227</u>
<b>Total</b>	<u>\$ 852,549</u>	<u>\$ -</u>	<u>\$ (699,568)</u>	<u>\$ 152,981</u>	<u>\$ 27,227</u>

	<u>Balance</u> <u>July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Capital lease obligations	\$ 346,051	\$ -	\$ (131,859)	\$ 214,192	\$ 111,325
Accrued compensated Absences	<u>872,534</u>	<u>211,232</u>	<u>(445,409)</u>	<u>638,357</u>	<u>419,969</u>
<b>Total</b>	<u>\$ 1,218,585</u>	<u>\$ 211,232</u>	<u>\$ (577,268)</u>	<u>\$ 852,549</u>	<u>\$ 531,294</u>

**COLLEGE ACCESS NETWORK  
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**NOTE 7 – COMMITMENTS**

**Statutory Guarantee Fund Requirements**

The Enterprise was required by Federal and State statute to maintain a minimum reserve of .25% of the unpaid balance of outstanding loans. In conjunction with the Enterprise's funding agreement (VFA) with DE effective July 1, 2004, the reserve requirement was initially waived.

However, as discussed in Note 1, the Enterprise was notified by DE in March 2005 that it would need to renegotiate the terms of the original VFA. Agencies including the Enterprise were informed that waivers would not be granted exemption from maintaining a .25% reserve ratio in its Federal Fund. The Enterprise believes it will continue to meet the reserve requirement. DE assesses the required reserve amount at September 30 of each year.

The computed Federal Reserve balance at June 30, 2006 and 2005 based on the outstanding loan balances is \$24,752,893 and \$16,606,396, respectively. The Federal reserve balance consisting of restricted current assets minus restricted current liabilities at June 30, 2006 and 2005 is \$28,843,234 and \$11,883,057, respectively. Noncurrent liabilities including recall reserves payable to DE are allowed to be excluded from the reserve requirement calculation.

**NOTE 8 – CONTINGENCIES**

**Loan Guarantees**

The outstanding principal balance of student loans guaranteed by the Enterprise through June 30, 2006 is more than \$9.9 billion. As disclosed in Note 1, the Federal government reinsures new loans guaranteed at a Voluntary Flexible Agreement minimum rate of 100% until the Enterprise's rate of annual losses (defaults) exceeds 5%. If the Enterprise exceeds the 5% threshold (the trigger rate), it may be liable for up to a maximum 25% of the outstanding balance of loans in repayment at the beginning of each year. The Enterprise did not exceed its trigger rate for the period ended June 30, 2006, or prior years.

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**NOTE 9 – EMPLOYEE PENSION PLAN**

**Plan Description**

Virtually all of the Enterprise's employees participate in a Defined Benefit Pension Plan. The purpose of the Defined Benefit Pension Plan is to provide income to members and their families at retirement or in case of death or disability. This Plan is a cost-sharing multiple-employer deferred benefit 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, as well as the other division's plans, is included in PERA's financial statements which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203, by calling PERA at 303-832-9550 or 1-800-729-PERA (7372), or by visiting [www.copera.org](http://www.copera.org).

Prior to January 1, 2006, state employees and employees of local school districts were members of the combined State and School Division of PERA. On January 1, 2006, that combined division was segregated into a State Division and a separate School Division. Separate actuarial assessments are made for each division.

Employees hired by the state after January 1, 2006, are allowed 60 days to elect to participate in a defined contribution retirement plan administered by the state's Deferred Compensation Committee rather than becoming a member of PERA. If that election is not made, the employee becomes a member of PERA and the member is allowed another 60 days to elect to participate in a defined contribution plan administered by PERA rather than the defined benefit plan. PERA members electing the defined contribution plan are allowed an irrevocable election between the second and fifth year to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. Employer contributions to both defined contribution plans are the same as the contributions to the PERA defined benefit plan.

Defined benefit plan members vest after five years of service, and if they were hired before July 1, 2005, most are eligible for retirement benefits at age 50 with 30 years of service, at age 60 with 20 years of service, or at age 65 with 5 years of service. Persons hired on or after July 1, 2005, (except state troopers, plan members, inactive plan members, and retirees) are eligible for retirement benefits at any age with 35 years of service, at age 55 with 30 years of service, at 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

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**NOTE 9 – EMPLOYEE PENSION PLAN (CONTINUED)**

rates, and state troopers are eligible for retirement benefits at different ages and years of service. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

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

**Funding Policy**

Most employees contribute 8.0 percent (10.0 percent for State troopers) of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2005 to December 31, 2005, the state contributed 10.15 percent (12.85 percent for state troopers and 13.66 percent for the Judicial Branch) of the employee's salary. From January 1, 2006 through June 30, 2006, the state contributed these same percentage amounts plus an additional .5 percent for the Amortization Equalization Disbursement discussed below. During all of Fiscal Year 2005-06, 1.02 percent of the total contribution was allocated to the Health Care Trust Fund.

