COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

LEGISLATIVE AUDIT COMMITTEE
2007 MEMBERS

Representative James Kerr
Chair

Representative Dianne Primavera
Vice Chair

Senator Jim Isgar

Representative Rosemary Marshall

Representative Victor Mitchell

Senator David Schultheis

Senator Gail Schwartz

Senator Jack Taylor

Sally Symanski
State Auditor

Dianne Ray
Deputy State Auditor

COLORADO COMMUNITY COLLEGE SYSTEM

Table of Contents

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Report Summary

Year ended June 30, 2007

Purpose and Scope

The Office of the State Auditor engaged KPMG LLP (KPMG) to conduct a financial and compliance audit of the Colorado Community College System (CCCS) for the year ended June 30, 2007. KPMG performed this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted the related fieldwork from April 2007 to December 2007.

The purpose and scope of our audit was to:

- Express opinions on the basic financial statements of CCCS as of and for the year ended June 30, 2007. This includes a consideration of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Express an opinion on CCCS's compliance and report on internal control over financial reporting based on our audit of the basic financial statements performed in accordance with *Government Auditing Standards*.
- Express an opinion on the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs of CCCS for the year ended June 30, 2007.
- Evaluate progress in implementing prior audit findings and recommendations.

CCCS's schedule of expenditures of federal awards and applicable opinions thereon, issued by the Office of the State Auditor, State of Colorado, are included in the June 30, 2007 Statewide Single Audit Report issued under separate cover.

Audit Opinions and Reports

We expressed unqualified opinions on CCCS's basic financial statements and its Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs as of and for the year ended June 30, 2007.

No audit adjustments were proposed and made to the basic financial statements. Six audit adjustments were not made to the basic financial statements with a net effect of ($1,001,166), which is less than 0.3% of current year net assets. These passed differences are not considered material to CCCS's basic financial statements.

We issued a report on CCCS's internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards*. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We noted one matter involving the internal control over financial reporting and its operation that we consider to be a material weakness.

(Continued)

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Report Summary

Year ended June 30, 2007

Summary of Key Findings

We have identified and reported a number of internal control deficiencies at the Community College of Denver (CCD) during previous external audits. Additional internal control deficiencies were noted as part of the fiscal 2007 external audit. Such deficiencies included weak information technology general controls, lack of segregation of duties in payroll, inadequate reconciliation procedures, and improper determination of student financial aid eligibility.

Additionally, in June 2006, the Internal Audit Department of the Colorado Community College System (CCCS) received information via the fraud hotline indicating that the internal control environment at CCD had deteriorated. Allegations were made of specific instances of noncompliance with aspects of CCCS operating policy, state law, and federal student financial aid guidelines.

In response the these allegations, as well as additional allegations received during the course of the investigation, CCCS contracted with external forensic accountants to conduct an investigation to determine, to the extent possible, the facts about the alleged irregular transactions that were reported to CCCS's Internal Audit Department and to determine whether or not appropriate CCD internal control procedures were followed. The external forensic accountants conducted interviews of certain CCCS and CCD current and former employees to gain an understanding of CCD's processes, systems, documents, and activities. They also analyzed documents and the contents of certain personal computers to determine whether there was documentation that indicated the validity of the allegations.

The external forensic accountants issued their final report dated October 19, 2007. This report noted weaknesses in the following areas or functions: 1) control environment; 2) accounting; 3) student financial aid; 4) human resources; and 5) purchasing and accounts payable, among others.

Recommendations and CCCS Responses

Our recommendations and responses from CCCS can be found in the Recommendation Locator section of this report.

Summary of Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended June 30, 2006 included seven recommendations. The disposition of these audit recommendations as of December 20, 2007 was as follows.

Implemented	4
Partially implemented	3
Not implemented	—
Total	7

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Recommendation Locator

Year ended June 30, 2007

Rec. no.	Page no.	Recommendation summary	Agency addressed	Agency response	Implementation date
1	17	The Colorado Community College System (CCCS) in conjunction with Community College of Denver (CCD) should develop an action plan based on current and prior findings related to CCD, work performed by CCCS Internal Audit, and on the Internal Controls Report issued by the external forensic accountants. This plan should identify each weakness noted and provide specific remedial and corrective actions that will be taken by CCD management.	Colorado Community College System	Agree	January 2009
2	19	CCCS and CCD should perform the following to improve information technology general controls (as applicable to each): a. Ensure CCD implements formal policies and procedures for adding or removing employees from the network, Virtual Memory System (VMS) user/access list, the Active Directory Windows Network, and Banner. b. Ensure CCD adheres to the Information Security Policy for password parameters. c. Eliminate generic IDs in the Domain Administrative Group at CCD. d. Ensure Banner password policies system-wide require expirations (90 days is leading industry practice) and require each be at least six characters in length. Such policies should be appropriately enforced.	Colorado Community College System	Partially Agree	July 2007 – January 2008

(Continued)

Rec. no.	Page no.	Recommendation summary	Agency addressed	Agency response	Implementation date
		e. Ensure the System Office and CCD perform and document periodic, formal reviews of user access rights to systems and applications of the Windows Active Directory Windows Network and Banner. f. As part of the Enterprise Resource Planning (ERP) system implementation, CCCS should reconsider need for super user access to VMS for help desk personnel. g. Ensure CCCS and CCD maintain evidence for approval of program changes, including emergency changes. Ensure only appropriate individuals have access to Prod Mov. h. Ensure the System Office rotates backup tapes offsite and backup and recovery procedures are periodically tested and documented.			
3	21	CCCS should proceed in implementing the remaining modules of the ERP System by: a. Ensuring that proper planning is performed to avoid similar instances in the future. Such planning should allow for adequate time for testing these modules. b. Performing necessary testing of the modules being implemented. Testing should be wide-ranging, considering the various scenarios that confront each of the thirteen colleges and the system office. CCCS should continue to document and approve such testing.	Colorado Community College System	Partially Agree	July 2008 and other modules to be determined thereafter

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Recommendation Locator

Year ended June 30, 2007

Rec. no.	Page no.	Recommendation summary	Agency addressed	Agency response	Implementation date
4	23	CCCS should work with Lamar Community College (LCC) and CCD so that they may ensure they implement proper segregation of duties by ensuring no one person has the ability to set up new employees, change pay rates, and pay employees. Also, CCCS should work with CCD so that it may ensure it implements proper approval controls over hiring of employees. Lastly, CCCS should work with CCD and LCC so that they can ensure they establish end-user controls to ensure payroll processed by Colorado Payroll and Personnel System (CPPS) is complete and accurate and that it is properly posted to the Financial Reporting System (FRS).	Colorado Community College System	Agree	August 2007 – November 2007
5	23	CCCS should work with Otero Junior College (OJC) so that it can ensure that controls over approval of purchases at OJC are being adhered to.	Colorado Community College System	Agree	December 2007
6	24	CCCS should work with OJC, LCC, and CCD so that they can ensure they are performing the FRS to COFRS reconciliation effectively on a monthly basis. In addition, CCD should ensure its cash balance reported on the general ledger can be properly reconciled to the balance reported by the State Treasurer.	Colorado Community College System	Agree	December 2007

(Continued)

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Recommendation Locator

Year ended June 30, 2007

Rec. no.	Page no.	Recommendation summary	Agency addressed	Agency response	Implementation date
7	26	All colleges should ensure proper tuition rates are charged by: a. Implementing a review control at the college level to ensure rate tables reflect proper Board-approved rates. b. Implementing a review control at the System level to further ensure colleges have properly updated the rate tables based upon Board-approved rates.	Colorado Community College System	Agree	July 2008
8	27	CCCS should ensure all colleges perform effective reconciliations between Banner plus the Billing Receiving System (BRS) to FRS on a monthly basis.	Colorado Community College System	Agree	July 2008
9	28	CCCS should work in conjunction with the colleges to ensure capital asset balances are properly stated by: a. Performing proper cut-off procedures near or after year-end to ensure capital asset balances are properly stated as of year-end. b. Reviewing depreciation schedules to ensure they are properly depreciating assets based upon useful lives assigned and the assets' years in service.	Colorado Community College System	Partially Agree	July 2008

(Continued)

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Recommendation Locator

Year ended June 30, 2007

Rec. no.	Page no.	Recommendation summary	Agency addressed	Agency response	Implementation date
10	29	CCCS should improve its subrecipient monitoring by implementing policies, procedures, and controls to ensure compliance with OMB Circular A-133. Specifically, CCCS should: a. Develop a risk-based approach for monitoring subrecipients, including written policies and procedures, in compliance with OMB Circular A-133. Based upon this risk-based approach, a monitoring calendar should be developed and adhered to as it relates to items b – f below. b. Perform periodic site visits to ensure that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. c. Require all subrecipients to submit either their annual OMB Circular A-133 audit or a statement attesting that they are not subject to OMB Circular A-133 audit requirements. Also, CCCS should review these audit reports or other statements. For those that report compliance findings, significant deficiencies, or material weaknesses, CCCS should ensure corrective action measures are being acted upon in a timely manner. Review of the reports and monitoring of corrective action measures should be documented.	Colorado Community College System	Agree	June 2009

(Continued)

Rec. no.	**Page no.**	**Recommendation summary**	**Agency addressed**	**Agency response**	**Implementation date**
		d. Develop written policies, procedures, and documentation requirements for subrecipients to support allowability and appropriateness of grants expenditures and other compliance requirements. e. Provide training to improve the technical skill of staff responsible for subrecipient monitoring. f. Provide adequate oversight and supervisory review of the Perkins monitoring process.			
11	30	For the Perkins program, CCCS should ensure that time being charged is properly supported by time and effort reporting, including new employees charging time to the program. CCCS should ensure compliance with these requirements by: a. Training employees who work on the Perkins programs regarding the importance of time and effort reporting and certifications. b. Performing periodic reviews of time and effort reporting or certifications for a sample of those employees who charge time to the Perkins programs. This review should include any new employees charging time to the program.	Colorado Community College System	Partially Agree	November 2007

Rec. no.	Page no.	Recommendation summary	Agency addressed	Agency response	Implementation date
12	31	CCCS should work with LCC to enhance procedures to make certain that the institution's portion of a student's unearned Title IV funds is returned to the federal government within 45 days after the school has determined the student has withdrawn. This should include a review performed by someone separate from the preparer to ensure accuracy of the return.	Colorado Community College System	Agree	December 2007
13	32	CCCS should work with LCC to enhance procedures to ensure that verification procedures over student information described above are properly performed and documented. In addition, LCC should implement monitoring procedures over the verification process. These procedures should include someone separate from the verification process selecting a sample of the verified data, reviewing the information for completeness and accuracy, and documenting this review within the file.	Colorado Community College System	Agree	December 2007

(Continued)

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Recommendation Locator

Year ended June 30, 2007

Rec. no.	Page no.	Recommendation summary	Agency addressed	Agency response	Implementation date
14	33	CCCS should ensure LCC enhances procedures to comply with required exit counseling procedures. This should include determining the complete population of students who are graduating or have withdrawn from the institution and documenting in the borrower's file the method of meeting the exit counseling requirements. Lastly, a review procedure should be implemented by someone overseeing the process to ensure these requirements are being adhered to on a timely basis.	Colorado Community College System	Agree	December 2007
15	34	CCCS should work with Pueblo Community College (PCC) to enhance procedures to comply with required satisfactory academic progress procedures. Specifically, these procedures should include a process to ensure all students who cannot mathematically finish the program within 150% of the published timeframe are properly identified and eligibility reviewed accordingly.	Colorado Community College System	Agree	November 2007
16	34	CCCS should work with CCD to enhance procedures to comply with eligibility requirements. Specifically, CCD should ensure that Free Application for Federal Student Aid forms are being properly reviewed to ascertain that the student qualifies to study at the post-secondary level. This review should be performed by individuals familiar with the student financial aid eligibility requirements, and the date and person performing the review should be documented.	Colorado Community College System	Agree	November 2007

Organization

The State Board for Community Colleges and Occupational Education (SBCCOE or the Board) was established by the Community College and Occupational Education Act of 1967, Title 23, Article 60 of the Colorado Revised Statutes. The Board functions as a separate entity and, as such, may hold money, land, or other property for any educational institution under its jurisdiction. The statute assigns responsibility and authority to the Board for three major functions:

- The Board is the governing board of the state system of community and technical colleges.
- The Board administers the occupational education programs of the state at both secondary and postsecondary levels.
- The Board administers the state's program of appropriations to Local District Colleges (LDC) and Area Vocational Schools (AVS).

The Board consists of nine members appointed by the Governor to four-year staggered terms of service. The statute requires that board members be selected so as to represent certain economic, political, and geographical constituencies.

CCCS's operations and activities are funded primarily through tuition and fees, federal, state, and local grants, tuition revenue, and beginning in 2006, the College Opportunity Fund (COF) stipends and a fee-for-service contract. In addition, the SBCCOE receives and distributes state appropriations for Local District Colleges, Area Vocational Schools, and school districts offering vocational programs.

The 13 colleges in the community college system are as follows:

College	Main campus location
Arapahoe Community College (ACC)	Littleton
Community College of Aurora (CCA)	Aurora
Community College of Denver (CCD)	Denver
Colorado Northwestern Community College (CNCC)	Rangely
Front Range Community College (FRCC)	Westminster
Lamar Community College (LCC)	Lamar
Morgan Community College (MCC)	Fort Morgan
Northeastern Junior College (NJC)	Sterling
Otero Junior College (OJC)	La Junta
Pikes Peak Community College (PPCC)	Colorado Springs
Pueblo Community College (PCC)	Pueblo
Red Rocks Community College (RRCC)	Lakewood
Trinidad State Junior College (TSJC)	Trinidad

(Continued)

Enrollment, tuition, and faculty and staff information is presented below. Enrollment information was obtained from the Colorado Commission on Higher Education (CCHE), Final Student full-time equivalent (FTE) Enrollment Report. Staff information was obtained from Format 10 and 40 for the Budget Data Book for Fiscal Year 2006-2007 as prepared for CCHE.

CCCS reports FTE student and faculty and staff for three continuous fiscal years as follows:

FTE Student Enrollment

	Resident	**Nonresident**	**Total**
Fiscal year:			
2006 – 2007	40,876	2,570	43,446
2005 – 2006	42,454	2,165	44,619
2004 – 2005	44,564	2,122	46,686

FTE Faculty and Staff

	Faculty	**Staff**	**Total**
Fiscal year:			
2006 – 2007	3,010	1,550	4,560
2005 – 2006	3,015	1,376	4,391
2004 – 2005	3,211	1,362	4,573

We have audited the basic financial statements of the Colorado Community College System (CCCS) as of and for the year ended June 30, 2007 and have issued our report thereon, dated December 20, 2007. In planning and performing our audit of the basic financial statements, in accordance with auditing standards generally accepted in the United States of America, we considered CCCS's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of CCCS's internal control. Accordingly, we do not express an opinion of CCCS's internal control. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we also have issued our report dated December 20, 2007 on our consideration of CCCS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. We have not considered internal control since December 20, 2007. We did not audit the financial statements of certain discretely presented component units discussed in note 1, which represent 99%, 98%, and 95% of the 2007 assets, net assets, and revenues of the aggregate discretely presented component units, respectively. Those financial statements were audited by other auditors and were not audited in accordance with *Government Auditing Standards.*

The maintenance of adequate internal control designed to fulfill control objectives is the responsibility of management. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, controls found to be functioning at a point in time may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the organization.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider Recommendations No.'s 1, 2, 4, 6, 7, and 9 to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe Recommendation No. 1 constitutes a material weakness.

Although not considered to be significant deficiencies or material weaknesses, we also noted Recommendations No.'s 3, 5, and 8 that we like to bring to your attention.

Community College of Denver (*material weakness in internal control*)

We have identified and reported a number of internal control deficiencies at the Community College of Denver (CCD) during previous external audits. Additional internal control deficiencies were noted as part of the fiscal year 2007 external audit. Specifically, the following issues were noted and included in the annual financial and compliance reports over the past three years:

Fiscal Year 2007

- Insufficient Information Technology General Controls
- Lack of segregation of duties in payroll
- Inadequate reconciliation procedures
- Improper determination of student financial aid eligibility

Fiscal Year 2006

- Inadequate reconciliation procedures (repeated in 2007)
- Capitalization of assets in the incorrect fiscal year
- Inadequate controls over authorization of employee compensation

Fiscal Year 2004

- Inadequate controls over accounting and financial reporting processes
- Lack of management review of journal entries and certain key calculations, such as the allowance for doubtful accounts, the scholarship allowance
- Insufficient budgeting procedures
- Timely return of Title IV funds

Additionally, in June 2006, the Internal Audit Department of the Colorado Community College System (CCCS) received allegations through the CCCS fraud hotline of questionable activities of one instructor. Allegations indicated specific instances of noncompliance with aspects of CCCS operating policy, state law, and federal student financial aid guidelines.

In response to these allegations, CCCS performed an investigation and issued a report in November 2006. Based on the nature of those findings and other allegations arising from that investigation, CCCS contracted with external forensic accountants in March 2007 to conduct an investigation to determine, to the extent possible, the facts about the alleged irregular transactions that were reported to CCCS's Internal Audit Department and to determine whether or not appropriate CCD internal control procedures were followed related to various functions. During the investigation, the number of allegations continued to increase, including calls for the fraud hotline. The external forensic accountants performed various procedures as further detailed in their report dated October 19, 2007. Their report noted weakness in the following areas or functions: 1) control environment;

2) accounting; 3) student financial aid; 4) human resources; and 5) purchasing and accounts payable, among others.

Summary of Findings

Control Environment

The external forensic accountants noted through examination of documents and interviews with CCD executives and managers the existence of inappropriate overrides of controls by management with respect to hiring practices, awarding of student financial aid, finance and procurement. Each of these is discussed in more detail below. The external forensic accountants noted that CCD management represented compliance with the Statement of Compliance with the State Department Financial Responsibility and Accountability Act (Act) despite these overrides and control weaknesses. Under the Act (Colorado Revised Statutes Section 24-17-101, et seq.), management of each principal department is required annually to file a statement with the State Controller, the Governor, and the State Auditor as to the adequacy of the department's system of internal and administrative controls. Taken in total, the existence of these overrides indicates a lack of appropriate consideration of the importance of adherence to internal control policies and reflects negatively on the overall tone toward compliance with laws, regulations, and policies at CCD.

Accounting Function

The external forensic accountants noted weak or dysfunctional controls in the accounting department. Among the items noted were lack of budget to actual reports and lack of reconciliations between certain subsystems such as the student receivables system and the general ledger. Furthermore, reconciliations between the Financial Reporting System and COFRS were not performed. Additionally, they noted a significant amount of assistance from CCCS accounting personnel was required to close the books at CCD at the end of fiscal year 2007. Extensive adjustments to the financial records were made by the CCCS accounting personnel to correct errors in general ledger balances such as accounts payable and accounts receivable, deferred revenue, tuition, grant revenue, and multiple others that were materially misstated.

Student Financial Aid

Procedures performed by the external forensic accountants identified instances of financial aid being disbursed to ineligible students. Initially, 50 students were tested, 12 of which were determined not eligible to receive federal assistance. Significant issues of noncompliance with federal requirements were noted in lack of Satisfactory Academic Progress, lack of documentation of high school diplomas or the equivalent, aid disbursed to students enrolled in excessive remedial credit hours, and lack of timely return of Title IV funds to the federal government. These findings resulted in a total monetary error of approximately $53,000. Based on these results from the original sample of 50, we statistically selected a separate additional sample of 49 students for further testing. Six of the 49 students tested had adverse findings with an aggregate monetary error of $3,526. A statistical extrapolation of this monetary error resulted in an estimate of the most likely total error in the population of approximately $315,000 with a range of possible error of $3,500 to $1,400,000 (at a 96% confidence interval). As a result of the noncompliance identified, there is a possibility some amount will have to be repaid to the federal government.

Human Resources (HR)

The external forensic accountants reported that controls surrounding the human resources process were inadequate to protect CCD from inappropriate hiring. In particular, there was not a process for documenting budgetary approval prior to hire, no documentation of appropriate approval prior to hiring employees, and a lack of segregation of duties in the human resources and payroll process. Specifically, payroll technicians were able to create new employee records, enter compensation rates, and generate pay. Certain positions were converted from classified positions to exempt positions without appropriate documentation, thus circumventing state personnel board policy and procedures. It was also noted that CCD Human Resources personnel maintained incomplete Form I-9 and work visa documentation. As a result, employees' legal status was not always clearly documented in HR files. It was also noted that two individuals who were ineligible to work in the United States were employed by CCD.

Purchasing

The external forensic accountants noted that 13 of 24 contracts with vendors tested did not comply with the State Constitution and State Fiscal Rule requirements. Six contracts did not have a total maximum amount of costs and did not include the special provisions related to undefined costs in non-compliance with State Fiscal Rule 3-1, five contracts lacked the Special Provisions required by State Fiscal Rule 3-1 (Special Provisions are standard legal requirements that must be included in all state contracts), and several contracts lacked appropriate signatures as required by State Fiscal Rule 3-1. Six contracts and one contract amendment included a clause whereby CCD indemnified the external party in violation of the State Constitution. Multiple other findings were also noted. Additionally, a lack of segregation of duties was noted in which the accounts payable technician routinely creates new vendors and generates payments, thus creating the risk that improper payments could be issued and not detected timely.

Impact of Internal Control Weaknesses

The findings noted by KPMG and the external forensic accountants reflect a material weakness in internal controls at CCD. Specifically, the lack of adherence to established policies, procedures, student financial aid regulations and state law result from a lack of oversight of control activities and from management override of controls. Such a lack of enforcement of controls and adherence to policies directly results in the types and magnitude of findings noted at CCD.