At December 31, 2004, the State and School Division of PERA was underfunded with an infinite amortization period, which means that the unfunded actuarially accrued liability would never be fully funded at the current contribution rate. In the 2004 legislative session, the general assembly authorized an Amortization Equalization Disbursement to address the funding shortfall that requires PERA employers to pay an additional .5 percent of salary in 2006, 1.0 percent of salary in 2007, and subsequent year increases of .4 percent of salary until the additional payment reaches 3.0 percent in 2012. (see Note 10).

Salary subject to PERA contribution 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 Enterprise's contributions to the retirement and health care programs for the Fiscal Years ending June 30, 2006, 2005, and 2004 were \$389,747, \$898,919, and \$982,767, respectively. These contributions met the funding requirements for each year.



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**NOTE 10 – VOLUNTARY TAX-DEFERRED RETIREMENT PLANS**

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 403(b) or 401(a) plans. Members who contribute to any of these plans also receive the State match, when available.

In January 2001, the Matchmaker Program established a State match for PERA member's voluntary contributions to tax-deferred retirement plans. The PERA Board sets the level of the match annually based on actuarial funding of the defined benefit pension plan. The match is only available when the actuarial value of the defined benefit plan's assets is 110 percent of actuarial accrued plan liabilities. This condition was not met during Fiscal Year 2005-06.

**NOTE 11 – 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; the program was converted to a trust fund in 1999. 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 2005-06, the premium subsidy was \$115 for those with 20 years of service credit (\$230 for members under age 65), and it was reduced by 5 percent for each year of service fewer than 20.

The Health Care Trust Fund is maintained by a contribution as discussed above in Note 9.

Monthly premium costs for participants depend on the health care plan selected, the number of persons being covered, Medicare eligibility, and the number of years of retiree service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans and with health maintenance organizations to provide services within Colorado. As of December 31, 2005, there were 41,080 enrollees in the Plan.

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**NOTE 11 – POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS  
(CONTINUED)**

**Life Insurance Program**

During Fiscal Year 2004-2005, PERA provided its members access to two group decreasing term life insurance plans offered by Prudential Insurance Company and Anthem Life. Effective April 1, 2005, PERA consolidated the two plans, and UnumProvident became the administrator. Members who transition to the new plan may continue coverage into retirement. Premiums are collected monthly by payroll deduction or other means.

**NOTE 12 – LITIGATION**

The Enterprise was involved in various legal proceedings primarily for personnel related actions. These matters were settled during the year ended June 30, 2006 with no material impact on the financial condition of the Enterprise. The Enterprise does not believe that its ongoing legal proceedings with Raytheon Corporation will not result in any liability.

The College Opportunity Fund was involved in no legal proceedings during the year ended June 30, 2006.

**NOTE 13 – FEDERAL AND STATE LEGISLATIVE IMPACTS ON THE ENTERPRISE**

**College Access Network**

**Balanced Budget Act of 1997**

As a result of the Balanced Budget Act of 1997, guarantee agencies were required to transfer approximately \$1 billion of guarantor reserves to the Federal Treasury in Federal Fiscal Year 2002. Beginning in Fiscal Year 1998, each guarantee agency was required to establish a restricted account in which each agency will be required make an annual transfer of funds. The principal amount in the restricted accounts will not be available for use; however, interest earnings will be utilized for default reduction activities. The Enterprise transferred \$23,268,032 million to its recall fund at June 30, 2002. In September 2002, the Division paid \$23,268,032 to DE for this recall.

**COLLEGE ACCESS NETWORK  
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NOTES TO FINANCIAL STATEMENTS  
June 30, 2006 and 2005**

**NOTE 13 – FEDERAL AND STATE LEGISLATIVE IMPACTS ON THE ENTERPRISE  
(CONTINUED)**

**1998 Reauthorization of Higher Education Act**

In October 1998, legislation was passed re-authorizing the Higher Education Act. One of the provisions of reauthorization requires the guarantee agencies to pay back reserves to the Federal Treasury of \$250 million by September 30, 2007. The Enterprise's share of this recall is \$4,641,050. The Enterprise paid DE \$1,577,957 in Fiscal Year 2003, and will pay DE \$1,531,547 in Fiscal Year 2007 and \$1,531,546 in Fiscal Year 2008. The combined recall reserve due in Fiscal Year 2007 and Fiscal Year 2008 is recorded as restricted liabilities.

The legislation also required the Enterprise to set up an Agency Operating Fund and a Federal Reserve/Escrow Fund. These accounting funds are maintained on the accounting system, and are combined for financial reporting purposes.

**College Opportunity Fund**

On an annual basis the General Assembly of the State of Colorado makes an appropriation, in trust for eligible undergraduate students, to the College Opportunity Fund. Monies appropriated to the College Opportunity Fund are for the sole purpose of disbursement on behalf of eligible undergraduate students and not for the general operation of the Colorado Student Loan Program. Any unexpended and unencumbered moneys remaining in the College Opportunity Fund at the end of a Fiscal Year are the property of the trust fund and shall remain in the fund and shall not be credited or transferred to the general fund or any other fund.

Annually, the Colorado Commission on Higher Education requests that the General Assembly adjust the amount appropriated to the College Opportunity Fund for stipends to reflect at least inflation and enrollment growth in the state institutions of higher education.

The legislative declaration specifically states that funding for postsecondary education is not an entitlement, and that the General Assembly may decrease the value of the stipend, or place a limit on the number of stipends funded, based on the overall budgetary needs of the state. The amount of the stipend per credit hour is annually adjusted by the General Assembly. It is the intent of the General Assembly that the amount of the stipend will increase annually by at least inflation and enrollment growth. However, prior to July 1, 2005, the General Assembly had not appropriated General Fund money for enrollment growth or inflation in the last three years.

**COLLEGE ACCESS NETWORK  
DEPARTMENT OF HIGHER EDUCATION  
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June 30, 2006 and 2005**

**NOTE 14 – RISK MANAGEMENT**

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, worker's compensation, and medical claims. Property claims are not self-insured; rather the State has purchased insurance.

The Enterprise participates in the Risk Management Fund of the State of Colorado. 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 of 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 re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

There were no significant reductions or changes in insurance coverage from the prior year in any of the above mentioned risk management arrangements. Settlements did not exceed insurance coverage in any of the past three fiscal years.

**NOTE 15 – TAX, SPENDING AND DEBT LIMITATIONS**

**College Access Network**

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The amendment excludes from its provision Enterprise Operations. Enterprises are defined as government-owned businesses authorized to issue revenue bonds, which receive less than 10% of their annual revenue in grants from all state and local governments combined. The College Access Network qualifies as an Enterprise pursuant to *Title 23, Article 3.1, Part 103.5, Colorado Revised Statutes, 1998*, as amended.

**College Opportunity Fund**

For purposes of the Colorado Opportunity Fund, "It is the intent of the General Assembly that the amount of a stipend received by a state institution of higher education on behalf of an eligible undergraduate student pursuant to this part 2 shall not constitute a grant from the State of Colorado pursuant to section 20(2) (d) of Article X of the State Constitution." By not including

**COLLEGE ACCESS NETWORK  
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**NOTE 15 – TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)**

stipends as grants from the State of Colorado, institutions of higher education do not have to include the stipends as State of Colorado revenue for TABOR calculation purposes. This allows institutions to be designated as an enterprise for purposes of TABOR through a resolution by its governing board.

**NOTE 16 – NELNET, INC. AGREEMENT**

On November 1, 2005, the Enterprise announced an agreement to expand its existing relationship with its current servicing vendor, Nelnet, Inc. (“Nelnet”). Under this expanded agreement, Nelnet will operate all aspects of the guarantee servicing operations for the agency. This represents the majority of the agency’s business operations.

As part of the Nelnet, Inc. agreement with the State of Colorado, Nelnet agreed to provide an upfront fee of \$41,200,000 for the right to provide guarantee services. The \$41,200,000 upfront fee was subsequently used to provide \$25,000,000 in scholarship funds, \$14,000,000 for stabilization of the Federal Reserve Fund used to pay lender claims on defaulted loans and \$2,200,000 for Enterprise operations. The two largest amounts are included within the Enterprise financial statements as transfers out.