As a result of the weaknesses noted at CCD, KPMG performed extensive additional work over payroll and tuition at all colleges during the system-wide audit. Additionally, the number and content of KPMG's required fraud discussions with staff and management were increased throughout CCCS, and a member of KPMG's forensics practice reviewed the work performed by both the internal audit department and the external forensic accountants to determine if the investigation was sufficient to identify significant issues and their cause. We concluded, based on the performance of additional procedures and representations made by CCCS management, that the investigation was sufficient for our purposes of issuing an opinion on the fiscal year 2007 CCCS financial statements.

Recommendation No. 1

CCCS should develop an action plan based on our current and prior findings related to CCD, work performed by CCCS Internal Audit, and on the Internal Controls Report issued by the external forensic accountants. This plan should identify each weakness noted and provide specific remedial and corrective actions that will be taken by CCD management, including time frames for completion. Such actions taken by CCD management should be subject to ongoing oversight from CCCS personnel, including the Internal Audit department. For the foreseeable future, routine on-site visits should be conducted by CCCS personnel to determine the degree of progress being made as compared to these corrective actions. Interim progress reports should be made to the executive management of CCCS and to the Audit Committee.

CCCS Response

Agree. The SBCCOE and System management have made appropriate changes in personnel where necessary. CCD staff members have implemented at least partial corrections in all impacted areas. CCD staff will prepare implementation plans that will be monitored monthly by appropriate members of CCD's executive management. In addition, action plans will also be reviewed by System management and the Internal Audit department. Quarterly progress reports towards full implementation will be presented to the Audit Committee of the SBCCOE until process corrections are fully implemented. Specific action items within the plan will be subject to change, as deemed necessary, as new management is put in place. Completion is projected for January 2009.

Information Technology (*significant deficiency in internal control*)

The scope of our audit related to information technology general controls included the Financial Reporting System (FRS), Banner Enterprise Resource (ERP) System, and the Windows Active Directory, which controls access to the network. FRS was the system of record in fiscal year 2007 with the Banner ERP Student and Financial Aid modules implemented in the fall term of fiscal year 2007.

General controls are policies and procedures that relate to many applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. General controls commonly include controls over data center and network operations; system software acquisition and maintenance; access security; and application system acquisition, development, and maintenance. We evaluated information technology general controls at the system office and two colleges: CCD and Front Range Community College (FRCC).

We noted certain deficiencies in information technology general controls during our audit related to access to programs and data, change management and backup and recovery procedures. Failure to ensure adequate general controls are in place and operating effectively could impact proper operation of information systems, including improper access to programs and data. Our specific observations are described below.

Access to Programs and Data

We noted the following conditions related to access to programs and data:

a. CCD does not have formal policies and procedures for adding and removing users from its network.

b. CCCS's Information Security Policy outlines password parameters. CCD did not comply with the requirement that the last 15 passwords cannot be reused. Rather, CCD's policy was that the last 5 passwords could not be reused.

c. A shared ID is used by the Domain Administrative Group of CCD. Each administrator should have a unique account and password in order to demonstrate individual accountability for performing activities within the systems.

d. Banner password settings did not have established rules. Specifically, passwords do not expire, and do not have length and complexity requirements.

e. (i) CCD has no formal policy for adding users to the Active Directory Windows Network.

(ii) The System office did not document periodic, formal reviews of user access rights to systems and applications of the Active Directory Windows Network or Banner.

(iii) No formal policy exists for removing users from the Active Directory Windows Network at CCD.

f. (i) Certain help desk personnel have super user access to Virtual Memory System (VMS). Super user access allows personnel access to programs and data for a variety of purposes. Super user access is normally limited to certain programmers, not help desk personnel.

(ii) CCCS did not have complex password setting for the VMS computing environment.

(iii) In a test of 30 former employees, it was noted that 5 terminated employees were not removed from the VMS user/access list at CCD. In addition, two terminated employees were not removed from the Banner user/access list at CCD.

Lastly, due to the absence of the controls described above, policies for adding new employees and removing terminated employees was not tested at the System office.

g. Program Change

Out of 30 program changes tested, we noted one instance in which CCCS did not retain documentation supporting that the proper approvals for the change were obtained. Also, for five emergency changes tested, two of the changes did not follow system policy. Specifically, for the two emergency changes, no documentation was retained to support approval and testing. Lastly, the System office was unable to provide evidence that appropriate individuals had access to ProdMov, which is the directory used to move changes into production.

Also, CCD had no Banner or FRS application configuration change policy. Configuration settings are used to provide system administration personnel with the ability to customize certain aspects of the systems. CCD had no formal policy to ensure changes to such configurations are properly validated, approved, and tested, as necessary.

h. Computer Operations

CCCS does not rotate backup tapes offsite. Instead, backup tapes are stored locally. We also noted documentation was not maintained to demonstrate that the System office's backup and recovery procedures for FRS and Banner are tested periodically.

Recommendation No. 2

CCCS should consider the above-mentioned control deficiencies in the implementation of its remaining modules of the ERP system and perform the following to improve information technology general controls:

a. Ensure CCD implements formal policies and procedures for adding or removing employees from the network, VMS user/access list, the Active Directory Windows Network, and Banner.

b. Ensure CCD adheres to the Information Security Policy for password parameters.

c. Eliminate generic IDs in the Domain Administrative Group at CCD.

d. Ensure Banner password policies system-wide require expirations (90 days is leading industry practice) and require each be at least six characters in length. Such policies should be appropriately enforced.

e. Ensure the System Office and CCD perform and document periodic, formal reviews of user access rights to systems and applications of the Active Directory Windows Network and Banner.

f. As part of the ERP system implementation, CCCS should reconsider need for super user access to VMS for help desk personnel and require complex passwords for VMS computing environment.

g. (i) Ensure evidence is maintained for approval of program changes, including emergency changes.

   (ii) Ensure only appropriate individuals have access to ProdMov.

h. Ensure CCCS rotates backup tapes offsite and backup and recovery procedures are periodically tested and documented.

CCCS Response:

a. CCD agrees. This discrepancy relates to procedural issues surrounding adding and deleting users from the various applications/network. IT is working with HR/Payroll to establish CCD business practice and will then document policy regarding adding and deleting users. CCD will comply with a formalized policy by January 31, 2008.

b. CCD agrees. CCD complied immediately with password reusability settings to the last 15 passwords. This discrepancy has been corrected.

c. CCD agrees. CCD created distinct individual accounts for the support team members with administrative privilege as prescribed. This discrepancy has been corrected.

d. CCCS partially agrees as to the finding, however, the recommendation can not be implemented. The Banner application does not have any facility of its own to expire passwords or add length and/or complexity requirements. The rule and policy is in place but is not enforceable with an automated process within the Banner application. This may be able to be added to Banner later through a portal or identity management application implementation, but is not currently funded or staffed.

e. CCD agrees. This discrepancy relates to procedural issues surrounding adding and deleting users from the various applications/network, including the Active Directory. IT is working with HR/Payroll to establish CCD business practice and will then document policy regarding adding and deleting users. CCD will comply with a formalized policy by January 31, 2008.

(Continued)

The System Office partially agrees as to the lack of documentation; however, the process itself is already in place at the System Office. The process to review user access rights to systems and applications at the System Office has been in place and operating; however, it was not adequately documented at the time of the audit. The process will be further enhanced in conjunction with HR's finalization of system-wide hire and termination policies and processes. Documentation is now currently in place.

CCD agrees. This discrepancy to remove users from the VMS user/access list relates to procedural issues surrounding adding and deleting users from the various applications/network. IT is working with HR/Payroll to establish CCD business practice and will then document policy regarding adding and deleting users. CCD will comply with a formalized policy by January 31, 2008.

f. CCCS partially agrees as to a portion of the finding but not the recommendation. The VMS system is not capable of multiple security levels. There are two security levels – user and administrator. As part of their position, Help Desk personnel assist users with password changes and forgotten passwords. They also are required to submit jobs as a part of the scheduling process. As a result, they must have administrator access to complete this work and cannot be changed without hiring redundant staff to only perform these functions. Programmers do not have administrator access on a regular basis and our policy is that they do not have administrator access except for ad hoc emergency basis. The administrator security is removed once the task is completed.

CCCS partially agrees as to the finding; however, the recommendation can not be implemented. The VMS system does not have the capability for complex passwords given the version of system software CCCS must run within the confines of our hardware and FRS application. It should be noted the VMS system will be eliminated upon full implementation of Banner.

CCCS agrees. As noted earlier, this is a combined effort with system HR and IT that is in the process of being enhanced and rewritten. Currently when notified of hires and terminations, the existing process is followed and security is either created or deleted as appropriate and documented internally within IT.

g. CCCS agrees and has implemented the recommendation. To address these issues a change management process is being followed for all application and infrastructure changes into the production environment including emergency changes. This includes the VMS system. A query was provided of the individuals within the security file. The VMS system does not have a screen that shows security access.

CCD concurs and will develop and implement a formal policy by January 2008.

h. CCCS agrees and has implemented the recommendation. Beginning July 2007, CCCS now rotates backup tapes offsite, noting this is outside the dates of this audit. Previously there was no funding for offsite storage and rotation. The backup/recovery process was provided, but no written schedule was available. An automated schedule has since been implemented to include all backups due a test file restore. This is in place for Banner, VMS, and the network.

(Continued)

Enterprise Resource Planning (ERP) System Implementation

During fiscal year 2007, CCCS implemented the Student and Student Financial Aid modules of its new ERP system, Banner, in compliance with a June 30, 2006 statutory requirement. During the course of the audit, CCCS management brought to our attention, despite certain planning steps and testing of the modules performed by CCCS, instances in which the modules were not functioning correctly after implementation system-wide. These instances included:

- Some nonresident students who changed to resident status were charged tuition twice within the system at certain colleges - once for the resident student rate and once for a nonresident student rate.
- Colleges could not reconcile student accounts receivable, or experienced great difficulty in reconciling, the detailed student accounts in Banner to the aggregate balances in the legacy general ledger system, Financial Reporting System (FRS), until approximately March 2007. (See further details in Recommendation 8.)
- The accounts receivable crosswalk between Banner and FRS was not functioning properly initially at all colleges.
- In December 2006, some students who withdrew after the fall 2006 semester census date were charged twice within the system at some of the colleges during the history migration process.

The implementation date of June 30, 2006 for Banner was prescribed in statute and did not provide a related appropriation. This deadline limited the amount of time and resources available to CCCS for planning and testing of the ERP system.

Even with the given conditions, CCCS identified all of the above occurrences and remediated accordingly; yet, as a result of these occurrences, numerous hours were invested by CCCS to resolve these problems prior to year-end. In addition, the System was unable to provide some detailed financial information for certain interim periods.

Proper planning of future implementation will save CCCS funds expended on hours incurred resolving implementation problems and will reduce the likelihood of a material misstatement in the financial statements.

Recommendation No. 3

CCCS should proceed in implementing the remaining modules of the ERP System by:

a. Ensuring that proper planning is performed to avoid similar instances in the future. Such planning should allow for adequate time for testing these modules and CCCS should work with interested parties regarding attainable implementation deadlines.

b. Performing necessary testing of the modules being implemented. Testing should be wide-ranging, considering the various scenarios that confront each of the thirteen colleges and the system office. CCCS should continue to document and approve such testing.

(Continued)

CCCS Response

Partially agree. As with any significant system implementation of this size, it is anticipated that addressing various technical and implementation issues would be an ongoing process, a risk CCCS identified early on. This ERP System was an unfunded legislative mandate under HB 04-1086 and had an arbitrary implementation date of June 30, 2006. This legislative deadline, coupled with the lack of funding, prevented proper planning for a system of this size. Further, the complexities of implementing COF for the first time as a source of tuition payment proved a challenge to successfully ensure our 107,000 students were not financially impacted or deprived of their educational opportunity. We were able to identify residency issues that occurred and resolve them for students throughout the year as well, reconcile student account activity by year end, repair crosswalks and correct activity that had not previously fed to the legacy system accurately, and build and test a report to drop students for nonpayment in an automated fashion by the spring term. All of these issues were identified internally by existing controls in place as well as new controls established and were resolved without audit adjustments, thus the financial statements were not impacted.

As we proceed with the implementation of Banner (HR, Finance, and Payroll) we will continue to build on and rely on our established proper planning and testing procedures. Though we realize even intensive thorough planning and testing cannot guarantee further issues will not continue to be identified through the implementation process, we will commit to the same level of professionalism and responsiveness with our remaining modules to ensure further problems identified will be resolved appropriately as timely as possible, utilizing consultant resources as needed. This will be completed for HR, Finance, and Payroll in July 2008 and other modules, as determined, thereafter.

Payroll Process – Segregation of Duties, Proper Approvals, and End-User Controls (*significant deficiency in internal control*)

Segregation of duties is a primary internal control intended to prevent, or detect, errors, irregularities, or potential wrongdoing; and to ensure corrective action is taken for any errors, irregularities or wrongdoing discovered. This is achieved by assuring no single individual has control over all phases of a transaction. During our testwork, we noted that Lamar Community College (LCC) and CCD did not appropriately segregate duties between the Human Resources and Payroll functions. Specifically, one person has the ability to establish new employees, set pay rates, and pay employees.

In addition, CCD did not have adequate controls over the authorization of hiring new employees. We noted nine instances in which the personnel action form (PAF) was not signed or not in the file to indicate approval of the new hire or the employee information form in these employees' files were approved after the employee's start date.

Lastly, as CCCS uses the state payroll system, Colorado Payroll and Personnel System (CPPS), to process payroll, a proper end-user control would be to review the completeness and accuracy of information from CPPS after pay for the period is processed and to ensure this information is accurate, supported by documentation, and properly uploaded into FRS. We noted that CCD and LCC had no such end-user control.

By not having proper segregation of duties between the human resources and payroll functions, proper authorization controls, or proper end-user controls, the risk of errors or potential fraud going undetected increases**.**

Recommendation No. 4

CCCS should work with LCC and CCD so that they can ensure they implement the proper segregation of duties by ensuring no one person has the ability to set up new employees, change pay rates, and pay employees. Access controls should be established between the payroll system and human resources system to enforce such segregation of duties. Also, CCCS should work with CCD to ensure proper controls are implemented over hiring of employees. These controls should require obtaining the necessary approvals prior to the date of hire and documenting such approvals. Lastly, the colleges should establish end-user controls to ensure payroll processed by CPPS is complete and accurate and that it is properly posted to FRS.

CCCS Response

Agree.

At LCC, processes have been put into place to alleviate this situation. Compensatory controls have been established over payroll processes to ensure proper accounting and internal control such that the Vice President of Administrative Services will be reviewing every payroll processed in detail at the end of every pay period.

At CCD, the Chief Financial Officer will properly segregate duties and institute proper end user controls, including obtaining prior approval of all requests to fill vacancies, create, and fill new positions. Approvals are required by the supervisor, Executive Staff member, HR Director and CFO, starting in November 1, 2007. Controls over hiring of employees were instituted in August 2007.

Approval of Disbursements

Proper segregation of duties surrounding the procurement function requires obtaining approval prior to purchasing good and services by an individual with the appropriate level of approval authority. Otero Junior College (OJC) has an approval process over disbursements to prevent misappropriation of CCCS's assets. Specifically, this process entails approval of purchase requisitions by the Vice President of Administrative Services. During our testwork, we noted 2 out of 8 instances in which the purchase requisitions were not properly approved, but purchases were made.

Recommendation No. 5

CCCS should work with OJC so that it can ensure that controls over approval of purchases are being adhered to. Purchases should not be made without first obtaining the proper approvals. In addition, those responsible for processing payments should not disburse funds without proper evidence of such approval.

CCCS Response

Agree. Purchasing staff at OJC were provided additional training as to the proper approval threshold requirements and a review process will be completed throughout the year, beginning December 2007, by the Vice President of Administrative Services to ensure thresholds are being adhered to.

Reconciliation of COFRS to FRS (*significant deficiency in internal control*)

On a routine basis, CCCS must upload its financial information into the Colorado Financial Reporting System (COFRS) for purposes of state-wide financial reporting. In order to ensure that information being reported to the state is complete and accurate, CCCS should reconcile its information recorded in its general ledger system, Financial Reporting System (FRS), to COFRS on monthly basis. During our testwork, we noted that LCC did not reconcile FRS to COFRS from July 2006 – January 2007. Also, reconciliations at CCD were not being performed properly. Lastly, we noted that OJC did not perform these reconciliations until requested during the audit.

In addition, cash for all colleges are deposited with the State Treasurer's pool. At year-end, CCD's balance reported by the State Treasurer as compared to the cash balance reported by CCD differed by $576,791.

Recommendation No. 6

CCCS should work with OJC, LCC, and CCD to ensure they are performing the FRS to COFRS reconciliation effectively on a monthly basis. In addition, CCD should ensure its cash balance reported on the general ledger can be properly reconciled to the balance reported by the State Treasurer. During the reconciliations, reconciling items should be properly investigated and resolved and the resolution to such reconciling items should be documented. Finally, these reconciliations should be reviewed by someone at least one level higher than the preparer.

CCCS Response

Agree. For OJC and LCC, processes have been put into place to alleviate this situation. During the 2006-07 fiscal year, the controller at OJC was serving as controller over both institutions. This situation is no longer in effect as LCC is currently undergoing a search process for hiring its own controller. The Vice President of Administrative Services at the respective schools will review all reconciliations completed by each respective controller. At CCD, the Assistant Controller will reconcile FRS to COFRS monthly, starting December 2007.

Tuition Rates (*significant deficiency in internal control*)

Each spring, the State Board for Community Colleges and Occupational Education (the Board) is responsible for establishing and approving tuition rates for the upcoming fiscal year. Rates vary by types of courses and by resident and nonresident students. During our testwork, we noted certain rates regarding the Western Undergraduate Exchange Rate (WUE) and differential rates charged during the year at Arapahoe Community College (ACC), Colorado Northwestern Community College (CNCC), LCC, OJC, Community College of Aurora (CCA), Front Range Community College (FRCC), Pueblo Community College (PCC), and Red Rocks Community College (RRCC) that did not agree to those approved by the Board as follows:

Rate	Approved rate	Rate charged	Colleges affected	Total (undercharged) overcharged	Total gross tuition	Percentage of tuition
Nursing Differential	$ 34.05	33.20	Arapahoe	$ (3,263)		
Western Undergraduate Exchange	160.55	240.80	Arapahoe	30,908		
			Total Arapahoe	27,645	25,734,311	0.1%
Nursing Differential			Colorado Northwestern	(1,140)		
Dental Hygiene Differential	71.75	70.00	Colorado Northwestern	(2,716)		
Aviation Maintenance Differential	71.75	70.00	Colorado Northwestern	(1,152)		
Aviation Flight Differential	102.50	100.00	Colorado Northwestern	(1,054)		
			Total Colorado Northwestern	(6,062)	4,088,273	(0.1)%
Campus Online	222.40	180.55	Lamar	(2,344)	3,394,797	(0.1)%
Campus Online	216.40	124.55	Otero	(124,400)	6,577,556	(1.9)%
Western Undergraduate Exchange	160.55	240.80	Aurora	20,705	18,215,917	0.1%
Western Undergraduate Exchange	160.55	240.80	Front Range*	13,892	57,514,935	0.1%
Western Undergraduate Exchange	160.55	240.80	Pueblo	34,485	18,493,920	0.2%
Western Undergraduate Exchange	160.55	240.80	Red Rocks	23,923	26,689,672	0.1%
			Total net error	(12,156)	$ 160,709,381	0.0%

*We noted that FRCC discovered this error during the year and refunded students prior to year-end.

As a result, affected differential students were cumulatively undercharged $136,069, while out-of-state WUE students were overcharged $123,913 for a net undercharge of $12,156.

Each college should ensure a preventative review control is in place to validate that rate tables are properly updated based upon Board-approved rates. This review control should be performed by someone separate from the person updating the rate tables. If individual colleges are unsure of a specific rate, the college should contact the System office for clarification.

Lastly, the System office should create an automated report for each college. This report should be reviewed by the colleges' controllers to ensure proper rates have been uploaded into the rate tables prior to registration. This report should also be used by the System office to monitor rates being charged by the various colleges.

Recommendation No. 7

CCCS should ensure proper tuition rates are charged by:

a. Implementing a review control at the college level to ensure rate tables are properly Board-approved rates.

b. Implementing a review control at the System level to work with colleges to ensure they have properly updated the rate tables based upon Board-approved rates.

CCCS Response

Agree.

a. Colleges will ensure rate tables are reviewed each term to ensure consistency with board-approved rates. For the overcharges noted above, colleges are in the process of refunding those students impacted.

b. The System Office will coordinate with IT to develop an edit report to indicate instances whereby tuition rates differ from those approved by the Board. If instances are identified such that students have been overcharged, colleges will be required to refund the overcharges to students. If instances are identified such that students are undercharged, the rate table will be appropriately revised for the following term and colleges will report the revenue foregone as a result of the error to the System CFO.

These recommendations will be implemented by July 2008.

Student Accounts Receivable

During fiscal year 2007, CCCS implemented the Student and Student Financial Aid modules of its new ERP system, Banner. At year-end, the colleges had account receivable balances from students in both the new Banner modules and remaining, aged unpaid balances in the previous subledger system, the Billing Receivable System (BRS). At year-end, several colleges were unable to reconcile the total of the Banner student accounts receivable balance plus the BRS student balance to the total student accounts receivable balance reported on the general ledger.