The agreement also requires that Nelnet be responsible for all operating expenses associated with this expanded servicing contract. This includes, but is not limited to, personnel, operating, rent, and other expenses normally associated with running a government agency. Nelnet will receive seventy percent of the Enterprise fees included in operating revenues under the expanded agreement to pay for these operating expenses. The Enterprise itself retains thirty percent of these fees to pay for contract monitoring and related activities under the agreement.

The term of the contract is for ten years, cancelable after seven by the agency if revenues or expenses change, and can be renewed for a second ten year term if both parties agree.

**NOTE 17 – SUBSEQUENT EVENTS**

During the 2004 legislative session, House Bill 04-1350 allowed the Enterprise, formally the Colorado Student Loan Program, to change its name to Colorado College Access Network, effective July 1, 2004. House Bill 06-1260 reversed this name change and returned the agency to its former name Colorado Student Loan Program effective July 1, 2006. The Enterprise retained College Access Network as its “doing business as” name for a limited period of time and plans to change the d.b.a. to College Assist.

This information is an integral part of the accompanying financial statements.

**Independent Auditor’s Report on Internal Control Over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards**

Members of the Legislative Audit Committee:

We have audited the basic financial statements of the College Access Network, Department of Higher Education, State of Colorado (the “Enterprise”) as of and for the year ended June 30, 2006, which collectively comprise the Enterprise’s basic financial statements and have issued our report thereon dated September 22, 2006. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Enterprise’s 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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Enterprise’s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Finding and Recommendation No. 1, No. 2 and No. 3 and relate to controls over claims processing, financial reporting and controls over disbursements.

A material weakness is a reportable 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 caused by error or fraud 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Finding and Recommendation No. 1 to be a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Enterprise's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the findings and recommendations.

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*

Denver, Colorado  
September 22, 2006

**SUPPLEMENTAL INFORMATION**



**COLLEGE ACCESS NETWORK  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
PROPRIETARY FUNDS  
COMBINING SCHEDULES OF NET ASSETS  
June 30, 2006  
With Comparative Totals for June 30, 2005**

**ASSETS**

	Agency Operating and Loan Servicing Funds	Federal Reserve and Drawdown Funds	Totals	
			2006	2005
<b>CURRENT ASSETS</b>				
Cash and pooled cash investments	\$ 42,997,608	\$ -	\$ 42,997,608	\$ 31,690,010
Due from other governments				
Federal account maintenance fee	825,021	-	825,021	553,457
Federal loan processing and issuance fee	68,192	-	68,192	66,852
Other federal receivables	1,524,136	-	1,524,136	1,572,610
Other receivables, net	153,669	-	153,669	1,059,935
Supplies inventory	4,767	-	4,767	68,555
Prepaid expenses	46,814	-	46,814	61,507
Total current assets	<u>45,620,207</u>	<u>-</u>	<u>45,620,207</u>	<u>35,072,926</u>
<b>RESTRICTED ASSETS</b>				
Restricted cash and pooled cash investments	-	31,219,738	31,219,738	13,019,526
Federal reinsurance receivable	-	27,002	27,002	14,682
Other receivables, net	-	-	-	7,749
Total restricted assets	<u>-</u>	<u>31,246,740</u>	<u>31,246,740</u>	<u>13,041,957</u>
<b>CAPITAL ASSETS</b>				
Office furniture and equipment	1,616,182	-	1,616,182	2,038,877
Computer hardware and software	3,614,088	-	3,614,088	3,444,200
Property held under capital lease	-	-	-	329,144
Leasehold improvements	97,946	-	97,946	97,946
	<u>5,328,216</u>	<u>-</u>	<u>5,328,216</u>	<u>5,910,167</u>
Less accumulated depreciation	<u>(4,409,823)</u>	<u>-</u>	<u>(4,409,823)</u>	<u>(4,666,234)</u>
Capital assets, net	<u>918,393</u>	<u>-</u>	<u>918,393</u>	<u>1,243,933</u>
<b>TOTAL ASSETS</b>	<u>\$ 46,538,600</u>	<u>\$ 31,246,740</u>	<u>\$ 77,785,340</u>	<u>\$ 49,358,816</u>

## LIABILITIES AND NET ASSETS

	Agency Operating and Loan Servicing Funds	Federal Reserve and Drawdown Funds	Totals	
			2006	2005
<b>CURRENT LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 301,083	\$ -	\$ 301,083	\$ 1,041,172
Payable to the U.S. Department of Education:				
Loan collections and other liabilities due to federal government	-	-	-	1,078,204
Accrued compensated absences	27,227	-	27,227	419,969
Other current liabilities:				
Current portion of obligation under capital lease	-	-	-	111,325
Other	2,187,829	-	2,187,829	760,999
Interfund payable - other agencies	11,169	-	11,169	11,169
Total current liabilities	<u>2,527,308</u>	<u>-</u>	<u>2,527,308</u>	<u>3,422,838</u>
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>				
Recall reserves due to DE	-	3,063,093	3,063,093	3,063,093
Loan collections and other liabilities due to federal government	-	2,403,506	2,403,506	1,158,900
Total liabilities payable from restricted assets	<u>-</u>	<u>5,466,599</u>	<u>5,466,599</u>	<u>4,221,993</u>
<b>NONCURRENT LIABILITIES</b>				
Accrued compensated absences	125,754	-	125,754	218,388
Obligation under capital leases, net of current portion	-	-	-	102,867
Total noncurrent liabilities	<u>125,754</u>	<u>-</u>	<u>125,754</u>	<u>321,255</u>
Total liabilities	<u>2,653,062</u>	<u>5,466,599</u>	<u>8,119,661</u>	<u>7,966,086</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	918,393	-	918,393	1,029,741
Restricted	-	25,780,141	25,780,141	8,819,964
Unrestricted	42,967,145	-	42,967,145	31,543,025
Total net assets	<u>43,885,538</u>	<u>25,780,141</u>	<u>69,665,679</u>	<u>41,392,730</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 46,538,600</u>	<u>\$ 31,246,740</u>	<u>\$ 77,785,340</u>	<u>\$ 49,358,816</u>

**COLLEGE ACCESS NETWORK  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
PROPRIETARY FUNDS  
COMBINING SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
For the Year Ended June 30, 2006  
With Comparative Totals for the Year Ended June 30, 2005**

	Agency Operating and Loan Servicing Funds	Federal Reserve and Drawdown Funds	Totals	
			2006	2005
<b>OPERATING REVENUES</b>				
Federal grants and contracts				
Division's share of collections on loans and bankruptcies	\$ 13,450,278	\$ 352,505	\$ 13,802,783	\$ 19,180,313
Federal account maintenance fee	3,176,090	-	3,176,090	4,847,234
Federal loan processing and issuance fee	1,136,618	-	1,136,618	1,507,495
Federal reinsurance	-	103,880,565	103,880,565	65,263,224
Charges for goods and services				
Contractual service fees	2,594,108	-	2,594,108	5,667,484
Guarantee fees	-	102,578	102,578	4,131,024
Interest on purchased loans and other	402,842	-	402,842	259,891
Gifts and donations	-	-	-	5,000
Other revenue	16,764	1,078,204	1,094,968	1,289,188
Total operating revenues	<u>20,776,700</u>	<u>105,413,852</u>	<u>126,190,552</u>	<u>102,150,853</u>
<b>OPERATING EXPENSES</b>				
Guarantee claims paid to lending institutions	-	105,045,747	105,045,747	64,740,853
Salaries and fringe benefits	5,564,503	-	5,564,503	11,855,407
Operating and travel				
Contracted collection costs	522,183	-	522,183	1,470,786
Other operating and travel	4,273,699	37,222	4,310,921	6,342,322
Depreciation	309,162	-	309,162	371,796
Total operating expenses	<u>10,669,547</u>	<u>105,082,969</u>	<u>115,752,516</u>	<u>84,781,164</u>
<b>OPERATING INCOME</b>	<u>10,107,153</u>	<u>330,883</u>	<u>10,438,036</u>	<u>17,369,689</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Earnings (loss) on temporary cash investments	1,018,332	781,764	1,800,096	881,338
Loss on sale of equipment	(85,204)	-	(85,204)	-
Income (loss) before non-operating expense to other agencies and transfers	<u>11,040,281</u>	<u>1,112,647</u>	<u>12,152,928</u>	<u>18,251,027</u>
Intergovernmental non-operating expenses to other agencies	(25,079,979)	-	(25,079,979)	(102,195)
Interfund transfers in/(out)	(15,847,530)	15,847,530	-	-
Total	<u>(40,927,509)</u>	<u>15,847,530</u>	<u>(25,079,979)</u>	<u>(102,195)</u>
<b>SPECIAL ITEM - Nelnet sale proceeds</b>	<u>41,200,000</u>	<u>-</u>	<u>41,200,000</u>	<u>-</u>
<b>CHANGE IN NET ASSETS</b>	<u>11,312,772</u>	<u>16,960,177</u>	<u>28,272,949</u>	<u>18,148,832</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>32,572,766</u>	<u>8,819,964</u>	<u>41,392,730</u>	<u>23,243,898</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 43,885,538</u>	<u>\$ 25,780,141</u>	<u>\$ 69,665,679</u>	<u>\$ 41,392,730</u>