At year-end, the unreconciled balances for individual schools over $10,000 were as follows: CNCC – ($31,855) of a total balance of $916,925; FRCC – ($109,347) of a total balance of $2,803,742, and CCD – $298,476 of a total balance of $4,225,120. The total net difference noted for these colleges was $157,274 of a total balance for these colleges of $7,945,787, or 2.0%.

(Continued)

During the reconciliation process, all reconciling items should be appropriately investigated and understood. The appropriate adjustments should then be made to ensure accounts receivable balance is accurately stated. Reconciliations and adjusting journal entries should be reviewed by someone other than the preparer

Recommendation No. 8

CCCS should work with all colleges to ensure they perform effective reconciliations between Banner plus BRS to the general ledger on a term basis.

CCCS Response

Agree. Colleges will perform student A/R reconciliations each term which will be confirmed by the respective college Business Officer and posted centrally for the System Office to ensure timely and appropriate completion by July 2008. This reconciliation will include an analysis of aged balance and potential consideration for write off.

Capital Assets (*significant deficiency in internal control*)

During fiscal year 2007, CCCS had $17,165,818 in capital asset additions, in which we tested a sample of 26 totaling $2,739,422. Of the 26 additions tested, we noted 6 of the items were obtained in fiscal year 2006 and should have been capitalized in the prior fiscal year. Specifically, we noted that the following colleges capitalized items in the current year when the items should have been capitalized in the previous fiscal year:

College	Amount	Total FY07 additions	% of total additions
ACC	$ 253,731	$ 628,108	40.4 %
PCC	252,889	1,088,949	23.2
System	173,299	6,277,174	2.8

In addition, we noted the following additional errors during our capital asset testwork:

- At NJC, due to an error in the depreciation schedule, the college recognized only a half year of depreciation expense for certain items versus a full year of depreciation expense. As a result, depreciation expense of $683,559 was understated by $56,014, or 8.2%.
- At TSJC, one item was being depreciated over a useful life of 27 years when it should have been depreciated over a life of 20 years. As a result, depreciation expense of $1,030,967 was understated by $35,694, or 3.5%.
- At FRCC, a capital asset was recorded in the amount of $48,208. Based upon supporting documentation received, the asset should have been recorded in the amount of $47,271, an overstatement of $937.
- At PCC, we noted 5 assets in which the depreciation system did not calculate depreciation. In addition, we noted a group of assets in which the final 6 months of depreciation should have be recognized in the current fiscal year; yet, the depreciation system did not recognize any depreciation expense for these

assets. Lastly, we noted one item that was not included in the depreciation system. As a result, depreciation expense of $1,704,345 was understated by $121,254, or 7.1%.

Recommendation No. 9

CCCS should ensure capital asset balances are properly stated by:

a. Performing proper cut-off procedures near or after year-end to ensure capital asset balances are properly stated as of year-end.

b. Reviewing depreciation schedules to ensure they are properly depreciating assets based upon useful lives assigned and the assets' years in service.

CCCS Response

Partially agree as to the finding; however, parts of the recommendation are already in place. We have cut-off procedures for capitalizing assets at year end in the correct amount. We will further evaluate the adequacy of these cut-offs, while remaining cognizant of the very short time-line allowed to ensure timely submission of financial information to the State. Each college and the system office will review the colleges' detailed capital asset schedules as well as system generated calculations to ensure depreciation expense is being properly calculated, on a test basis, in accordance with CCCS policy. This review will be completed in July 2008.

Federal Awards

We performed procedures required by the Office of Management and Budget (OMB) Circular A-133 and the Compliance Supplement for the following programs:

- Student Financial Assistance
- Carl Perkins Vocational Education Program

For fiscal year 2007, the System expended approximately $111.2 million and $22.7 million of federal financial assistance for the two programs, respectively. The 7 findings and recommendations presented below result from this work and are presented in the format required under OMB Circular A-133 and *Government Auditing Standards.*

Carl Perkins Vocational Education Program – Subrecipient Monitoring

CCCS administers the Carl Perkins Vocational Education Program (Perkins) throughout the state. In this role, the CCCS's duties include creating a state plan for administering Perkins funds and instituting statewide performance measures that subrecipients must meet for the State to continue receiving Perkins funding. CCCS staff manages the day-to-day Perkins operations on behalf of the Board. CCCS had $22.7 million of federal vocational expenditures during fiscal year 2007.

As part of the prior year audit, we reported a finding and recommendation related to subrecipient monitoring of the Perkins program. We reported that CCCS's review of Perkins subrecipients lacked steps to adequately review financial information and ensure that all subrecipient expenditures funded through Perkins are appropriate. We also reported that CCCS did not meet its goals for conducting Perkins monitoring visits and staff did not adequately follow prescribed Perkins monitoring procedures.

During fiscal year 2007, CCCS had not yet implemented the recommendations; therefore, it did not have adequate controls over subrecipient monitoring and was not in compliance with the requirements of OMB Circular A-133. Specifically, CCCS did not perform site visits and appropriately review annual OMB Circular A-133 subrecipient audit reports. OMB Circular A-133 requires entities to monitor grant subrecipients to ensure compliance with federal laws and regulations. Specifically, CCCS is responsible for:

- Identifying to the subrecipient the federal award information (e.g., Catalog of Federal Domestic Assistance (CFDA) title and number, award name, name of federal agency) and applicable compliance requirements at the time of the award.
- Monitoring the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- Ensuring that subrecipients expending $500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period, issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

Recommendation No. 10

CCCS should improve its subrecipient monitoring by implementing policies, procedures, and controls to ensure compliance with OMB Circular A-133. Specifically, CCCS should:

a. Develop a risk-based approach for monitoring subrecipients, including written policies and procedures, in compliance with OMB Circular A-133. Based upon this risk-based approach, a monitoring calendar should be developed and adhered to as it relates to items b – f below.

b. Perform periodic site visits to ensure that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

c. Require all subrecipients to submit either their annual OMB Circular A-133 audit or a statement attesting that they are not subject to OMB Circular A-133 audit requirements. Also, CCCS should review these

(Continued)

audit reports or other statements. For those that report compliance findings, significant deficiencies, or material weaknesses, CCCS should ensure corrective action measures are being acted upon in a timely manner. Review of the reports and monitoring of corrective action measures should be documented.

d. Develop written policies, procedures, and documentation requirements for subrecipients to support allowability and appropriateness of grants expenditures and other compliance requirements.

e. Provide training to improve the technical skill of staff responsible for subrecipient monitoring.

f. Provide adequate oversight and supervisory review of the Perkins monitoring process.

CCCS Response

Agree. CCCS has developed a monitoring team comprising a Compliance Officer, Program Directors, Internal Audit, Accounting, Credentialing, Colorado Vocational Act (CVA) Staff, and Perkins personnel to develop factors to be utilized in a risk-based approach to determine which sub-recipients should have on-site visits using subjective and objective criteria from our office-based monitoring. This risk-based approach being developed will include written policies on carrying out monitoring visits with specific actionable procedures. A process is in place to identify and request OMB Circular A-133 reports annually, as applicable, and the Compliance Office will ensure specific corrective action plan procedures are developed for subrecipients with findings. CCCS will continue to provide Colorado sub-indicator performance reports to subrecipients to identify individual program deficiencies and monitor subrecipients against their plan objectives. Additionally, training will continue to be provided to sub-recipients and will be expanded over the next fiscal year to include the automated Local Plan, for all levels of personnel working with the Perkins program dollars. Complete implementation of these procedures will be established throughout fiscal year 2009.

Carl Perkins Vocational Education Program – Allowability

Per OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, an employee paid in part by a federal program, and in part with funds from other revenue sources, must maintain time and effort distribution records to support salary being charged to the federal program. During our testwork, we noted one employee out of 19 tested in which time and effort records were not maintained for the period tested. The one exception included $479 in payroll costs charged to the program. Total payroll charged for this employee to the Perkins program during the period of time in which no time and effort records were maintained for this employee was $1,916.

Recommendation No. 11

For those employees who charge less than 100% of time to the Perkins program, CCCS should ensure that time being charged is properly supported by time and effort reporting, including new employees charging time to the program. CCCS should ensure compliance with these requirements by:

a. Training employees who work on the Perkins programs regarding the importance of time and effort reporting and certifications.

b. Performing periodic reviews of time and effort reporting or certifications for a sample of those employees who charge time to the Perkins programs. This review should include any new employees charging time to the program.

CCCS Response

Partially agree as to the finding; however, parts of the recommendation were already in place at the time of the audit. CCCS began keeping a monthly log in fiscal year 2007 of employees that are required to submit time sheets and tracking when each is received. CCCS will also begin obtaining an employee listing monthly from human resources for all employees assigned in whole, or in part, to be paid from Perkins funds to ensure new employees are properly included, beginning November 2007. Training will continue to be provided, as in the past, on the requirements and importance of completing time and effort reporting. Timesheets will continue to be reviewed and signed by supervisors monthly and allocations will be made to accurately report time spent and paid by the program.

Student Financial Aid – Return of Title IV

In accordance with 34 CFR 668.22, a school must return its portion of unearned Title IV funds to the federal government by no later than 45 days after the date the school determined the student withdrew. In fiscal year 2007, LCC received $2,504,508 in Title IV funds and returned $15,960. During our audit, we noted that LCC did not have adequate procedures in place to ensure Title IV funds are returned in the time allowed, which is 45 days. In a sample of 30 students (10 from LCC), students' institutional portion of unearned Title IV funds were not calculated and returned during the fall 2006 semester. The Fall 2006 calculation was not performed until January of the 2007 spring semester. As a result, LCC returned its portion of unearned Title IV funds beyond the timeframe established by Federal regulations. In addition, when return of Title IV funds was resumed during the 2007 spring semester, no one separate from the preparer reviewed the calculations for accuracy.

Recommendation No. 12

CCCS should work with LCC to enhance procedures to make certain that the institution's portion of a student's unearned Title IV funds is returned to the federal government within 45 days after the school has determined the student has withdrawn. This should include a review performed by someone separate from the preparer to ensure accuracy of the return.

CCCS Response

Agree. Staff at LCC have been provided additional training as to financial aid timelines and proper calculation for the return of Title IV dollars. The Director of Student Services will ensure that the Financial Aid Director is adhering to proper timelines during each semester. The LCC Financial Aid Director will prepare all calculations of return of Title IV funds on a monthly basis and the LCC controller will review the form for accuracy. All procedures will be in place beginning December 2007.

(Continued)

Student Financial Aid – Verification

Institutions are required to perform verification procedures, which are defined as the process of checking the accuracy of the information supplied by students when they apply for federal student aid. The Central Processing System (CPS) of the federal Department of Education (the Department) selects those students to be verified. Information required to be verified is specified in 34 CFR 668.56 and is as follows: (1) household size, (2) number in college, (3) adjusted gross income, (4) U.S. income taxes paid, and (5) certain untaxed income and benefits.

In the verification process, the school sends a verification worksheet to the student to answer the required questions and to send back to the school with the required tax returns. When a student completes the verification worksheet and attaches the appropriate tax forms, or alternative documents, the school will usually have enough data to complete the verification process. Acceptable documentation for the required verification items is listed in 34 CFR 668.57.

During our testwork, in a sample of 30 students (10 tested at LCC), one instance was noted at LCC in which no tax information or verification worksheet could be provided from LCC for a student to support that verification procedures had properly been performed. In addition, it was noted that only one person at LCC performs the verification process with no review performed by a separate person.

Recommendation No. 13

CCCS should work with LCC to enhance procedures to ensure that verification procedures over student information described above are properly performed and documented. In addition, LCC should implement monitoring procedures over the verification process. These procedures should include someone separate from the verification process selecting a sample of the verified data, reviewing the information for completeness and accuracy, and documenting this review within the file.

CCCS Response

Agree. A process for independent verification of student financial aid documentation has been put in place at LCC, beginning December 2007, and will be conducted by the Director of Financial Aid and reviewed by the Director of Student Services. This verification will be performed as required throughout the fiscal year.

Student Financial Aid – Exit Counseling

Per 34 CFR 668, an institution is required to advise student borrowers to complete exit counseling shortly before graduating or ceasing at-least-half-time enrollment.

The required elements of exit counseling are as follows:

- Review the elements from entrance counseling, including importance of repayment and consequences of default.

- Tell the student about the availability of loan information through the National Student Loan Data System (NSLDS) Web site, and the availability of the Financial Student Aid (FSA) Student Loan Ombudsman's Office.
- Collect driver's license number and state of issuance, expected permanent address, address of next of kin, and name and address of employer (if known), and update any changes to student's personal information (name, social security number, etc.).

If the student borrower drops out without notifying the school, the school must confirm that the student has completed online counseling, or mail exit counseling material to the borrower at his or her last known address. The material must be mailed within 30 days after learning that the borrower has left school or failed to participate in an exit counseling session. If the school mails these exit materials, it is not required to use certified mail with a return receipt requested, but it must document in the student's file that the materials were sent. If the student fails to provide the information, the school is not required to take any further action.

Out of 30 students tested, nine were required to have received exit counseling. Of these nine students (two at LCC), one student's file at LCC did not have documentation supporting that the school adhered to exit counseling requirements as described above.

Recommendation No. 14

CCCS should work with LCC to enhance procedures to comply with required exit counseling procedures. This should include determining the complete population of students who are graduating or have withdrawn from the institution and documenting in the borrower's file the method of meeting the exit counseling requirements. Lastly, a review procedure should be implemented by someone overseeing the process to ensure these requirements are being adhered to on a timely basis.

CCCS Response

Agree. Implemented December 2007. Banner programs that issue financial aid exit counseling letters to students were not operating properly and LCC did not establish alternative procedures to ensure compliance. Banner has since been revised to ensure that an accurate and complete population of financial aid borrowers will be sent notices. Training has been given staff as to the proper regulations that must be adhered to in regard to exit counseling. A process for independent verification of student financial aid documentation is in place and will be performed throughout the fiscal year.

Student Financial Aid – Satisfactory Academic Progress

According to 34 CFR, in order to remain eligible for student financial aid, a student must make satisfactory academic progress (SAP), which institutions must check at intervals of one year or half the length of the program, whichever is less. Making satisfactory academic progress includes both qualitative and quantitative standards. One quantitative standard is that the maximum time frame in which a student is expected to finish a program is 150% of the published length of the program. Upon review, if it is clear that a student cannot mathematically finish the program within this period, the student becomes ineligible for aid, unless a proper appeal is filed by the student.

 (Continued)

During testwork of 30 students receiving federal student financial aid (10 at PCC), we noted one student at PCC who had exceeded 200% of the published length of a program. No appeal was filed by the student; therefore, this student should have been considered ineligible for aid. Total aid granted to this student was $7,895.

Recommendation No. 15

CCCS should work with PCC to enhance procedures to comply with required satisfactory academic progress procedures. Specifically, these procedures should include a process to ensure all students who cannot mathematically finish the program within 150% of the published timeframe are properly identified and eligibility reviewed accordingly.

CCCS Response

Agree. As a result of the delay in migration of student academic history from the legacy Student Information System (SIS), the process for tracking program progress within the required timeframes for SAP compliance was not operating for an interim period of time and PCC did not continue alternative procedures to ensure compliance with SAP. Beginning November 2007, academic history has now been successfully moved and is routinely reviewed as part of the financial awards process.

Student Financial Aid – Eligibility

According to 34 CFR, a student who is to receive student financial aid must demonstrate that he/she qualifies to study at the postsecondary level. This qualification is demonstrated if the student has a high school diploma, or its recognized equivalent, generally a GED, or has qualified by passing a U.S. Department of Education-approved ability-to-benefit test, or has completed home schooling. A student may self-certify that he/she has received a high school diploma or GED or that he/she has completed secondary school through home schooling (as defined by state law) as indicated on his/her Free Application for Federal Student Aid (FAFSA).

We noted one instance at CCD out of 30 students tested (10 at CCD) in which a student indicated on her FAFSA that she did not have a high school diploma or equivalent. Upon discussion with CCD, the college deemed this person eligible without further investigation or performing a Department-approved ability-to-benefit test. Total aid granted to this student was $14,644.

Recommendation No. 16

CCCS should work with CCD to enhance procedures to comply with eligibility requirements. Specifically, CCD should ensure that Free Application for Federal Student Aid forms are being properly reviewed to ascertain that the student qualifies to study at the post-secondary level. This review should be performed by individuals familiar with the student financial aid eligibility requirements, and the date and person performing the review should be documented.

CCCS Response

Agree. The Financial Aid Director is redesigning processes to ensure adequate steps are implemented to comply with eligibility requirements by November 1, 2007.

Following are the audit recommendations made for the year ended June 30, 2006 and their disposition as of December 20, 2007.

Recommendation	Disposition
Recommendation No. 1 CCCS should improve information technology general controls: a. Implement formal policies and procedures for adding or removing employees from the Active Directory. b. Ensure colleges adhere to the Information Security Policy. c. Eliminate generic IDs in the Domain Admin Group at ACC and PPCC. d. Remove generic badge access to the data center. e. Perform and document periodic, formal reviews of user access rights to systems and applications of the Windows Active Directory. f. As part of the ERP system implementation, reconsider super user access to VMS for help desk personnel. g. Ensure evidence is maintained for testing program changes. h. Ensure only appropriate individuals have access to ProdMov. i. Rotate backup tapes offsite and ensure backup and recovery procedures are periodically tested.	Partially implemented. See current year Recommendation No. 2
Recommendation No. 2 CCCS should ensure CCD implements processes and procedures to ensure accurate and complete accounting and financial reporting. Specifically, CCD should ensure reconciliations are prepared in a timely manner, transactions are recorded in the proper period and proper controls are in place and evidenced for personnel action forms.	Partially implemented. See current year Recommendation No. 1, No. 4, and No. 6.

(Continued)

Recommendation	Disposition
Recommendation No. 3 CCCS should implement a cost-effective process to ensure payroll amounts capitalized for the ERP system are accurate, complete, and supported by underlying records. Specifically, the system office should: a. Evaluate ability within the Ultimus system for more than one timesheet per day and make necessary modifications to CCCS processes. b. Ensure employees complete the proper training categories in Ultimus. c. Ensure the correct salary is used in the calculation of payroll amounts to be capitalized. d. Ensure salaried employees' payroll costs are capped at the annual salary amount for capitalization.	Implemented.
Recommendation No. 4 CCCS should evaluate options to expedite the closing and financial reporting processes, including coordination of deadlines with the external auditor and other State of Colorado agencies. CCCS should also work with individual colleges and foundations to ensure accurate and timely financial reporting to improve its consolidation process.	Implemented.

(Continued)

Recommendation	Disposition
Recommendation No. 5 CCCS should improve its subrecipient monitoring by implementing policies, procedures, and controls to ensure compliance with OMB Circular A-133. Specifically, CCCS should: a. Develop a risk-based approach for monitoring subrecipients, including written policies and procedures, in compliance with OMB Circular A-133. b. Require all subrecipients to submit either their annual OMB Circular A-133 audit or a statement attesting that they are not subject to OMB Circular A-133 audit requirements. Review audit reports or other statements. c. Develop written policies, procedures, and documentation requirements for subrecipients to support allowability and appropriateness of grants expenditures and other compliance requirements. d. Provide training to improve the technical skill of staff responsible for subrecipient monitoring. **e.** Provide adequate oversight and supervisory review of the Perkins monitoring process.	Partially implemented. See current year Recommendation No. 10.
Recommendation No. 6 CCCS should ensure FRCC enhances procedures to ensure that the institution's portion of a student's unearned Title IV funds is returned within thirty days after the school has determined the student has withdrawn.	Implemented.
Recommendation No. 7 CCCS should ensure FRCC and PPCC enhance procedures to ensure that students are not allowed additional days of eligibility before they are reported to NSLDS.	Implemented.

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the Colorado Community College System (CCCS), a component unit of the state of Colorado, as of and for the years ended June 30, 2007 and 2006, which collectively comprise CCCS's basic financial statements as listed in the table of contents. These financial statements are the responsibility of CCCS's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of certain discretely presented component units discussed in note 1, which represent 99%, 98%, and 95% and 98%, 99%, and 98% of the 2007 and 2006 assets, net assets, and revenues of the aggregate discretely presented component units, respectively. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based on the reports of the other auditors.

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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CCCS's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of CCCS as of June 30, 2007 and 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 21, CCCS restated the 2007 and 2006 financial statements of the aggregate discretely presented component units.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2007 on our consideration of CCCS'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 on pages 40 to 52 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

December 20, 2007

The following discussion and analysis provides management's view of the financial position and results of operations for the Colorado Community College System (CCCS) as of June 30, 2007 and 2006 (fiscal years 2007 and 2006, respectively), with comparative information presented for fiscal year 2005. This analysis should be read in conjunction with CCCS's financial statements and notes to the basic financial statements. This analysis is intended to make CCCS's financial statements easier to understand and communicate our financial situation in an open and accountable manner.

The CCCS includes 13 public community colleges throughout the state, the system office, and an employee benefit trust, presented as a blended component unit. In addition, CCCS has 14 supporting foundations, which are not included in CCCS's primary financial reporting entity, but are included as discretely presented component units in CCCS's financial statements (note 1).

CCCS is Colorado's largest institution of higher-education and served approximately 107,000 students (43,446 full-time students) during the fiscal year ended June 30, 2007. The System has approximately 6,400 employees, of which approximately two-thirds are faculty. The colleges offer a wide variety of both academic and career programs leading either to degrees and certificates, or otherwise enhancing personal and professional growth. In addition to the 13 community colleges, CCCS also assists the State Board for Community Colleges and Occupational Education (Board) in exercising certain curriculum and funding authority over four Area Vocational Schools, two Local District Colleges, and secondary career and technical programs in over 160 school districts throughout the state.