**COLLEGE ACCESS NETWORK  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
PROPRIETARY FUNDS  
COMBINING SCHEDULES OF CASH FLOWS  
For the Year Ended June 30, 2006  
With Comparative Totals for the Year Ended June 30, 2005**

	Agency Operating and Loan Servicing Funds	Federal Reserve and Drawdown Funds	Totals	
			2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from:				
Fees for service	\$ 3,500,374	\$ 102,578	\$ 3,602,952	\$ 9,453,045
Federal grants and contracts	16,460,353	105,465,357	121,925,710	92,897,276
Interest on purchased loans and other	402,842	-	402,842	259,891
Gifts and donations	-	-	-	5,000
Other sources	16,762	1,078,204	1,094,966	1,289,188
	<u>20,380,331</u>	<u>106,646,139</u>	<u>127,026,470</u>	<u>103,904,400</u>
Cash disbursed for:				
Guarantee claims paid to lending institutions	-	(105,037,998)	(105,037,998)	(64,749,869)
Employees	(6,049,879)	-	(6,049,879)	(12,089,584)
Suppliers	(3,508,477)	(37,223)	(3,545,700)	(6,727,799)
Contracted collection costs	(522,183)	-	(522,183)	(1,470,786)
	<u>(10,080,539)</u>	<u>(105,075,221)</u>	<u>(115,155,760)</u>	<u>(85,038,038)</u>
Net cash provided by operating activities	<u>10,299,792</u>	<u>1,570,918</u>	<u>11,870,710</u>	<u>18,866,362</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Intergovernmental payment	(25,079,979)	-	(25,079,979)	(102,195)
Proceeds from Nelnet sale	41,200,000	-	41,200,000	-
Net cash provided by noncapital activities	<u>16,120,021</u>	<u>-</u>	<u>16,120,021</u>	<u>(102,195)</u>
<b>INTERFUND TRANSFERS</b>	(15,847,530)	15,847,530	-	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition of capital assets	(238,988)	-	(238,988)	(883,227)
Capital lease payments	(44,029)	-	(44,029)	(131,859)
Net cash used in capital and related financing activities	<u>(283,017)</u>	<u>-</u>	<u>(283,017)</u>	<u>(1,015,086)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Interest on temporary cash investments	1,018,332	781,764	1,800,096	881,338
<b>NET INCREASE IN CASH AND TEMPORARY CASH INVESTMENTS</b>	11,307,598	18,200,212	29,507,810	18,630,419
<b>CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF YEAR</b>	31,690,010	13,019,526	44,709,536	26,079,117
<b>CASH AND TEMPORARY CASH INVESTMENTS, END OF YEAR</b>	<u>\$ 42,997,608</u>	<u>\$ 31,219,738</u>	<u>\$ 74,217,346</u>	<u>\$ 44,709,536</u>

	<b>Agency Operating and Loan Servicing Funds</b>	<b>Federal Reserve and Drawdown Funds</b>	<b>Totals</b>	
			<b>2006</b>	<b>2005</b>
<b>RECONCILIATION OF NET OPERATING INCOME</b>				
<b>TO NET CASH PROVIDED BY IN OPERATING ACTIVITIES</b>				
Net operating income	\$ 10,107,153	\$ 330,883	\$ 10,438,036	\$ 17,369,689
Adjustments to reconcile net operating income to net cash provided by operating activities:				
Depreciation	309,162	-	309,162	371,796
Effects of changes in net assets and liabilities:				
Receivables	681,836	(4,572)	677,264	2,186,693
Supplies inventory	63,788	-	63,788	7,037
Prepaid expenses	14,693	-	14,693	102,028
Accounts payable and accrued liabilities	(740,089)	-	(740,089)	(636,808)
Other current liabilities	1,426,829	-	1,426,829	469,922
Loan collections and other liabilities due to federal government	(1,078,204)	1,244,607	166,403	(310,591)
Accrued compensated absences	(485,376)	-	(485,376)	(234,177)
Interfund payable other agencies	-	-	-	(336,672)
Deferred revenue	-	-	-	(122,555)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 10,299,792</b>	<b>\$ 1,570,918</b>	<b>\$ 11,870,710</b>	<b>\$ 18,866,362</b>

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