Legislation passed in fiscal year 2004 provided higher education institutions in the State of Colorado the ability to designate themselves as enterprises under the State's Constitution Article X, Section 20, commonly referred to as the Taxpayer's Bill of Rights (TABOR), given the institution met the stated qualifications. CCCS qualified as an enterprise for fiscal year 2007 because it is a government owned business with legal authority to issue revenue bonds. In addition, the System was required to receive (and is expected to continue to receive) less than 10% (in relation to total revenues) in support from the State. In fiscal years 2007 and 2006, the System received 6.8% and 6.2% percent, respectively, in State support (see note 4).

Beginning in fiscal year 2006, legislation provided for a change in the funding mechanism of higher education institutions. CCCS was funded through the College Opportunity Fund (COF) stipend program and a fee-for-service contract with the Colorado Department of Higher Education (CDHE), approved by the Colorado Commission on Higher Education (CCHE). The COF provides state-tax dollars to students through a stipend paid on a per credit hour basis to the institution at which the student is enrolled. For fiscal years 2007 and 2006, the COF stipend was $86 and $80, respectively, per credit hour which students could use to pay for a portion of their tuition. The COF supports the costs of up to 145 eligible undergraduate credits. The fee-for-service contract is the purchase of educational services, by the State, from CCCS that are not part of the COF stipend program. In fiscal years 2007 and 2006, CDHE's contract with CCCS purchased credit hours for vestibule labs, reciprocal programs, and educational services in rural areas. In 2006, CDHE's contract with CCCS also purchased credit hours for Basic Skills, Fast Track classes for high school students, and Post-Secondary Enrollment Options (PSEO) classes. In previous years, CCCS was primarily funded through direct State appropriations. Both the COF revenue and the fee-for-service revenue are presented as operating revenue whereas, in previous years, the State appropriations were presented as nonoperating revenue (see note 4).

Financial Highlights

At June 30, 2007, CCCS's assets of $484,873,093 exceeded its liabilities of $105,010,787 by $379,862,306. At June 30, 2006, CCCS's assets of $468,750,974 exceeded its liabilities of $110,048,669 by $358,702,305. The resulting net assets are summarized into the following categories:

	June 30		
	2007	**2006**	**2005**
Invested in capital assets, net of related debt	$ 261,343,334	262,474,089	262,291,147
Restricted, expendable	17,938,272	20,964,743	21,868,967
Unrestricted	100,580,700	75,263,473	52,534,916
Total net assets	$ 379,862,306	358,702,305	336,695,030

The restricted, expendable net assets may be spent, but only for the purposes for which the donor or grantor or other external party intended. Unrestricted net assets are not externally restricted; however, they are often internally designated by the college's administration or Board for a number of purposes including capital maintenance and equipment expansion and repair, new programs, and compensated absences liability.

During fiscal year 2007, the CCCS's total net assets increased by $21,160,001. The increase in net assets is the result of increased tuition and fees revenue, including COF, and an increase in state appropriations and investment income offset, in part, by an increase in operating expenses.

Overview of the Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the System's finances and are comprised of three basic statements.

The *Independent Auditors' Report* presents an unqualified opinion prepared by our auditors (an independent certified public accounting firm, KPMG LLP) on the fairness, in all material respects, of our financial statements.

The *Statement of Net Assets* presents information on all of CCCS's assets and liabilities at a point in time (June 30, 2007 and 2006), with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the System is improving or deteriorating. A reader of the financial statements should be able to determine the assets available to continue CCCS's operations, how much CCCS owes to vendors and lending institutions, and a picture of net assets and their availability for expenditure in CCCS.

The *Statement of Revenues, Expenses, and Changes in Net Assets* presents information showing how CCCS's net assets changed during the fiscal period (the fiscal years ended June 30, 2007 and 2006). All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., the payment for accrued compensated absences, or the receipt of amounts due from students and others for services rendered). Its purpose is to assess CCCS's operating results. CCCS reports its activity as a special purpose government engaged only in business-type activities using the economic resources measurement focus and the accrual basis of accounting.

(Continued)

The *Statement of Cash Flows* presents cash receipts and payments to CCCS for the reporting period (the fiscal years ended June 30, 2007 and 2006) using the direct method. The direct method of cash flow reporting portrays cash flows from operations, noncapital financing, capital and related financing, and investing activities. Its purpose is to assess CCCS's ability to generate net cash flows and meet its obligation as they come due.

The *Notes to Basic Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements. Information is provided regarding both the accounting policies and procedures the System has adopted as well as additional detail for certain amounts contained in the basic financial statements. The notes follow the basic financial statements.

Financial Analysis

The *Statement of Net Assets* presents information on all of the System's assets and liabilities, with the difference between the two reported as net assets.

The assets reported by CCCS exceeded liabilities at June 30, 2007 and 2006, resulting in net assets of $379,862,306 and $358,702,305, respectively. The majority (68.8% for 2007 and 73.2% for 2006) of CCCS's net assets are invested in capital assets (e.g., land, buildings, and equipment), net of related debt. These assets are used to provide services to students, faculty, and administration. Consequently, these assets are not available to fund future spending.

	June 30		
	2007	**2006**	**2005**
Current assets	$ 188,263,887	169,635,991	137,647,820
Noncurrent assets, including capital assets of $293,181,194, $295,959,598 and $295,474,498	296,609,206	299,114,983	298,760,035
Total assets	$ 484,873,093	468,750,974	436,407,855
Current liabilities	$ 64,214,026	67,477,015	60,092,153
Noncurrent liabilities	40,796,761	42,571,654	39,620,672
Total liabilities	$ 105,010,787	110,048,669	99,712,825
Net assets:			
Invested in capital assets, net of related debt	$ 261,343,334	262,474,089	262,291,147
Restricted – expendable	17,938,272	20,964,743	21,868,967
Unrestricted	100,580,700	75,263,473	52,534,916
Total net assets	$ 379,862,306	358,702,305	336,695,030

Current assets increased approximately $18.6 million or 11.0% as a result of an $8.8 million increase in cash and cash equivalents and a $10.2 million increase in accounts receivable, partially offset by a decrease of $441.4 thousand in prepaid expenses. Increases in accounts receivable include approximately $6.3 million in increases in student accounts receivable corresponding to increased student tuition and fees and student billing which occurred later in fiscal year 2007 compared to prior year. In addition, there was an increase of approximately

$6.2 million in due from other governments primarily due to increased activity resulting in a $2.5 million increase in accounts receivable related to the Carl Perkins Federal grant.

Current liabilities decreased approximately $3.3 million or 4.8% due to normal timing differences in the payment of vendor accounts payable offset by an increase in deferred revenue for summer tuition. Summer tuition revenue is deferred for the percentage of the summer semester that falls into the next fiscal year. As a result of the increased tuition rates and the hourly COF rate, a greater amount was deferred for summer tuition, year over year.

Net assets may have restrictions imposed by external parties, such as donors, who specify how the assets must be used, or by their nature are invested in capital assets (property, plant, and equipment). Restricted net assets (4.7% for 2007 and 5.8% for 2006 of total net assets, respectively) are primarily restricted for auxiliary programs, scholarships, loans, capital projects, and community training programs.

Unrestricted net assets (26.5% for 2007 and 21.0% for 2006 of total net assets, respectively) are available for general operations at the discretion of the Board. However, the Board has placed some limitations on future use by designating unrestricted net assets for certain purposes, including capital maintenance, equipment expansion and repair, and new programs.

The *Statement of Revenues, Expenses, and Changes in Net Assets* reports the results of operating and nonoperating revenues and expenses during the year and the resulting increase or decrease in net assets at the end of the year. A key component of this statement is the differentiation between operating and nonoperating activities. Operating revenues are received for providing goods and services to the various constituencies of CCCS. During both 2007 and 2006, the COF stipend program revenue is included in student tuition and fees and fee-for-service contract revenue is separately presented, both of which are classified as operating revenues. Operating expenses are paid to acquire or produce goods and services provided in return for operating revenue and to carry out the mission of CCCS. Nonoperating revenues are received when goods or services are not provided. Thus, State appropriations are nonoperating because they are provided by the State without the State directly receiving goods and services. For similar reasons, most gifts and investment income are also nonoperating revenue.

In previous years, State appropriations were CCCS's largest revenue source. Beginning in 2006, the change in funding from State appropriations to COF and fee-for-service revenue resulted in a decline in the State appropriations nonoperating revenue and a corresponding increase in the student tuition and fees and fee-for-services state contract operating revenues. State appropriations (net of distributions to Local District Colleges and Area Vocational Schools) represent approximately 6.1% and 6.2%, Student tuition and fees represent approximately 47.5% and 42.2%, and fee-for-service contracts represent approximately 5.5% and 9.8% of CCCS's total revenue from all sources in fiscal year 2007 and 2006, respectively, as detailed in the charts on the following pages. However, like most public institutions of higher education, public support in the form of state appropriations offsets or supplements the operating loss from the cost of operations. CCCS experienced a $15.1 million loss from operations in fiscal year 2007 compared to a $7.0 million loss from operations in fiscal year 2006. In fiscal year 2007, this operating loss was offset by net state appropriations of $24.3 million. In fiscal year 2006, this operating loss was offset by net state appropriations of $23.7 million.

The overall decline in the operating loss over the three year period presented is a result of the change in funding from the State. During 2007 and 2006, CCCS received COF stipend revenue and fee-for-service revenue, both of

(Continued)

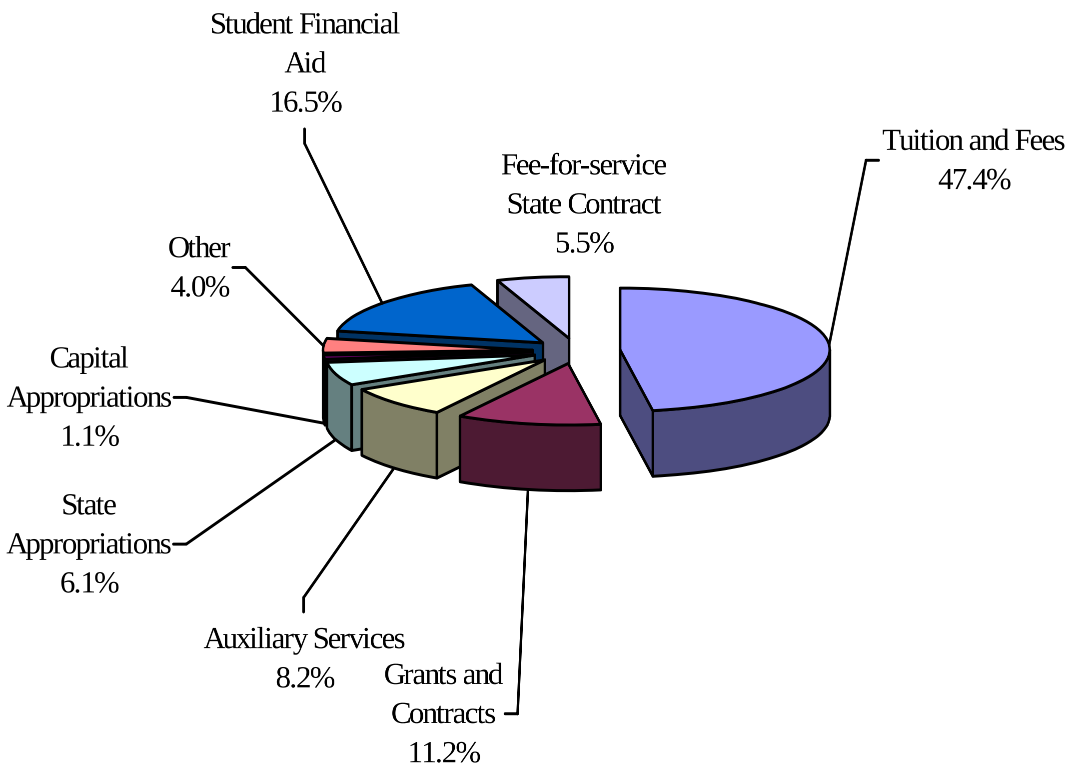
which were included in operating revenues to directly offset the operating expenses. In addition, in 2007 there was an increase of approximately $15.7 million in operating expenses offset by an increase in operating revenues of $7.6 million.

Condensed Summary of Revenues, Expenses, and Changes in Net Assets

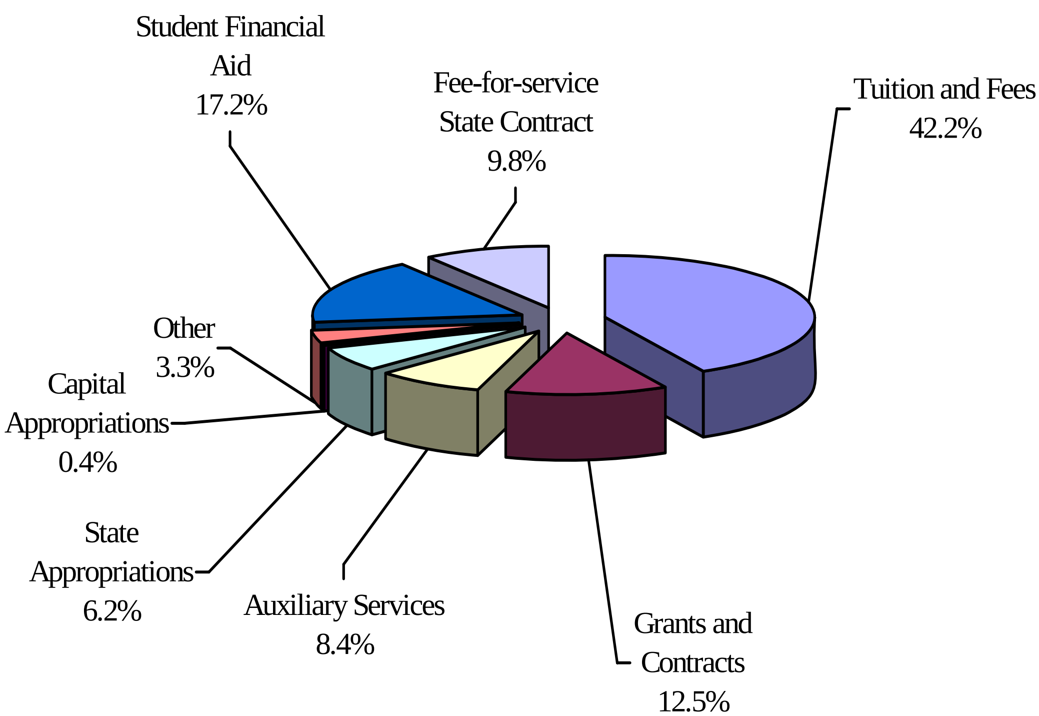
	June 30		
	2007	**2006**	**2005**
Operating revenues:			
Tuition and fees, net	$ 189,867,578	162,542,462	94,750,747
Grants and contracts	110,390,884	114,400,276	118,961,395
Fee-for-service state contract	21,944,607	37,671,263	—
Auxiliary enterprises, net	32,850,354	32,404,547	28,333,105
Other	8,540,761	8,949,694	5,682,951
Total operating revenues	363,594,184	355,968,242	247,728,198
Operating expenses:			
Instruction	168,025,660	162,058,391	158,010,374
Public service	2,171,691	3,407,873	2,597,233
Academic support	25,822,680	25,121,529	24,939,234
Student services	33,587,244	31,794,249	31,061,700
Institutional support	51,250,283	40,057,055	46,720,823
Operation and maintenance of plant	40,638,061	38,475,886	34,673,421
Scholarships and fellowships	10,100,849	12,929,621	25,663,485
Auxiliary enterprises	31,170,986	33,714,677	28,353,671
Depreciation	15,928,724	15,457,389	16,845,123
Total operating expenses	378,696,178	363,016,670	368,865,064
Operating loss	(15,101,994)	(7,048,428)	(121,136,866)
Nonoperating revenues:			
State appropriations	47,564,897	44,484,902	149,070,456
Distributions to Local District Colleges and Area Vocational Schools	(23,303,953)	(20,764,004)	(19,543,862)
Other net nonoperating revenues	7,290,493	3,299,730	16,483,956
Net nonoperating revenues	31,551,437	27,020,628	146,010,550
Income before other revenues, expenses, gains, or losses	16,449,443	19,972,200	24,873,684
State capital contributions	4,595,569	1,691,665	560,217
Capital grants and gifts	114,989	343,410	991,125
Increase in net assets	21,160,001	22,007,275	26,425,026
Net assets:			
Beginning of year	358,702,305	336,695,030	310,270,004
End of year	$ 379,862,306	358,702,305	336,695,030

The charts below give a summary of the total CCCS revenues and expenses with no delineation between operating and nonoperating revenue and expense streams.

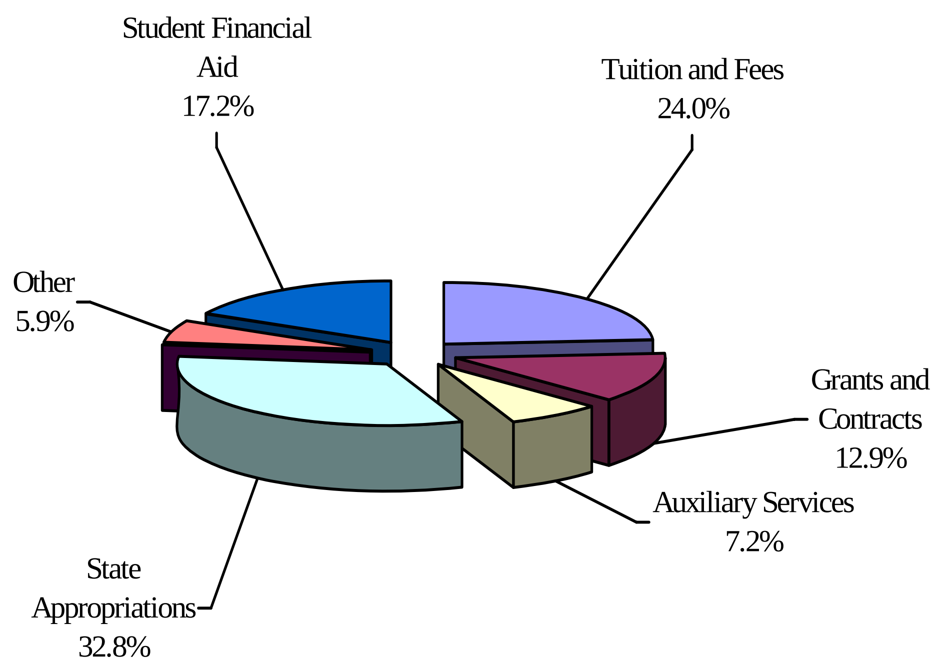
Sources of Revenue
Fiscal Year 2007



Sources of Revenue
Fiscal Year 2006



Sources of Revenue
Fiscal Year 2005



As the above charts demonstrate, Student tuition and fees are the largest revenue source for CCCS in fiscal year 2007 and 2006 whereas, State appropriations were the largest revenue source for CCCS in fiscal year 2005. The operating loss of approximately $15.1 million, $7.0 million and $121.1 million in fiscal year 2007, 2006 and 2005 respectively, noted above, is the result of operating expenses exceeding operating revenues. During 2007, 2006, and 2005 CCCS supplemented operating revenues with State appropriations, which are classified as nonoperating revenues, to fund operations.

Revenue activity highlights for fiscal year 2007 include:

- Tuition and fee revenue increased, net of the effect of scholarship allowances, by approximately $27.3 million or 16.8%. This increase was primarily due to the fact that, in fiscal year 2006 remedial, fast track and post secondary options programs were part of the fee-for-service (FFS) calculation and state contract but were shifted in fiscal year 2007 when they alternatively became eligible for COF stipend funding. In fiscal year 2007 this shift accounted for approximately $12.5 million of the increase in student tuition and fees. Further, the COF stipend amount was increased by $6 per credit hour, from $80 per credit hour to $86 per credit hour, resulting in an approximate increase of $6.8 million. Finally, since COF stipends were first applicable in the fall of fiscal year 2006, the total COF received in fiscal year 2006 included fall 2005, spring 2006, and a portion of summer 2006. Comparatively, fiscal year 2007 included a portion of summer 2006, fall 2006, spring 2007 and a portion of summer 2007. This resulted in an increase over the prior year of approximately $601.5 thousand. There was also a 2.5% increase in tuition rates in fiscal year 2007. These increases were partially offset by a 2.6% decrease in overall resident and nonresident enrollment during fiscal year 2007.

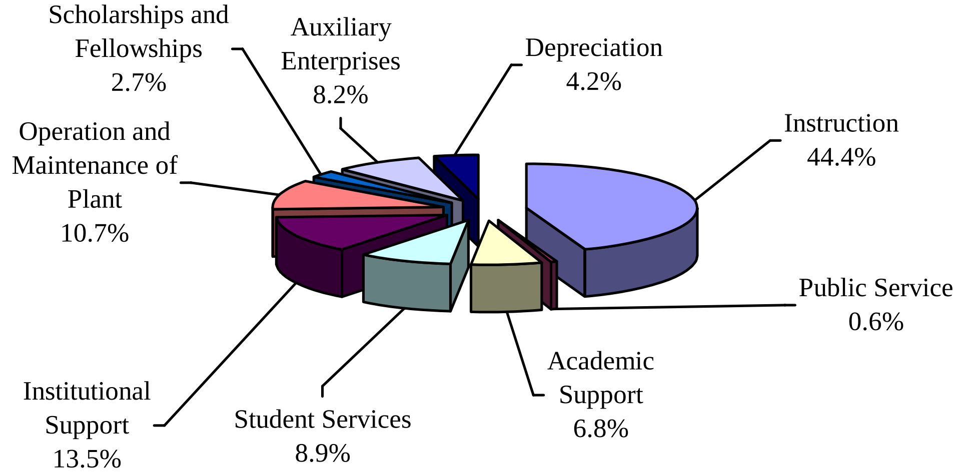
- Fee-for-Service State Contracts decreased $15.7 million or 41.7%. In fiscal year 2006 remedial, fast track and post secondary options programs were part of the FFS calculation and contract. However in fiscal year 2007 these programs were taken out of the FFS contract and became eligible for COF stipend funding. In fiscal year 2007 these accounted for approximately $12.5 million of the decrease.
- Other nonoperating revenues increased $4.0 million or 120.9%. This increase is due to several one time gifts at five colleges totaling $644.7 thousand. Also, investment income increased $2.7 million primarily due to a $1.0 million unrealized accounting gain related to holdings in the State Treasury and an increase from approximately 4.3% to 4.7% in interest rates calculated on higher cash balances throughout the year.
- State capital contributions increased by $2.9 million or 171.7% due to the spending of appropriations from the State's budget for capital appropriations following the passing of House Bill 05-1194, Referendum C, which allowed all state revenues in excess of limitations to be spent on healthcare; education, including capital construction; retirement plans for firefighters and police officers; and to pay for strategic transportation projects

Revenue activity highlights for fiscal year 2006 include:

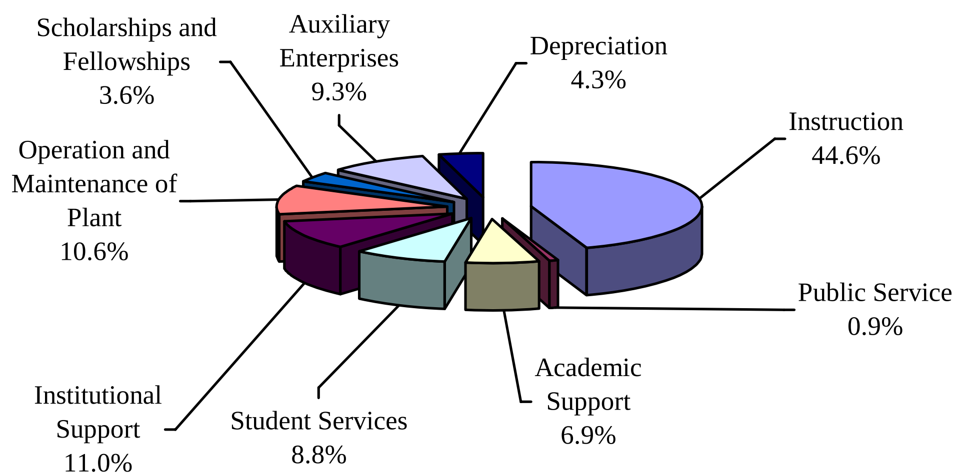
- Tuition and fee revenue increased, net of the effect of scholarship allowances, by approximately $67.8 million or 71.6%. The increase is primarily due to the change in funding from State appropriations to the state-funded COF stipend program. The COF stipend is characterized as operating revenue included in tuition and fee revenue, whereas State appropriations are characterized as nonoperating revenue. During fiscal year 2006, CCCS received approximately $79.2 million in COF stipend revenue. There was also an 8.9% tuition increase and increases in some student fees. This increase was offset by an increase in scholarship allowances.
- Auxiliary enterprises increased, net of the effect of scholarship allowances, by approximately $4.1 million, or 14.4%, due to a combination of factors: decreases in the credit for scholarship allowances at most colleges and the reclassification of aviation flight revenue from the agency fund to the auxiliary enterprises at Colorado Northwestern Community College.
- General state appropriations decreased by approximately $104.6 million or 70.2%, reflecting the change in funding that occurred during fiscal 2006. As discussed above, CCCS was funded through the COF stipend program, recorded as tuition and fee revenue, and fee-for-service contract revenue recorded in operating revenues.
- Investment income increased by approximately $2 million or 106.4% due to several factors. A significant portion of the fee-for-service contract revenue was received in July 2005. As a result, the average daily cash balances at the State Treasury were higher. Colorado Vocational Act payments to secondary schools also occurred later than in the previous year. Additionally, interest rates paid by the State Treasury increased during fiscal year 2006 from an average of 3.0% to 3.8% over the same twelve-month period.
- Other nonoperating revenues (expenses) decreased by approximately $17.0 million or 97.1% due to the 2005 one-time adjustment of approximately $17.0 million to buildings and accumulated depreciation recorded to correct the valuation of assets acquired by conveyance.

- Gain/ (loss) on disposal of assets decreased approximately $1.7 million or 83.7% due to the fiscal year 2005 write-off of disposed assets.
- State capital contributions increased by $1.1 million or 202.0% due to the approval in the State's budget for capital appropriations following the passing of House Bill 05-1194, Referendum C, which allowed all state revenues in excess of limitations to be spent on healthcare; education, including capital construction; retirement plans for firefighters and police officers; and to pay for strategic transportation projects.

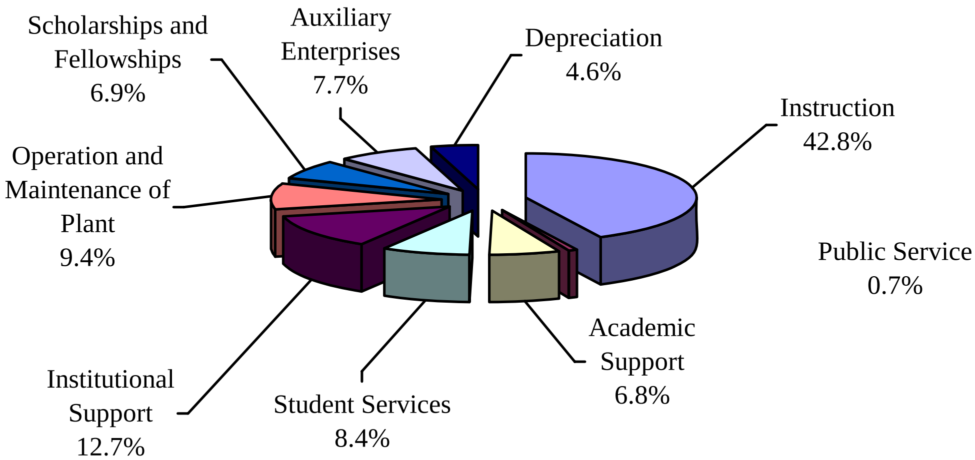
Operating Expenses
Fiscal Year 2007



Operating Expenses
Fiscal Year 2006



Operating Expenses
Fiscal Year 2005



Expense activity highlights for fiscal year 2007 include:

- Public Service expenses decreased by $1.2 million or 36.3%. The decrease is primarily due to a decrease in grant monies received and expended by several colleges in fiscal year 2006 that were not received in fiscal year 2007.
- Institutional support expenses increased by $11.2 million or 27.9%. This was primarily due to an increase of approximately $9.7 million in Perkins grant expenditures due to increased program activity with offsetting reductions in expenses in other institutional support expenses.
- Scholarship and Fellowship expense decreased by $2.8 million or 21.9%. There was a decrease in scholarship expense of approximately $990.0 thousand due to a decrease in Pell awards and an overall decrease in scholarships and other grants of $1.3 million.
- Distributions to Local District Colleges (LDC) and Area Vocational Schools (AVS) increased by $2.5 million or 12.2%. This is due to an increase in the Long Bill allocation for fiscal year 2007 for this line item.

Expense activity highlights for fiscal year 2006 include:

- Institutional Support decreased approximately $6.7 million or 14.3% due to grant programs being transferred to other state agencies, timing of Carl Perkins payments, a reduction in grant administrative expenses, and overall staffing reductions in administrative positions.
- Operation and maintenance of plant increased approximately $3.8 million or 11.0% due to an overall increase in salaries and utilities as well as an increase in expenditures for the implementation of the Enterprise Resource Planning (ERP) system that do not qualify for capitalization.
- Scholarships and fellowships expense decreased approximately $12.7 million or 50.0% due to a 8.9% tuition increase and COF stipend program revenue included in tuition and fees revenue. This results in

more student financial aid funding being applied to tuition, rather than refunded for other student costs such as books and living expenses.

- Auxiliary enterprises increased approximately $5.4 million or 19.0% due to the addition of programs to the auxiliary funds including Child Care programs and Vocational Credentialing.

Capital Asset and Debt Management

At June 30, 2007, CCCS had $293,181,194 of capital assets, net of accumulated depreciation of $198,491,180 and including current year depreciation of $15,928,724. At June 30, 2006 CCCS had $295,959,598 of capital assets, net of accumulated depreciation of $185,643,462, and including current year depreciation of $15,457,389. A breakdown of assets by category, net of accumulated depreciation, is provided below:

		June 30	
	2007	**2006**	**2005**
Land	$ 20,073,667	20,073,667	20,073,667
Land improvements	10,257,999	8,879,803	9,214,937
Buildings and improvements	223,088,891	233,956,333	242,089,691
Leasehold improvements	2,553,899	2,993,776	3,433,652
Construction in progress	20,518,489	17,819,901	8,724,380
Equipment	11,435,358	7,149,536	6,667,654
Library materials	4,632,065	4,470,756	4,654,691
Collections	620,826	615,826	615,826
Total capital assets	$ 293,181,194	295,959,598	295,474,498

Major capital additions completed during fiscal year 2007 are as follows:

College	**Project**	**Cost** (In millions)	**Source of funding**
Community College System	ERP Student and Financial Aid Modules	$ 3.8	Internal reserves
Front Range Community College	Larimer Campus Parking Lot	0.9	Auxiliary reserves

The System has $6.2 million in commitments for various upcoming capital construction and controlled maintenance projects as of June 30, 2007.

CCCS had $32,062,195 and $33,674,200 in debt outstanding at June 30, 2007 and 2006, respectively.

In July, 2007, Moody's upgraded its underlying rating on the Colorado Community College System's Systemwide Revenue Bonds to A1 and A2 from A 3 and Baa1, respectively. Moody's also upgraded the underlying ratings on the CCCS's lease revenue bonds to A2 and A3. The rating outlook for all series of bonds is stable at the higher rating level.

The breakdown of the debt follows:

		June 30		
		2007	**2006**	**2005**
Auxiliary revenue bonds	$	17,342,965	18,391,308	19,239,650
Capital lease obligations		14,719,230	15,282,892	14,152,488
Total debt	$	32,062,195	33,674,200	33,392,138

Colorado Community College System Future

The budgetary situation for higher education continues to change with the ongoing implementation of the College Opportunity Fund. As a result of legislation adopted in the 2004 session (Senate Bill 04-189), the State no longer provides direct state General Fund appropriations to the governing boards for general operations. Instead, the state provides stipends to the qualified, resident undergraduate students, and institutions receive fee-for-service contracts from the Department of Higher Education for the provision of other educational services. For fiscal year 2008, CCCS is authorized to receive $28.3 million in fee for service revenue and $104.0 in student stipends. The $132.3 million of anticipated fiscal year 2008 fee for service revenue and the student stipend represent an 8.5% increase in state support above that provided in 2007.

The CCCS funding also relies on two other primary drivers: enrollment and tuition rates.

Enrollment: As the economy strengthens, enrollment in community colleges typically plateaus or decreases slightly. CCCS resident enrollment of 40,876 declined 3.7% from fiscal year 2006 to fiscal year 2007. Continued declines in enrollment were considered in the fiscal 2007 and fiscal 2008 budgets as the Colorado economy strengthens. Nonresident enrollment of 2,570 increased over the same period by 18.7% resulting in a total net enrollment decline of 2.6%.

Tuition Rates: In an effort to mitigate increased costs and decreased state support overall during prior three years, the State Board for Community Colleges and Occupational Education (SBCCOE) raised tuition 3.5% in fiscal year 2008.

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activity

Statements of Net Assets

June 30, 2007 and 2006

Assets	**2007**	**2006**
Current assets:		
Cash and cash equivalents	$ 140,748,134	131,939,444
Restricted cash and cash equivalents	716,855	762,848
Accounts receivable, net	43,099,028	32,855,288
Inventories	2,974,098	2,911,251
Prepaid expenses	725,772	1,167,160
Total current assets	188,263,887	169,635,991
Noncurrent assets:		
Restricted cash and cash equivalents	373,246	297,133
Restricted investments	2,830,431	2,616,298
Other assets	224,335	241,954
Capital assets, net	293,181,194	295,959,598
Total noncurrent assets	296,609,206	299,114,983
Total assets	$ 484,873,093	468,750,974
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 8,930,948	15,816,758
Accrued liabilities	24,723,080	24,269,799
Deferred revenue	16,412,056	14,218,071
Deposits held for others	10,681,813	9,609,966
Bonds payable, current portion	1,125,000	1,080,000
Capital leases payable, current portion	538,787	560,510
Other long-term liabilities, current portion	373,100	357,466
Compensated absences liability	1,429,242	1,564,445
Total current liabilities	64,214,026	67,477,015
Noncurrent liabilities:		
Bonds payable	16,217,965	17,311,308
Capital leases payable	14,180,443	14,722,382
Other long-term liabilities	786,319	1,159,369
Compensated absences liability	9,612,034	9,378,595
Total noncurrent liabilities	40,796,761	42,571,654
Total liabilities	105,010,787	110,048,669
Net assets:		
Invested in capital assets, net of related debt	261,343,334	262,474,089
Restricted for expendable purposes:		
Auxiliary pledged revenue	13,036,103	15,421,521
Scholarships/fellowships	774,681	670,955
Loans	1,266,096	1,261,591
Capital projects	140,774	100,000
Training programs	1,089,927	2,522,700
Other	1,630,691	987,976
Total restricted for expendable purposes	17,938,272	20,964,743
Unrestricted	100,580,700	75,263,473
Total net assets	$ 379,862,306	358,702,305

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Discretely Presented Component Units

Statements of Financial Position

June 30, 2007 and 2006

Assets		**2007**	**2006**
Cash and cash equivalents	$	7,017,844	5,814,640
Accounts and pledges receivable		1,166,204	1,433,952
Due from primary government		5,248	10,281
Investments		22,537,758	20,327,064
Investment in direct financing leases		13,267,188	13,670,000
Beneficial interest in charitable remainder trust		556,374	397,092
Other assets		221,055	231,330
Capital assets, net of depreciation		12,876,532	12,708,246
Total assets	$	57,648,203	54,592,605
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	267,215	275,490
Due to primary government		354,113	276,124
Accrued liabilities		94,108	110,334
Deferred revenue		905,324	875,479
Bonds payable		8,249,539	8,854,392
Other liabilities		13,899,645	14,455,126
Total liabilities		23,769,944	24,846,945
Net assets:			
Unrestricted		10,235,908	8,512,306
Temporarily restricted		17,309,109	15,809,419
Permanently restricted		6,333,242	5,423,935
Total net assets		33,878,259	29,745,660
Total liabilities and net assets	$	57,648,203	54,592,605

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activity

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2007 and 2006

	2007	2006
Operating revenues:		
Student tuition and fees, net of scholarship allowances of $55,616,530 in 2007 and $55,613,365 in 2006; including revenues pledged for bonds of $3,695,095 in 2007 and $3,431,731 in 2006	$ 189,867,578	162,542,462
Grants and contracts	110,390,884	114,400,276
Fee-for-service state contract	21,944,607	37,671,263
Gifts	130,124	9,005
Sales and services of educational activities	1,186,338	1,717,378
Auxiliary enterprises, net of scholarship allowances of $2,623,719 in 2007 and $3,731,654 in 2006; including revenues pledged for bonds of $30,294,303 in 2007 and $28,464,017 in 2006	32,850,354	32,404,547
Other operating revenues, including revenues pledged for bonds of $59,995 in 2007 and $128,665 in 2006	7,224,299	7,223,311
Total operating revenues	363,594,184	355,968,242
Operating expenses:		
Instruction	168,025,660	162,058,391
Public service	2,171,691	3,407,873
Academic support	25,822,680	25,121,529
Student services	33,587,244	31,794,249
Institutional support	51,250,283	40,057,055
Operation and maintenance of plant	40,638,061	38,475,886
Scholarships and fellowships	10,100,849	12,929,621
Auxiliary enterprises	31,170,986	33,714,677
Depreciation	15,928,724	15,457,389
Total operating expenses	378,696,178	363,016,670
Operating loss	(15,101,994)	(7,048,428)
Nonoperating revenues (expenses):		
State appropriations	47,564,897	44,484,902
Distributions to Local District College and Area Vocation Schools	(23,303,953)	(20,764,004)
Gifts	1,251,012	606,349
Investment income	6,890,115	4,143,542
Interest expense on capital debt	(1,618,141)	(1,661,618)
Gain/(loss) on disposal of assets	288,735	(329,871)
Other nonoperating revenues	478,772	541,328
Net nonoperating revenues	31,551,437	27,020,628
Gain before other revenues, expenses, gains, or losses	16,449,443	19,972,200
Other revenues, expenses, gains, or losses:		
State capital contributions	4,595,569	1,691,665
Capital grants	67,613	308,284
Capital gifts	47,376	35,126
Increase in net assets	21,160,001	22,007,275
Net assets, beginning of year	358,702,305	336,695,030
Net assets, end of year	$ 379,862,306	358,702,305

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Discretely Presented Component Units

Statement of Activities

Year ended June 30, 2007

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:				
Contributions	$ 1,031,224	3,737,225	705,143	5,473,592
Grants	—	737,619	—	737,619
Investment income	2,291,713	1,420,032	118,104	3,829,849
Rental income	2,019,555	50,795	—	2,070,350
Special events	114,738	173,388	—	288,126
Net assets released from restrictions	4,504,439	(4,504,439)	—	—
Other income	271,215	(17,478)	75,673	329,410
Total revenues	10,232,884	1,597,142	898,920	12,728,946
Expenses:				
Program services	7,212,677	—	—	7,212,677
Fundraising services	498,932	—	—	498,932
Administrative services	802,113	—	—	802,113
Total expenses	8,513,722	—	—	8,513,722
Change in net assets	1,719,162	1,597,142	898,920	4,215,224
Net assets, beginning of year as restated (note 21)	8,516,746	15,711,967	5,434,322	29,663,035
Net assets, end of year	$ 10,235,908	17,309,109	6,333,242	33,878,259

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Discretely Presented Component Units

Statement of Activities

Year ended June 30, 2006

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:					
Contributions	$	761,330	2,771,252	275,211	3,807,793
Grants		—	1,051,187	—	1,051,187
Investment income		1,399,014	670,477	99,370	2,168,861
Rental income		2,012,670	28,675	—	2,041,345
Special events		248,567	102,672	—	351,239
Net assets released from restrictions		4,082,573	(4,082,573)	—	—
Other income		262,232	30,196	(9,706)	282,722
Total revenues		8,766,386	571,886	364,875	9,703,147
Expenses:					
Program services		6,457,869	—	—	6,457,869
Fundraising services		504,508	—	—	504,508
Administrative services		629,015	—	—	629,015
Total expenses		7,591,392	—	—	7,591,392
Change in net assets		1,174,994	571,886	364,875	2,111,755
Net assets, beginning of year as restated (note 21)		7,337,312	15,237,533	5,059,060	27,633,905
Net assets, end of year	$	8,512,306	15,809,419	5,423,935	29,745,660

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activity

Statements of Cash Flow

Years ended June 30, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Cash received:		
Tuition and fees	$ 199,008,514	176,003,006
Student loans collected	302,804	382,072
Sales of products	16,238,067	16,123,551
Sales of services	25,419,812	20,034,577
Grants, contracts, and gifts	115,251,268	143,044,530
Other operating receipts	7,247,339	9,676,676
Cash payments:		
Scholarships disbursed	(19,313,639)	(21,212,643)
Student loans disbursed	(371,716)	(360,014)
Payments for employees	(222,881,993)	(215,243,330)
Payments to suppliers	(132,933,340)	(110,966,767)
Net cash provided (used) by operating activities	(12,032,884)	17,481,658
Cash flows from noncapital financing activities:		
State appropriations – noncapital	47,564,897	44,484,902
Distributions to Local District College and Area Vocation Schools	(23,303,953)	(20,764,004)
COF settlement	(642,417)	36,721
Gifts and grants for other than capital purposes	1,287,962	672,675
Agency (inflows)	45,300,037	51,075,023
Agency (outflows)	(44,132,423)	(51,878,123)
Net cash provided by noncapital financing activities	26,074,103	23,627,194
Cash flows from capital and related financing activities:		
State appropriations – capital	3,425,271	1,306,997
Capital grants, contracts, and gifts	59,584	623,979
Proceeds from capital lease	—	1,306,041
Proceeds from sale of capital assets	427,368	10,000
Acquisition and construction of capital assets	(11,965,264)	(15,858,736)
Principal paid on capital debt	(2,287,244)	(1,226,716)
Interest on capital debt	(1,538,212)	(1,640,832)
Net cash used by capital and related financing activities	(11,878,497)	(15,479,267)
Cash flows from investing activities:		
Investment earnings	6,890,221	3,920,080
Proceeds from sale of investments	—	632,057
Purchase of investments	(214,133)	(203,144)
Net cash provided by investing activities	6,676,088	4,348,993
Net increase in cash and cash equivalents	8,838,810	29,978,578
Cash and cash equivalents, beginning of the year	132,999,425	103,020,847
Cash and cash equivalents, end of the year	$ 141,838,235	132,999,425

(Continued)

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activity

Statements of Cash Flow

Years ended June 30, 2007 and 2006

		2007	2006
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	$	(15,101,994)	(7,048,428)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Depreciation		15,928,724	15,457,389
Increase (decrease) in other nonoperating assets		1,118	(73,362)
Decrease (increase) in assets:			
Receivables, net		(5,660,729)	2,745,948
Inventory and prepaids		411,428	322,123
Other assets		(89,799)	—
Increase (decrease) in liabilities:			
Accounts payable		(3,453,196)	4,556,873
Accrued liabilities		(6,479,340)	51,161
Deferred revenues		2,218,565	3,276,334
Deposits held for others		407,948	(2,052,324)
Compensated absences liability		(78,964)	254,883
Other liabilities		(136,645)	(8,939)
Net cash provided (used) by operating activities	$	(12,032,884)	17,481,658
Noncash investing, capital, and noncapital financing activities:			
State-funding for acquisitions of capital assets	$	1,170,298	253,951
Federally-funded acquisition of capital assets		53,029	—
Equipment donations and capital gifts		129,692	6,190
Loss on disposal of capital assets		(114,873)	—
Amortization of bond premium/discount, issuance costs and gain or loss on refunding		(50,061)	(19,374)

See accompanying notes to basic financial statements.

(1) Governance and Reporting Entity

The Colorado Community College System (CCCS) is governed by the State Board for Community Colleges and Occupational Education (SBCCOE). The nine board members are appointed for staggered four-year terms by the Governor with consent of the State Senate. The SBCCOE governs the 13 state system colleges and the system office, and administers vocational-technical education funds distributed to the two Local District Colleges, legislated Area Vocational Schools, and school districts offering vocational programs.

The CCCS is an institution of higher education of the state of Colorado established by the Community College and Occupational Education Act of 1967, Title 23, Article 60 of the Colorado Revised Statutes. Thus, for financial reporting purposes, CCCS is included as part of the state of Colorado's primary government. CCCS's operations and activities are funded primarily through tuition and fees, Federal, state, and local grants, tuition revenue, and beginning in 2006, the College Opportunity Fund (COF) stipends and a fee-for-service contract. Pursuant to Colorado Revised Statute (CRS) 23-1-104, state appropriations for the operation of CCCS are made to the SBCCOE, which is responsible for the allocation to the individual colleges. In addition, the SBCCOE receives and distributes state appropriations for Local District Colleges, Area Vocational Schools, and school districts offering vocational programs.

Accordingly, the accompanying basic financial statements contain the operations of the system office and the following 13 colleges. All significant intercampus balances and transactions have been eliminated.

- Arapahoe Community College (ACC)
- Community College of Aurora (CCA)
- Community College of Denver (CCD)
- Colorado Northwestern Community College (CNCC)
- Front Range Community College (FRCC)
- Lamar Community College (LCC)
- Morgan Community College (MCC)
- Northeastern Junior College (NJC)
- Otero Junior College (OJC)
- Pikes Peak Community College (PPCC)
- Pueblo Community College (PCC)
- Red Rocks Community College (RRCC)
- Trinidad State Junior College (TSJC)

As an institution of higher education in the state of Colorado, the income of CCCS is generally exempt from income taxes under Section 115(a) of the Internal Revenue Code. Income generated from activities unrelated to the exempt purpose of CCCS would be subject to tax under Section 511(a)(2)(B). There was no tax liability related to income generated from activities unrelated to CCCS's exempt purpose as of June 30, 2007 and 2006.

Blended Component Unit

The SBCCOE Employee Benefit Trust Fund (the Benefit Trust) is included in the accompanying basic financial statements as a blended component unit. The Benefit Trust was established on February 1, 1983 as a legally and financially independent entity whose governing committee is appointed by the SBCCOE. The Benefit Trust was established to provide benefits under the Health and Welfare Program. Benefits are determined by the Benefit Trust committee, and may include life, accidental death and dismemberment, short-term and/or long-term disability, basic or major medical, dental or other sick or accident benefits. Other benefits, as determined by the Benefit Trust committee, may be provided for employees and their dependent families through self-funded or insured programs, or a combination of the two, provided that such other benefits are permissible under Section 501(c)(9) of the Internal Revenue Code. The Benefit Trust is a 501(c)(3) not-for-profit corporation. Separate unaudited financial statements of the Benefit Trust are available upon request.

Discretely Presented Component Units

A legally separate, tax-exempt foundation exists for the system office and each of the 13 colleges. While not all of the foundations are materially significant, they have all been included as discretely presented component units of CCCS. The foundations were created to promote the welfare and future development of the colleges by providing financial support for instructional programs, facilities, equipment, student scholarship programs, and cultural activities. Their major sources of revenue include donations, interest and dividends earned on bank accounts and investments, leases, a matching grant from the Department of Education, and fund-raising events. The foundations act primarily as fund-raising organizations to supplement the resources that are available to CCCS in support of its programs. Although CCCS does not control the timing or amount of receipts from the foundations, the majority of resources or income thereon that the foundations hold and invest is restricted to the activities of CCCS by the donors. Because these restricted resources held by the foundations can only be used by or for the benefit of the colleges, the foundations are considered component units of CCCS and are discretely presented in CCCS's basic financial statements.

The Arapahoe Community College Foundation, Inc.; Community College of Aurora Foundation; Community College of Denver Foundation, Inc.; Colorado Northwestern Community College Foundation; Front Range Community College Foundation; Morgan Community College Foundation; Northeastern Junior College Foundation, Inc.; Pikes Peak Community College Foundation, Inc.; Pueblo Community College Foundation; Red Rocks Community College Foundation; Trinidad State Junior College Foundation, Inc.; and, Colorado Community College System Education Foundation (Education Foundation) were audited by other auditors. The Lamar Community College Foundation and the Otero Junior College Foundation were not audited by other auditors.

Complete financial statements for the foundations can be obtained from the Division of System Advancement at the Colorado Community College System at (303) 595-1535 or by writing to:

Colorado Community College System
Division of System Advancement
9101 E. Lowry Blvd.
Denver, CO 80230

Joint Venture

CCCS has an association with the following organization for which it is not financially accountable, nor has primary access to the resources. Accordingly it has not been included in CCCS's financial statements.

The Auraria Higher Education Center (AHEC), established by legislation in 1974, is jointly governed and utilized by the Community College of Denver, the University of Colorado Denver and Health Sciences Center, and Metropolitan State College of Denver. The institutions share the costs of operating common educational, library, and other auxiliary facilities. Costs of the common facilities are shared in accordance with an operating agreement between AHEC and the respective institutions.

Complete financial statements for AHEC can be obtained from the Administrative and Business Services Department at (303) 556-3384 or by writing to:

Auraria Higher Education Center
Controller's Office
Campus Box B
P.O. Box 173361
Denver, CO 80217-3361

(2) Basis of Presentation

CCCS applies all applicable Governmental Accounting Standards Board (GASB) pronouncements. In addition, CCCS has chosen to only apply Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in accordance with Governmental Accounting Standards Board Statement No 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting* .

(3) Measurement Focus, Basis of Accounting, and Summary of Significant Accounting Policies

For financial reporting purposes, CCCS is considered a special-purpose government engaged only in business-type activities. Accordingly, CCCS's basic financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when obligations are incurred.

(a) Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, cash in checking accounts, demand deposits, certificates of deposit (disregarding maturity date) with financial institutions, pooled cash with the State Treasurer, and all highly liquid investments with an original maturity of three months or less.

(b) Accounts Receivable

Accounts receivable result primarily from tuition, fees and other charges to students, and grants.

(c) Investments

Investments are reported at fair value, which is determined based on quoted market prices as of June 30, 2007, and 2006.

(d) Restricted Cash and Cash Equivalents and Restricted Investments

Restricted cash and cash equivalents and restricted investments primarily represent monies restricted for Benefit Trust benefits.

(e) Inventories

Inventories and supplies are accounted for using the purchase method. Cost is determined using the first-in, first-out method.

(f) Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. CCCS uses a capitalization threshold of $5,000 and estimated useful lives in accordance with the *State Fiscal Procedures Manual*. CCCS's estimated useful lives are as follows: 20-50 years for buildings, 20-50 years for improvements other than buildings, 3-10 years for equipment, 7-15 years for library collections, and 1.5-20 years for software. Depreciation expense is not allocated among functional categories.

Assets under capital leases are recorded at the present value of future minimum lease payments and are amortized using the straight-line method over the shorter of the lease term or their estimated useful life. Such amortization is included as depreciation expense in the accompanying financial statements.

As of June 30, 2007 and 2006, the Construction in Progress balance includes software in development.

(g) Deposits Held for Others

Deposits held for others include accounts payable to third parties (on behalf of others) and balances representing the net assets owed to the individual or organization for which CCCS is acting as custodian.

(h) Accrued Liabilities

Accrued liabilities primarily represent accrued payroll and benefits payable at June 30, 2007 and 2006.

(i) Compensated Absences Liability

Compensated absences and related personnel expenses are recognized based on estimated balances due to employees upon termination or retirement. The limitations on such payments are defined by the rules association with the personnel systems at CCCS. Employees accrue and vest in vacation and sick leave earnings based on their hired date and length of service. Vacation accruals are paid in full upon separation, whereas only a portion of sick leave is paid upon specific types of separation, such as retirement. The current portion of compensated absences liability is the portion that is estimated to be paid within one year. This estimate is based upon the average paid over the preceding three years.

(j) Deferred Revenue

Deferred revenue consists of amounts received from the provision of educational goods and services that have not yet been earned.

(k) Capital Leases

Capital leases consist of various lease-purchase contracts and other lease agreements. Such contracts provide that any commitments beyond the current year are contingent upon funds being appropriated for such purposes. It is reasonably assured that such leases will be renewed in the normal course of business, and therefore, are treated as noncancelable for financial reporting purposes.

(l) Net Assets

Net assets are classified in the accompanying financial statements as follows:

- *Invested in capital assets, net of related debt* represents the total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.
- *Restricted for expendable purposes* represents net resources in which CCCS is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.
- *Unrestricted net assets* represent net resources derived from student tuition and fees, fee-for-service contracts, COF stipends, state appropriations, and sales and services of education departments. These resources are used for transactions relating to the educational and general operations of CCCS to meet current expenses for any purpose. These resources also include those from auxiliary enterprises which are substantially self-supporting activities that provide services for students, faculty, and staff. Unrestricted net assets include assets designated by the SBCCOE for certain purposes.

(m) Classification of Revenues and Expenses

CCCS has classified its revenues and expenses as either operating or nonoperating according to the following criteria:

- Operating revenues and expenses are derived from activities associated with providing goods and services for instruction, public service, or related support services to an individual or entity separate from CCCS to carry out the mission of CCCS. Operating revenues include stipends paid for eligible undergraduate students under the College Opportunity Fund (COF), created and funded by the Colorado Legislature. The stipend can be used to pay a portion of in-state tuition for both new and continuing students and is paid on a per credit hour basis to the institution at which the student is enrolled. The credit-hour amount is set annually by the General Assembly. In addition, operating revenues include payment for the fee-for-service contract from the State for delivery of educational services by CCCS that are not part of the COF stipend program. In fiscal year's 2007 and 2006, COF purchased credit hours for vestibule labs, reciprocal programs, and educational services in rural areas. In fiscal year 2006, COF also purchased credit hours for Basic Skills, Fast Track classes for high school students, and Post-Secondary Enrollment Options (PSEO) classes. Other types of services added through contract amendment were for educational services in rural areas or communities in which the cost of delivering the educational services is not sustained by the amount received in tuition.
- Nonoperating revenues and expenses are those that do not meet the definition of operating revenues or capital revenues. In 2007 and 2006, nonoperating revenues include Colorado Vocational Act state appropriations, state training program grants, occupational education funds, gifts, investment income, and insurance recoveries. Nonoperating expense includes interest expense.
- Other revenues, expenses, gains, and losses include state capital construction contributions and controlled maintenance appropriations, gifts, and grants restricted for capital purposes.

(n) Summer Session Revenues and Related Expenses

CCCS prorates the summer session revenues and direct instructional expenses based on the percentage of total calendar days before June 30 to total calendar days in the selected primary summer term. Revenues to be earned after June 30 are recorded in deferred revenues.

(o) Application of Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available to pay an expense, CCCS's policy is to first utilize restricted resources. Only when restricted resources are unavailable are unrestricted resources used to pay expenses.

(p) Scholarship Allowances

Scholarship allowances are the differences between the stated charge for the goods and services provided by CCCS and the amount that is paid by the students or by other third parties making payments on the students' behalf. Student tuition and fee revenues and certain other auxiliary enterprises revenue are reported net of scholarship in the accompanying financial statements. Certain grants from external governmental and private programs are recorded as either operating or nonoperating revenues in the accompanying financial statements. To the extent that such grant revenues are used to satisfy tuition and fees and other student charges, CCCS records scholarship allowances. Any excess grant revenues are recorded as student aid operating expense. CCCS calculates scholarship allowances on a student-by-student basis.

(q) Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles (GAAP) 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 basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

(r) Reclassifications

Prior year amounts have been reclassified to conform to the current year presentation.

(4) Appropriations

The Colorado State Legislature establishes spending authority for CCCS in its annual Long Appropriations Bill. Appropriated funds include an amount from the state of Colorado’s General Fund, COF stipend and fee-for service contract revenue, as well as certain cash funds. Cash funds include tuition, certain fees, and certain other revenue sources, which are recognized in various revenue categories, as appropriate, in the accompanying statements of revenues, expenses, and changes in net assets. Nonappropriated funds include certain grants and contracts, gifts, indirect cost recoveries, certain auxiliary revenues, and other revenue sources.

For the years ended June 30, 2007 and 2006, appropriated expenditures were within the authorized spending authority. CCCS received a total general fund appropriation of $47,564,897 and $44,484,902, respectively, for 2007 and 2006. Included in the general fund appropriations for both 2007 and 2006 are $23,303,953 and $20,764,004, respectively, of State appropriations specified to be passed through to two Local District Colleges and four Area Vocational Schools: $13,668,051 and $12,601,934 for 2007 and 2006, respectively, for Local District Colleges and $9,635,902 and $8,505,528 for 2007 and 2006, respectively, for Area Vocational Schools. Also included in general fund appropriations were capital contributions of $4,595,569 in 2007 and $1,691,665 in 2006. During 2007, CCCS received fee-for-service contract revenue in the amount of $21,944,607 and COF stipends in the amount of $103,148,400. During 2006, CCCS received fee-for-service contract revenue in the amount of $37,839,979 and COF stipends in the amount of $79,180,800.

(5) Tuition, Fees, and Auxiliary Revenue

Tuition, fees, and auxiliary revenue and the related scholarship allowance for the year ended June 30, 2007 were as follows:

	Tuition and fees	Auxiliary revenue	Total
Gross revenue	$ 245,484,108	35,474,073	280,958,181
Scholarship allowances:			
Federal	(37,665,710)	(1,053,838)	(38,719,548)
State	(12,946,008)	(1,178,468)	(14,124,476)
Private	(1,713,495)	(171,421)	(1,884,916)
Institutional	(3,291,317)	(219,992)	(3,511,309)
Total allowances	(55,616,530)	(2,623,719)	(58,240,249)
Net revenue	$ 189,867,578	32,850,354	222,717,932

Tuition, fees, and auxiliary revenue and the related scholarship allowance for the year ended June 30, 2006 were as follows:

	Tuition and fees	Auxiliary revenue	Total
Gross revenue	$ 218,155,827	36,136,201	254,292,028
Scholarship allowances:			
Federal	(36,013,229)	(2,454,527)	(38,467,756)
State	(13,955,030)	(837,387)	(14,792,417)
Private	(1,920,232)	(269,024)	(2,189,256)
Institutional	(3,724,874)	(170,716)	(3,895,590)
Total allowances	(55,613,365)	(3,731,654)	(59,345,019)
Net revenue	$ 162,542,462	32,404,547	194,947,009

(6) Cash and Cash Equivalents, and Investments

CCCS's cash and cash equivalents, exclusive of those held with the State Treasurer, are detailed in the table below.

	2007	2006
Cash on hand and change funds	$ 232,522	658,370
Deposits with financial institutions	1,958,731	1,035,652
Total	$ 2,191,253	1,694,022

(Continued)

Colorado statutes require protection of public moneys in banks beyond that provided by the Federal insurance corporations. The Public Deposit Protection Act in Colorado Revised Statutes 11-10.5-107(5) requires all eligible depositories holding public deposits to pledge designated eligible collateral having market value equal to at least 102% of the deposits exceeding those amounts insured by Federal insurance.

The following schedule reconciles deposits and investments to the financial statements:

		Carrying amount	
		2007	2006
Footnote amounts:			
Deposits	$	2,191,253	1,694,022
Deposit held with State Treasurer		139,646,982	131,305,403
Restricted investments (Benefit Trust)		2,830,431	2,616,298
Total	$	144,668,666	135,615,723
Financial statement amounts:			
Net cash and cash equivalents	$	140,748,134	131,939,444
Current restricted cash and cash equivalents		716,855	762,848
Noncurrent restricted cash and cash equivalents		373,246	297,133
Subtotal cash and cash equivalents		141,838,235	132,999,425
Restricted investments (Benefit Trust)		2,830,431	2,616,298
	$	144,668,666	135,615,723

CCCS deposits its cash with the Colorado State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by Section 24-75-601.1, CRS. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited with the State Treasurer are invested until the cash is needed. Earnings are allocated in proportion to the average daily cash balance for all participants in the pool. At June 30, 2007 and 2006, CCCS had cash on deposit with the State Treasurer of $139,646,982 and $131,305,403, respectively, which represented approximately 2.6% of the total of $5,396.2 million and 2.8% of the total of $4,758.8 million, respectively, in deposits in the State Treasurer's Pool (Pool).

For financial reporting purposes, all of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at fiscal year-end. On the basis of CCCS's participation in the Pool, CCCS reports as an increase or decrease in cash its share of the Treasurer's unrealized gains and losses on the pool's underlying investments. The State Treasurer does not invest any of the pool's resources in any external investment pool, and there is no assignment of income related to participation in the pool. The unrealized gains/losses included in income reflect only the change in fair value for the fiscal year.

For CCCS's deposits with the State Treasury, the net unrealized gain for fiscal year 2007 was $1,040,816 and the net unrealized loss for fiscal year 2006 was $1,920,884. These unrealized gains and losses are included in cash and cash equivalents on the Statements of Net Assets.

(Continued)

Custodial Credit Risk

Investments in the Treasurer's Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the State's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the State's name. As of June 30, 2007 and 2006, none of the investments in the State Treasurer's Pool are subject to custodial credit risk.

Credit Quality Risks

Credit quality risk is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of June 30, 2007 and 2006, approximately 89.0% and 85.5%, respectively, of investments in the Treasurer's Pool are subject to credit quality risk reporting. Except for $4,993,150 and $2,963,730 in 2007 and 2006 respectively, of corporate bonds rated lower-medium, these investments are rated from upper-medium to the highest quality, which indicates that the issuer has strong capacity to pay principal and interest when due.

As of June 30, 2007, there was $453.4 thousand, or 16.0% of total investments in the Benefit Trust, subject to credit quality risk. Of these investments, all were rated upper-medium to the highest quality except $50.0 thousand, which was rated speculative and $101.1 thousand that was unrated. As of June 30, 2006, there was $526.3 thousand, or 20.1% of total investments in the Benefit Trust subject to credit quality risk. Of these investments, all were rated upper-medium to the highest quality except for $96.7 thousand, which was unrated.

Interest Rate Risk

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on the types of investments, the State Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. The weighted average maturity (WAM) method expresses investment time horizons, the time when investments become due and payable, in terms of years, weighted to reflect the dollar size of individual investments within an investment type. The overall portfolio weighted average maturity is derived by dollar-weighting the WAM for each investment type. The State has selected WAM as the primary method for reporting interest rate risk. As of June 30, 2007, the WAM of investments in the Treasurer's Pool is 0.08 years for commercial paper (25.6% of the Pool), 0.01 years for money market funds (4.9% of the Pool), 1.10 years for U.S. government securities (40.4% of the Pool), 2.13 years for asset-backed securities (19.3% of the Pool), and 2.68 years for corporate bonds (9.8% of the Pool). As of June 30, 2006, the WAM of investments in the Treasurer's Pool is 0.10 years for commercial paper and money market funds (32% of the Pool), 1.30 years for U.S. government securities (41% of the Pool), 2.20 years for asset-backed securities (17% of the Pool), and 2.40 years for corporate bonds (10% of the Pool).

As of June 30, 2007, the Benefit Trust had the following investments:

Type		Fair value June 30, 2007	Weighted average maturity (years) June 30, 2007
U.S. Agency Securities (TVA)	$	100,341	1.38
Corporate bonds		453,437	1.16
Mutual funds		38,493	
Common stock		2,238,160	
Total trust investments	$	2,830,431	

As of June 30, 2006, the Benefit Trust had the following investments:

Type		Fair value June 30, 2006	Weighted average maturity (years) June 30, 2006
U.S. Agency Securities (TVA)	$	99,894	2.38
Corporate bonds		526,299	1.92
Mutual funds		34,827	
Common stock		1,955,278	
Total trust investments	$	2,616,298	

Concentration of Credit Risk

The Benefit Trust does have investments (other than U.S. Government or Agency securities, mutual funds, or investment pools) which represent five percent or more of total assets, thus concentrating credit risk. Although all investments intrinsically carry credit risk, when investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. As of June 30, 2007, the fair value of Benefit Trust investments greater than five percent of total plan net assets were as follows:

Issuer		Fair value June 30, 2007	% of total assets
Caterpillar, Inc.	$	180,090	5.72%
Celgene Corp		229,320	7.28
Murphy Oil Corp		166,432	5.28
Questar Corp		211,400	6.71

As of June 30, 2006, the fair value of Benefit Trust investments greater than five percent of total plan net assets were as follows:

Issuer		Fair value June 30, 2006	% of total assets
Caterpillar, Inc.	$	171,304	5.40%
Celgene Corp		189,720	6.00
Questar Corp.		241,470	8.00

CCCS management does not believe that possible future losses resulting from this Benefit Trust investment would have a material adverse effect on CCCS's financial condition or operations.

The Treasurer's Pool was not subject to concentration of credit risk in fiscal year 2007 or 2006.

Foreign Currency Risk

The Treasurer's Pool and the Benefit Trust were not subject to foreign currency risk in fiscal year 2007 or 2006.

Additional information on investments of the State Treasurer's Pool may be obtained in the state's Comprehensive Annual Financial Report for the year ended June 30, 2007.

(7) Accounts Receivable, Accounts Payable, and Accrued Liabilities

Accounts receivable at June 30, 2007 are as follows:

		Gross receivables	Allowance for uncollectible accounts	Net receivables
Student accounts receivable	$	31,261,823	(10,432,539)	20,829,284
Due from other governments		19,345,721	—	19,345,721
Other receivables		3,142,172	(218,149)	2,924,023
Total receivables	$	53,749,716	(10,650,688)	43,099,028

Accounts receivable at June 30, 2006 are as follows:

		Gross receivables	Allowance for uncollectible accounts	Net receivables
Student accounts receivable	$	22,041,245	(7,556,901)	14,484,344
Due from other governments		13,186,968	—	13,186,968
Other receivables		5,262,932	(78,956)	5,183,976
Total receivables	$	40,491,145	(7,635,857)	32,855,288

Accounts payable and accrued liabilities at June 30, 2007 and 2006 are as follows:

	2007	2006
Amounts owed to vendors	$ 8,472,744	15,816,758
Salaries and benefits payable	24,157,601	23,424,320
Accrued interest payable	147,589	148,727
Other payables	876,094	696,752
Total accounts payable and accrued liabilities	$ 33,654,028	40,086,557

(8) Capital Assets

The following table presents changes in capital assets and accumulated depreciation for the year ended June 30, 2007.

	Balance June 30, 2006	Additions	Deletions	Transfers	Adjustments	Balance June 30, 2007
Nondepreciable capital assets:						
Land and land improvements	$ 20,073,667	—	—	—	—	20,073,667
Construction in progress	17,819,901	9,580,457	—	(6,881,869)	—	20,518,489
Collections	615,826	—	—	—	5,000	620,826
Total nondepreciable capital assets	38,509,394	9,580,457	—	(6,881,869)	5,000	41,212,982
Depreciable capital assets:						
Land improvements	14,222,471	—	—	2,044,974	—	16,267,445
Buildings and improvements	382,440,998	712,791	(1,125,663)	1,083,305	—	383,111,431
Leasehold improvements	4,347,570	—	—	—	—	4,347,570
Equipment	29,035,414	2,853,170	(1,978,723)	3,753,590	—	33,663,451
Library materials	13,047,213	626,953	(604,671)	—	—	13,069,495
Total depreciable capital assets	443,093,666	4,192,914	(3,709,057)	6,881,869	—	450,459,392
Less accumulated depreciation:						
Land improvements	5,342,668	666,778	—	—	—	6,009,446
Buildings and improvements	148,833,248	11,797,148	(607,856)	—	—	160,022,540
Leasehold improvements	1,353,794	439,877	—	—	—	1,793,671
Equipment	21,648,819	2,383,761	(1,804,487)	—	—	22,228,093
Library materials	8,464,933	641,160	(668,663)	—	—	8,437,430
Total accumulated depreciation	185,643,462	15,928,724	(3,081,006)	—	—	198,491,180
Net depreciable capital assets	257,450,204	(11,735,810)	(628,051)	6,881,869	—	251,968,212
Total capital assets, net	$ 295,959,598	(2,155,353)	(628,051)	—	5,000	293,181,194

The following table presents changes in capital assets and accumulated depreciation for the year ended June 30, 2006. Adjustments in 2006 reflect one-time adjustments to CIP, buildings and accumulated depreciation to remove an asset more appropriately classified as maintenance expense, and to correct a prior period error in which a full year's depreciation was taken on buildings put into service in the prior year (the first year of service) instead of a half-year of depreciation in accordance with CCCS policy.

	Balance June 30, 2005	Additions	Deletions	Transfers	Adjustments	Balance June 30, 2006
Nondepreciable capital assets:						
Land and land improvements	$ 20,073,667	—	—	—	—	20,073,667
Construction in progress	8,724,380	12,460,558	(6,650)	(3,109,747)	(248,640)	17,819,901
Collections	615,826	—	—	—	—	615,826
Total nondepreciable capital assets	29,413,873	12,460,558	(6,650)	(3,109,747)	(248,640)	38,509,394
Depreciable capital assets:						
Land improvements	13,781,687	440,784	—	—	—	14,222,471
Buildings and improvements	379,165,149	211,624	(45,522)	3,109,747	—	382,440,998
Leasehold improvements	4,347,570	—	—	—	—	4,347,570
Equipment	27,261,214	3,385,510	(1,611,310)	—	—	29,035,414
Library materials	12,715,699	667,342	(335,828)	—	—	13,047,213
Total depreciable capital assets	437,271,319	4,705,260	(1,992,660)	3,109,747	—	443,093,666
Less accumulated depreciation:						
Land improvements	4,566,750	775,918	—	—	—	5,342,668
Buildings and improvements	137,075,458	11,315,364	—	—	442,426	148,833,248
Leasehold improvements	913,918	439,876	—	—	—	1,353,794
Equipment	20,593,560	2,209,428	(1,154,169)	—	—	21,648,819
Library materials	8,061,008	716,803	(304,772)	—	(8,106)	8,464,933
Total accumulated depreciation	171,210,694	15,457,389	(1,458,941)	—	434,320	185,643,462
Net depreciable capital assets	266,060,625	(10,752,129)	(533,719)	3,109,747	(434,320)	257,450,204
Total capital assets, net	$ 295,474,498	1,708,429	(540,369)	—	(682,960)	295,959,598

(9) Long-Term Liabilities

The following presents changes in long-term liabilities at June 30, 2007:

	Balance, July 1, 2006	Additions	Reductions	Balance, June 30, 2007	Current portion
Bonds payable	$ 18,391,308	—	(1,048,343)	17,342,965	1,125,000
Capital leases payable	15,282,892	—	(563,662)	14,719,230	538,787
Other long-term liabilities	1,516,835	—	(357,416)	1,159,419	373,100
Compensated absences liability	10,943,040	3,989,347	(3,891,111)	11,041,276	1,429,242

The following presents changes in long-term liabilities at June 30, 2006:

		Balance, July 1, 2005	Additions	Reductions	Balance, June 30, 2006	Current portion
Bonds payable	$	19,239,650	—	(848,342)	18,391,308	1,080,000
Capital leases payable		14,152,488	1,654,813	(524,409)	15,282,892	560,510
Other long-term liabilities		1,662,007	—	(145,172)	1,516,835	357,466
Compensated absences liability		10,688,158	5,215,073	(4,960,191)	10,943,040	1,564,445

(10) Bonds Payable

(a) Systemwide Revenue Bonds

The State's Department of Higher Education, through the SBCCOE, issued revenue bonds in 1995, 1996, 1997, 1998, 1999, 2003, and 2004 known as Systemwide Revenue Bonds. A total of $34,450,000 of Systemwide Revenue Bonds have been issued. Bond proceeds were used to benefit facilities at the individual colleges, as noted below.

Series 1997 Bonds

The Series 1997 Northeastern Junior College dormitory project revenue bonds for $2,465,000 were issued on March 6, 1997 and dated March 1, 1997. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds is November 1, 2022. In December 1997, a total of $495,000 was refunded. The refunding reduced the bond liability reflected on the CCCS financial statements to $1,970,000.

The Series 1997 revenue bonds for $2,880,000 were issued on December 18, 1997 and dated December 15, 1997. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds is November 1, 2019. The principal of the Series 1997 issue was distributed among the colleges as follows:

Community College of Aurora	$	1,295,000
Northeastern Junior College		540,000
Trinidad State Junior College		1,045,000
	$	2,880,000

Series 1998 Bonds

The Series 1998 revenue bonds for $1,630,000 were issued on June 17, 1998 and dated June 1, 1998. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds is November 1, 2018. The principal of the Series 1998 issue was distributed between the colleges as follows:

Morgan Community College	$	580,000
Northeastern Junior College		1,050,000
	$	1,630,000

Series 1999 Bonds

The Series 1999 revenue bonds for $6,750,000 were issued on February 18, 1999. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds is November 1, 2019. The principal of the Series 1999 issue was distributed between the colleges as follows:

Pueblo Community College	$	3,490,000
Red Rocks Community College		3,260,000
	$	6,750,000

Series 2003 Bonds

The Series 2003 revenue bonds for $4,900,000 were issued on June 19, 2003. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds is November 1, 2031. The principal of the Series 2003 issue was used to refund the Pikes Peak Community College portion of the Series 1996 bonds and to build two new child development centers for Pikes Peak Community College.

Series 2004 Bonds

The Series 2004 Systemwide Revenue Refunding bonds for $4,695,000 were issued on December 10, 2004. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds is November 1, 2016. The principal of the Series 2004 issue was used to refund the remaining $2,620,000 balance of the Front Range Community College-Westminster Campus Series 1995 bonds and the remaining $1,740,000 balance of the Front Range Community College-Larimer Campus Series 1996 bonds.

(b) Advance Refunding

In fiscal year 1999, Pueblo Community College and Red Rocks Community College Systemwide revenue bonds were advance refunded. Proceeds of the new bonds were placed in an escrow fund for all future debt service payments on the previous series bonds.

(Continued)

In fiscal year 2003, Pikes Peak Community College Systemwide revenue bonds were advance refunded. A portion of the proceeds of the 2003 bonds was placed in an escrow fund for all future debt service payments on the previous series bonds.

In fiscal year 2005, $1,740,000 of Front Range Community College-Larimer Campus Series 1996 bonds were advance refunded to reduce total debt service payments over the term of the bonds by $97,761 for an economic gain of $94,347. Also in fiscal year 2005, $2,620,000 of Front Range Community College-Westminster Campus Series 1995 bonds were advance refunded to reduce total debt service payments over the life of the bonds by $189,960 for an economic gain of $178,375.

For both June 30, 2007 and 2006, $11,025,000 of bonds outstanding is considered advance refunded and not included in the accompanying basic financial statements.

(c) Security

The bonds are special obligations of CCCS payable from certain Net Pledged Revenues as defined in the bond indentures. The bonds are payable solely out of and secured by an irrevocable pledge of all income or monies derived from the Auxiliary Facilities (defined below) after deduction of operating and maintenance expenses, including, without limitation, student fees and other fees, rates, and charges pertaining thereto and for the development thereof and may include, at CCCS Board's discretion, any grants, appropriations, or other donations from the United States or its agencies or from any other donor, except the state or its agencies or political subdivisions.

Auxiliary Facilities include housing facilities; food service facilities; student union and other student activities facilities; store or other facilities for the sale or lease of books, supplies, etc.; recreational or athletic facilities; parking lots or facilities; properties providing heat or other utilities; and other miscellaneous unrestricted sources of income related to the Auxiliary Facilities.

(d) Earnings Requirement

Under the terms of the bond indentures, CCCS must adopt fees, rates, rents, and charges sufficient to budget annual Net Pledged Revenues of at least 125% of the debt service due that fiscal year. Management believes it is in compliance with the earnings requirement provision of the bond indentures.

Total gross revenue pledged for bonds was $34,049,393 and $33,357,300 for fiscal year 2007 and 2006, respectively. These amounts consisted of $3,695,095 and $3,431,731 of student tuition and fees, $30,294,303 and $28,464,017 of auxiliary enterprise revenue, and $59,995 and $128,665 of other revenues, respectively.

(e) Minimum Bond Reserve Requirement

Pursuant to the bond indentures, the System must fund a minimum bond reserve equal at any time to the average annual principal and interest requirements. The reserve fund, or a Qualified Surety Bond, shall equal the minimum bond reserve. All systemwide bond issues currently have surety bonds to guarantee the reserve requirement. Management believes the purchase of a surety bond is in compliance with the bond resolution and guarantees the minimum bond reserve requirement for all issues.

(Continued)

(f) Mandatory Sinking Fund Redemption

Each bond issue is subject to mandatory sinking fund redemptions by lot, on the dates and in principal amounts as specified in each bond resolution, at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date. The principal amounts vary by issue.

(g) Bond Accounting

The bond accounts are maintained by each of the participating colleges. Each college maintains accounts for its portion of the bonds. All financial transactions have been recorded and reported in the basic financial statements. All of CCCS's colleges maintain separate accounts for the auxiliary facilities whose revenues are pledged to bond issues. The individual college accounts are included in the systemwide basic financial statements and bond reporting.

(h) Long-Term Bond Principal Maturities

Bond principal payments to be made during fiscal years through 2012 are enumerated in the following table:

	Principal maturing in next five years by year				
Bond issue	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**
Series 1997:					
Community College of Aurora	$ 50,000	55,000	55,000	60,000	60,000
Northeastern Junior College	100,000	105,000	110,000	115,000	120,000
Trinidad State Junior College	50,000	50,000	55,000	55,000	60,000
Series 1998:					
Morgan Community College	25,000	25,000	30,000	30,000	30,000
Northeastern Junior College	45,000	45,000	50,000	50,000	55,000
Series 1999:					
Pueblo Community College	185,000	185,000	200,000	210,000	215,000
Red Rocks Community College	135,000	145,000	150,000	155,000	165,000
Series 2003:					
Pikes Peak Community College	140,000	140,000	145,000	145,000	150,000
Series 2004:					
Front Range Community College	395,000	410,000	425,000	440,000	470,000
Total revenue bonds payable	1,125,000	1,160,000	1,220,000	1,260,000	1,325,000
Interest	736,982	694,763	648,297	601,045	534,872
Total annual debt service	$ 1,861,982	1,854,763	1,868,297	1,861,045	1,859,872

(Continued)

Bond debt service payments from 2012 to maturity are:

		Principal	Interest	Total
2013-2017	$	6,865,000	1,892,912	8,757,912
2018-2022		2,765,000	694,016	3,459,016
2023-2027		1,200,000	271,451	1,471,451
2028-2032		705,000	41,766	746,766

Remaining debt service by bond issuance is as follows:

		Revenue bonds outstanding* June 30, 2007	Interest rate	Maximum annual principal	Callable	Call premium	Final payment
State Board for Community Colleges and Occupational Education Systemwide Revenue Bonds:							
Series 1997:							
Northeastern Junior College	$	1,415,000	3.75% to 5.5%	150,000	Yes	None	11/1/2022
Community College of Aurora		910,000	4.6% to 5.125%	95,000	Yes	None	11/1/2019
Northeastern Junior College		385,000	3.85% to 5.125%	40,000	Yes	None	11/1/2019
Trinidad Junior College		690,000	3.85% to 5.125%	80,000	Yes	None	11/1/2019
Series 1998:							
Morgan Community College		410,000	3.9% to 5.0%	45,000	Yes	None	11/1/2018
Northeastern Junior College		715,000	3.9% to 5.0%	75,000	Yes	None	11/1/2018
Series 1999:							
Pueblo Community College		2,220,000	3.2% to 4.5%	265,000	Yes	None	11/1/2019
Red Rocks Community College		2,345,000	2.0% to 4.125%	235,000	Yes	None	11/1/2019
Series 2003:							
Pikes Peak Community College*		4,298,095	2.08% to 4.125%	285,000	Yes	None	11/1/2031
Series 2004:							
Front Range Community College*		3,954,870	3.08% to 3.65%	525,000	Yes	None	11/1/2016
	$	17,342,965					

* Includes deferred loss on refunding and unamortized bond premium and discount of ($282,035)

(11) Leases

CCCS has acquired land, buildings, and equipment under leases and lease/purchase arrangements with the Education Foundation, a discretely presented component unit of CCCS, which are classified as capital leases. In addition, Arapahoe Community College has recorded capital leases with GE Capital Public Finance and JP Morgan, Pikes Peak Community College has recorded a capital lease with the Colorado Educational and Cultural Facilities Authority, and Morgan Community College has recorded a capital lease with IKON. Stated and/or implicit interest rates on these leases range from zero to 22.5% interest. Assets under capital leases are recorded at the present value of future minimum lease payments and are amortized using the straight-line method over the shorter of the lease term or their estimated useful life. Capitalized assets relating to these leases were approximately $14,109,036 in 2007 and $12,805,180 in 2006 with amortization expense of $560,508 at June 30, 2007 and $491,190 at June 30, 2006, respectively.

Future minimum payments under capital leases are as follows for the years ending June 30:

		Principal	Interest	Total
2008	$	538,787	739,809	1,278,596
2009		488,990	720,832	1,209,822
2010		495,248	703,609	1,198,857
2011		1,074,312	1,336,558	2,410,870
2012		1,293,277	1,110,158	2,403,435
2013-2017		3,101,332	2,361,061	5,462,393
2018-2022		2,682,284	1,574,846	4,257,130
2023-2027		2,135,000	1,014,719	3,149,719
2028-2032		2,750,000	402,855	3,152,855
2033-2034		160,000	4,160	164,160
Total	$	14,719,230	9,968,607	24,687,837

CCCS also has building and equipment operating leases. One of these leases is by and between Community College of Aurora (CCA) and a discretely presented component unit, CCA Foundation. Total rent expense for all operating leases for the years ended June 30, 2007 and 2006 were $3,549,152 and $4,384,359, respectively. Future minimum rental payments, exclusive of real estate taxes and other expenses, under operating leases are as follows:

Year ending June 30:		
2008	$	3,396,396
2009		2,649,105
2010		2,629,232
2011		1,466,142
2012		1,355,900
2013-2017		5,205,944

The minimum rentals are subject to adjustment based on increases in the cost of maintenance, insurance, utilities, and operating costs. The leases may be renewed for additional periods of various lengths. All leases are subject to cancellation in the event the State General Assembly does not appropriate funds for the annual lease payments.

(Continued)

(12) Other Long-Term Liabilities

Other long-term liabilities consist primarily of a note payable from the system office to Lowry Redevelopment Authority and a liability between Pueblo Community College and a discretely presented component unit, the PCC Foundation. The system office note payable was incurred related to infrastructure improvements to the roadways surrounding the Lowry property. Pueblo Community College acquired equipment and made additions to buildings with funds borrowed from the PCC Foundation. The combined payment schedule is as follows:

		Principal	Interest	Total
2008	$	373,100	52,278	425,378
2009		384,474	35,526	420,000
2010		401,845	18,155	420,000
Total	$	1,159,419	105,959	1,265,378

(13) Compensated Absences for Annual and Sick Leave

Employees of CCCS may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The estimated total liability for compensated absences at June 30, 2007 and 2006 is $11,041,276 and $10,943,040, respectively.

The liability for compensated absences is expected to be funded by state appropriations, Federal funds, or other funding sources available in future years when the liability is paid.

At June 30, 2007 and 2006, the Public Employees’ Retirement Association of Colorado (PERA) estimated that 56% and 49%, respectively, of the State’s employees would remain until retirement. This percentage is used to calculate the amount of compensated absence liability to establish for sick leave.

(14) Retirement Plan

(a) Plan Description

Virtually all of CCCS’s employees participate in a defined benefit pension plan. The plan’s purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost-sharing multiple employer plan administered by PERA (Public Employees’ Retirement Association). 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 an actuarial assessment and legislation by the General Assembly. The state plan and other divisions’ plans are included in PERA’s financial statements, which may be obtained by writing PERA at P.O. Box 5800, Denver, Colorado 80217, or by calling PERA at 1-800-759-PERA (7372), or by visiting www.copera.org.

Nonhigher education 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 60 days from commencing employment to elect to participate in a defined contribution plan administered by PERA rather than the defined benefit plan.

Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan, or the institution's optional retirement plan. Based on the 2006 legislation, higher education employees hired on or after January 1, 2008, have the additional option of participating in the state's defined contribution plan or PERA's defined contribution plan, which are discussed below, as well as the plans available to other employees in their institution.

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. However, making this election subjects the member to the rules in effect for those hired on or after January 1, 2007, as discussed below. 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 are eligible for full retirement based on their original hire date as follows:

- Hired before July 1, 2005 **-** age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired on or after January 1, 2007 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service.

Members are also eligible for retirement benefits without a reduction for early retirement based on their original hire date as follows:

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- Hired on or after January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more.

Members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5% times the number of years of service times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as 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 and limited to a 15% increase between periods. For retirements after January 1, 2009 or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

Retiree benefits are increased annually based on their original hire date as follows:

- Hired before July 1, 2005 – 3.5%, compounded annually.
- Hired between July 1, 2005 and December 31, 2006 – the lesser of 3% or the actual increase in the national Consumer Price Index.
- Hired on or after January 1, 2007 – the lesser of 3% or the actual increase in the national Consumer Price Index, limited to a 10% reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1% of the employer contributions for this population.)

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 eligible children under the age of 18 (23 if a full time student) or their spouse may be entitled to a single payment or monthly benefit payments. If there is no eligible child or spouse then financially dependent parents, beneficiaries, or the member's estate, may be entitled to a survivor's benefit.

(b) Funding Policy

The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly. Salary subject to PERA contribution is 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.

Most employees contribute 8.0% of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2006, to December 31, 2006, the state contributed 10.65% (13.35% for state troopers and 14.16% for the Judicial Branch) of the employee's salary. From January 1, 2007, through June 30, 2007, the state contributed 11.15% (13.85% for state troopers and 14.66% for the Judicial Branch). During all of Fiscal Year 2006-07, 1.02% of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2005, the division of PERA in which the state participates 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 (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional .5% of salary beginning January 1, 2006, another .5% of salary in 2007, and subsequent year increases of .4% of salary until the additional payment reaches 3.0% in 2012.

In the 2006 legislative session, the general assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries paid beginning January 1, 2008. The SAED is scheduled to increase by one half percentage point through 2013 resulting in a cumulative increase of three percentage points. For state employers, each year's one half percentage point increase in the SAED will be deducted from the amount of changes to state employees' salaries, and used by the employer to pay the SAED. Both the AED and SAED will terminate when funding levels reach 100%.

Historically members have been allowed to purchase service credit at reduced rates. However, legislation passed in the 2006 session required, that future agreements to purchase service credit be sufficient to fund the related actuarial liability.

CCCS's contributions to the Defined Benefit Plan and Health Care Trust Fund for the fiscal years ended June 30, 2007, 2006, and 2005 were $18,922,712, $18,516,834, and $16,254,836, respectively. These contributions met the contribution requirements for each year.

(15) Voluntary Tax-Deferred Retirement Plans

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The State offers a 457 deferred compensation plan and certain agencies and institutions of the State offer a 403(b) or 401(a) plan.

(16) Postretirement Health Care and Life Insurance Benefits

(a) 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 healthcare coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. Effective July 1, 2000, the maximum monthly subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; and $115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5% for each year less than 20 years.

The Health Care Trust Fund is maintained by an employer's contribution as discussed above in note 14.

Monthly premium costs for participants depend on the healthcare plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured medical benefit plans, and another carrier for prescription benefits, and with several health maintenance organizations providing services within Colorado. As of December 31, 2006, there were 42,433 enrollees in the plan.

(b) Life Insurance Program

During Fiscal Year 2006-07, PERA provided its members access to a group decreasing term life insurance plan offered by UnumProvident in which 41,101 members participated. Active members may join the UnumProvident Plan and continue coverage into retirement. Premiums are collected by monthly payroll deductions or other means. In addition, PERA maintained coverage for 12,790 members under closed group plans underwritten by Anthem Life, Prudential, and New York Life.

(c) Other Programs

Separate postretirement healthcare and life insurance benefit plans exist in some state colleges and universities but are small in comparison to the PERA plan for state employees. The state has no liability for any of these postretirement healthcare and life insurance plans.

CCCS's principal employee pension plan is PERA (see note 14). Pursuant to SBCCOE Board Policy BP 3-60 (Retirement), employees who take early retirement under PERA regulations "shall be entitled to have the college/system continue to pay the employee's share of the group health and life insurance premium up to the amount paid for active employees until the employee reaches age 65." This is the only postretirement benefit offered to CCCS employees.

The postretirement benefits described above are funded out of annual current funds.

(17) Employee Benefit Trust Fund

The Trust provides long-term disability benefits to all employees participating in the Employee Choice Flexible Benefit Plan sponsored by the SBCCOE. For fiscal years 2007 and 2006, CCCS made contributions to the Trust of approximately $231,705 and $207,896, respectively.

(18) Risk Financing and Insurance-Related Activities

CCCS is subject to risks of loss from liability for accidents, property damage, and personal injury. These risks are managed by the State Division of Risk Management, an agency formed by statute and funded by the State Long Bill. Therefore, CCCS is not required to obtain insurance, and accordingly, no reduction occurred in coverage, nor did any settlements exceed coverage. CCCS does not retain risk of loss except for damage incurred to property belonging to the state limited to a $1,000 deductible per incident.

The State Division of Risk Management is deemed to be a public entity risk pool; therefore, under the Governmental Immunity Act, CCCS is protected from litigation by the Doctrine of Sovereign Immunity except under circumstances whereby immunity is waived.

(19) Commitments and Contingencies

The System has $6.2 million in commitments for various capital construction and controlled maintenance projects as of June 30, 2007.

The System is involved in various routine personnel and tort litigation. Many of the actions are being defended by counsel provided by the state's self-insurance provider, Division of Risk Management (the Division), and it is anticipated that the Division would pay any judgment that would be entered against the System. In management's opinion, none of these proceedings will have a material adverse effect on the System's financial condition or operations. No provision has been made in the accompanying basic financial statements for these items.

CCCS receives significant financial awards from Federal and state agencies in the form of grants. Expenditures of funds under those programs require compliance with the grant agreements and are subject to audit. Any disallowed expenditures resulting from such audits become a liability of CCCS. In the opinion of management, such adjustments, if any, are not expected to materially affect the financial condition or operations of CCCS. During the year, an internal investigation was conducted at the Community College of Denver regarding federal student financial aid. No amounts have been accrued in the accompanying basic financial statements as any potential liability to the Department of Education is unknown, but is not expected to be material to the financial statements as a whole.

(20) Tax and Spending Limitations (Tabor Amendment)

Certain state revenues, such as taxes and fees, are constitutionally limited. The growth in these revenues from year to year is limited to the rate of population growth plus the rate of inflation. These limitations are applied to the state as a whole, not to each individual college, department, or agency of the state. The Colorado State Legislature establishes spending authority, within these constitutional limits, for the State Board for Community Colleges and Occupational Education in its annual Appropriations Long Bill. In fiscal year 2005, appropriated funds included an amount from the General Fund as well as cash funds, such as tuition, certain fees, and other revenue sources. Nonappropriated funds were excluded from the annual appropriations bill. Nonappropriated funds include certain grants and contracts, gifts, indirect cost recoveries, designated auxiliary revenues, and other revenue sources.

Legislation passed in fiscal year 2004 provided higher education institutions in the State of Colorado the ability to designate themselves as enterprises under the State's Constitution Article X, Section 20, commonly referred to as the Taxpayer's Bill of Rights (TABOR), given the institution met the stated qualifications. In fiscal year 2006, the System qualified as an enterprise because it is a government owned business with legal authority to issue revenue bonds. In addition, the System was required to receive (and is expected to continue to receive) less than 10% (in relation to total revenues) in support from the State. In fiscal years 2007 and 2006, the System received 6.8% and 6.2%, respectively, in State support.

(21) Restatement

As of July 1, 2007, Arapahoe Community College (ACC), and Northeastern Junior College (NJC) Foundations' net assets were restated to correct errors and the presentation of temporarily and permanently restricted net assets. A summary of the total adjustments is as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year, as previously reported	$	8,512,306	15,809,419	5,423,935	29,745,660
Restatement		4,440	(97,452)	10,387	(82,625)
Net assets, beginning of year, as restated	$	8,516,746	15,711,967	5,434,322	29,663,035

As of July 1, 2006, Lamar Community College (LCC), Morgan Community College (MCC), Northeastern Junior College (NJC), Red Rocks Community College (RRCC), and Trinidad State Junior College (TSJC) Foundations' net assets were restated to correct errors and the presentation of temporarily and permanently restricted net assets. A summary of the total adjustments is as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year, as previously reported	$	7,518,983	15,249,947	5,014,248	27,783,178
Restatement		(181,671)	(12,414)	44,812	(149,273)
Net assets, beginning of year, as restated	$	7,337,312	15,237,533	5,059,060	27,633,905

(22) Related Party Transactions

In September 2006, Lamar Community College entered into a promissory note with the Colorado Commission on Higher Education (CCHE) and the Colorado Access Network (CAN) for $1.2 million. The note was a cash advance to cover anticipated cash shortfalls due to the timing of payments for the College Opportunity Fund. These funds were used to cover general fund payroll and operating expenses for the year. The note was repaid in full with two installments: 1.) on April 26, 2007 in the amount of $724,765, and 2.) on June 22, 2007 in the amount of $475,235.

Approximately $3,435,880 and $2,945,743 was transferred to the colleges from the foundations for the years ended June 30, 2007 and 2006, respectively, in pursuit of providing financial; support for instructional programs, facilities, equipment, student scholarship programs, and cultural activities.

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with *Government Auditing Standards*

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of the business-type activities and aggregate discretely presented component units of the Colorado Community College System (CCCS), a component unit of the state of Colorado, as of and for the year ended June 30, 2007, and issued our report thereon, dated December 20, 2007. Our report was modified to include a reference to other auditors and included an explanatory paragraph addressing CCCS's restatement of the 2007 and 2006 financial statements of its aggregate discretely presented component units. 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. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered CCCS's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CCCS's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CCCS's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider items 1, 2, 4, 6, 7, and 9 described in the Schedule of Findings and Recommendations to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CCCS'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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Findings and Recommendations section as item 1.

We also noted certain additional matters that we reported to management of CCCS in the Findings and Recommendations section of this report.

CCCS's responses to the findings identified are described in the Findings and Recommendations section of this report. We did not audit CCCS's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor, the State Board for Community Colleges and Occupational Education, and CCCS's management and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 20, 2007

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

December 20, 2007

Members of the Legislative Audit Committee:

We have audited the basic financial statements of the Colorado Community College System (CCCS) as of and for the years ended June 30, 2007 and 2006, and have issued our report thereon, dated December 20, 2007. Under our professional standards, we are providing you with information related to the conduct of our audit.

Our Responsibility Under Professional Standards

We have a responsibility to conduct our audit of the basic financial statements in accordance with professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the basic financial statements are detected.

In addition, in planning and performing our audit of the financial statements, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of CCCS's internal control. Accordingly, we do not express an opinion on the effectiveness of CCCS's internal control.

Significant Accounting Policies

The significant accounting policies used by CCCS are described in note 3 to the basic financial statements.

Management Judgments and Accounting Estimates

The preparation of the basic financial statements requires management of CCCS to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the period.

The significant accounting estimates included in CCCS's basic financial statements are the allowance for uncollectible receivables, the period to depreciate capital assets owned by CCCS, and accrued compensated absences. We evaluated the key factors and assumptions in determining that these estimates are reasonable in relation to the basic financial statements taken as a whole.

Audit Adjustments and Uncorrected Misstatements

Audit Adjustments

We proposed no corrections relating to financial statement balances.

Uncorrected Misstatements

In connection with our audit of CCCS's basic financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in CCCS's books and records as of and for the year ended June 30, 2007. We have reported such misstatements to management on a Summary of Unadjusted Differences and have received written representations from management that management believes these misstatements are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole. Page 93 includes a copy of the summary that has been provided to, and discussed with, management.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing CCCS's basic financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents, for example, Management's Discussion and Analysis. We have, however, read the other information included in CCCS's report and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

Disagreements with Management

There were no disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our auditors' report on CCCS's basic financial statements.

Consultation with Other Accountants

To the best of our knowledge, management has neither consulted with nor obtained opinions, written or oral, from other independent accountants during the past year that are subject to the requirements of AU 625, *Reports on the Application of Accounting Principles*.

Major Issues Discussed with the Audit Committee and Management Prior to Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as CCCS's auditors. However, these discussions occur in the normal course of our professional relationship, and the result of these discussions was not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

Material Written Communications

Management has been provided copies of the following material written communications between management and us:

1. Management representation letter
2. Management letter (findings and recommendations included in this report)

Independence

Our professional standards and other regulatory requirements specify that we communicate to you in writing, at least annually, all independence-related relationships between our firm and CCCS and provide confirmation that we are independent accountants with respect to CCCS.

We are not aware of any independence-related relationships between our firm and CCCS.

Confirmation of Audit Independence

We hereby confirm that, as of December 20, 2007, we are independent accountants with respect to CCCS under all relevant professional and regulatory standards.

* * * * * * *

This report is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor, the State Board for Community Colleges and Occupational Education, and CCCS's management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

COLORADO COMMUNITY COLLEGE SYSTEM

Summary of Unadjusted Differences

Year ended June 30, 2007

		Adjustments on financial statement captions					
		Change in net assets					
		Unadjusted audit differences arising in			Balance sheet		
Adj No.	**Description**	**Current period**	**Prior period**	**Total**	**Net assets**	**Assets**	**Liabilities**
1	Cash	$ —	—	—	576,791	576,791	—
	Unknown	576,791	—	576,791	—	—	—
	To reflect Community College of Denver's cash balance as reported by the State Controller's Office.						
2	Operating expenses	(220,748)	—	(220,748)	—	—	—
	Accounts payable	—	—	—	(220,748)	—	(220,748)
	To record expense incurred prior to year-end but not yet paid.						
2a	Operating expenses	(1,144,246)	—	(1,144,246)	—	—	—
	Accounts payable	—	—	—	(1,144,246)	—	(1,144,246)
	To record the most likely difference due to the known error found in entry #2 above.						
3	Tuition and auxiliary revenue	(4,548,063)	—	(4,548,063)	—	—	—
	Institutional support	4,548,063	—	4,548,063	—	—	—
	To report revenues net of bad debt expense as required.						
4	Depreciation expense	(212,963)	—	(212,963)	—	—	—
	Accumulated depreciation	—	—	—	(212,963)	(212,963)	—
	To correct depreciation expense based on exceptions noted during testwork.						
5	Tuition – scholarship allowance	(357,174)	—	(357,174)	—	—	—
	Operating expense	357,174	—	357,174	—	—	—
	To correct scholarship allowance for a set of students not originally included in the student-by-student analysis for Community College of Denver.						
6	State capital contributions	(1,064,536)	—	(1,064,536)	—	—	—
	Operations and maintenance of Plant	1,064,536	—	1,064,536	—	—	—
	To correct costs and related revenue that were capitalized when purchased.						
	Total	$ (1,001,166)	—	(1,001,166)	(1,001,166)	363,828	(1,364,994)

COLORADO COMMUNITY COLLEGE SYSTEM

State-Funded Student Financial Assistance Programs

Introduction

Year ended June 30, 2007

The Colorado Community College System (CCCS) is governed by the State Board for Community Colleges and Occupational Education and is a state-supported institution of higher education with colleges at 13 locations: Arapahoe Community College, Colorado Northwestern Community College, Community College of Aurora, Community College of Denver, Front Range Community College, Lamar Community College, Morgan Community College, Northeastern Junior College, Otero Junior College, Pikes Peak Community College, Pueblo Community College, Red Rocks Community College, and Trinidad State Junior College.

Our financial and compliance examination of the various state-funded student financial assistance programs at CCCS for the year ended June 30, 2007 was directed toward the objectives and criteria set forth in the Colorado Commission on Higher Education's (CCHE) Financial Aid Policy, adopted April 2004. The state student financial assistance programs were examined simultaneously with the federal financial aid programs for the year ended June 30, 2007.

CCCS's various state-funded student financial assistance programs include the following:

- Colorado Need-Based Grants awards:
  - Colorado Student Grants Program
  - Colorado Leveraging Educational Assistance Partnership (CLEAP)
- Colorado Merit Scholarships (or merit-based awards):
  - Colorado Undergraduate Merit Award Program
- Academic Competitiveness Grant
- Colorado Work-Study Program
- Governor's Opportunity Scholarships

The total state-funded student financial assistance expenditures made by CCCS were approximately $21.4 million during the year ended June 30, 2007.

The director of financial aid at each campus is responsible for administration of these programs. This responsibility includes application processing, eligibility determination, and financial aid packaging, as well as ensuring compliance with regulations governing the participation of CCCS in federal and state student financial aid programs. The campus controller's office at each campus is responsible for the programs' financial management, general ledger accounting, payments, and collections.

During the audit period ended June 30, 2007, CCCS obtained authorizations to award federal student financial aid funds as follows:

- Supplemental Educational Opportunity Grant of approximately $1.2 million
- College Work Study of approximately $1.4 million

(Continued)

In addition to these programs, CCCS also received funding through the Pell Grant Program in the amount of approximately $41.6 million. Authorizations were not applicable for these programs given the Pell Grant and Direct Loans are available to any eligible student.

Authorizations and expenditures for state-funded student financial aid funds are detailed by program in the accompanying schedule of appropriations, expenditures, transfers, and reversions, for each campus, for the year ended June 30, 2007.

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report on the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs

Members of the Legislative Audit Committee:

We have audited the accompanying statement of appropriations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance (SFSFA) Programs (the Statement) of the Colorado Community College System (CCCS), a component unit of the State of Colorado, for the year ended June 30, 2007. The statement is the responsibility of CCCS's management. Our responsibility is to express an opinion on the statement based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CCCS's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1 to the statement, the accompanying statement was prepared in the format as set forth in the Colorado Commission on Higher Education (CCHE) *Audit Guide*, and in conformity with the provisions of the CCHE *Financial Aid Policy*. The statement is a summary of cash activity of the SFSFA programs, with the exception of the Perkins Loan Program and College Work-Study Programs, and does not present certain transactions that would be included in the statement of the SFSFA programs if it was presented on the accrual basis of accounting, as prescribed by U.S. generally accepted accounting principles. Accordingly, the accompanying statement is not intended to present the financial position, changes in net assets, or cash flows of the SFSFA programs in conformity with U.S. generally accepted accounting principles. Because the statement presents only a selected portion of the activities of CCCS, it is not intended to and does not present either the financial position or changes in financial position of the CCCS in conformity with U.S. generally accepted accounting principles.

In our opinion, the statement referred to above presents fairly, in all material respects, the appropriations, expenditures, transfers, and reversions of the SFSFA programs of CCCS for the year ended June 30, 2007, in accordance with the format set forth in the CCHE *Audit Guide*, and in conformity with the provisions of the CCHE *Financial Aid Policy*, as described in note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2007 on our consideration of CCCS'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.

Our audit was conducted for the purpose of forming an opinion on the statement of appropriations, expenditures, transfers, and reversions of the SFSFA programs of CCCS. The accompanying introduction and schedules of appropriations, expenditures, transfers, and reversions of each of the colleges (the schedules) are presented for purposes of additional analysis and are not a required part of the statement. The introduction has not been subjected to the auditing procedures applied in the audit of the statement, and accordingly, we express no opinion on it. The schedules have been subjected to the auditing procedures applied in the audit of the statement and, in our opinion, are fairly stated in all material respects in relation to the statement taken as a whole.

This report is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor, the State Board for Community Colleges and Occupational Education, and CCCS's management and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 20, 2007

COLORADO COMMUNITY COLLEGE SYSTEM

State-Funded Student Assistance Programs

Statement of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2007

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	21,563,485	15,021,234	336,462	6,816	337,206	4,181,220	1,680,547
Supplementals		35,490	60,000	488	7,174	—	69,999	(102,171)
Transfers		—	—	—	—	—	—	—
Total appropriations		21,598,975	15,081,234	336,950	13,990	337,206	4,251,219	1,578,376
Less expenditures		21,438,291	15,081,234	336,462	7,794	337,206	4,155,954	1,519,641
Reversions to state general fund	$	160,684	—	488	6,196	—	95,265	58,735

See accompanying notes to statement of appropriations, expenditures, transfers, and reversions.

COLORADO COMMUNITY COLLEGE SYSTEM

State-Funded Student Financial Assistance Programs

Notes to Statement of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2007

(1) Basis of Presentation

The Colorado Community College System (CCCS) is governed by the State Board for Community College and Occupational Education. CCCS is comprised of the system office and the following 13 colleges:

- Arapahoe Community College
- Colorado Northwestern Community College
- Community College of Aurora
- Community College of Denver
- Front Range Community College
- Lamar Community College
- Morgan Community College
- Northeastern Junior College
- Otero Junior College
- Pikes Peak Community College
- Pueblo Community College
- Red Rocks Community College
- Trinidad State Junior College

The accompanying statement of appropriations, expenditures, transfers, and reversions of state-funded student financial assistance programs (the Statement) has been prepared in accordance with the format set forth and last revised November 1998 in the Colorado Commission on Higher Education (CCHE) *Audit Guides*, and in conformity with the provisions of the CCHE *Financial Aid Policy*, adopted April 2004. The purpose of the Statement is to present, in summary form, the state-funded student financial assistance activities of CCCS's 13 campuses for the year ended June 30, 2007.

Because the Statement presents only a selected portion of the activities of CCCS, it is not intended to and does not present either the financial position or changes in financial position of CCCS in conformity with U.S. generally accepted accounting principles.

(2) Basis of Accounting

All state-funded student financial assistance is expensed on a cash basis, except for the Perkins Loan Program and the Colorado Work-Study Program. Perkins Student Loans are recorded as loans receivable when the funds are disbursed. Colorado Work-Study wages are recorded on the accrual basis whereby expenses are recognized when the services are performed.

(Continued)

The Colorado Leveraging Educational Assistance Partnership (CLEAP) and Supplemental Leveraging Assistance Partnership (SLEAP) consist of state funds and federal funds. The amounts shown in the Statement are the combined totals.

ARAPAHOE COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2007

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor’s Opportunity Scholarship
Appropriations:								
Original	$	1,470,771	1,096,111	32,744	1,305	35,899	253,033	51,679
Supplementals		16,488	—	488	—	—	16,000	—
Transfers		—	—	—	—	—	—	—
Total appropriations		1,487,259	1,096,111	33,232	1,305	35,899	269,033	51,679
Less expenditures		1,485,024	1,096,111	32,744	1,305	35,899	267,286	51,679
Reversions to state general fund	$	2,235	—	488	—	—	1,747	—

See accompanying independent auditors’ report.

COMMUNITY COLLEGE OF AURORA

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2007

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	1,273,025	932,867	5,676	326	25,187	214,035	94,934
Supplementals		10,000	10,000	—	—	—	—	—
Transfers		—	—	—	—	—	—	—
Total appropriations		1,283,025	942,867	5,676	326	25,187	214,035	94,934
Less expenditures		1,276,727	942,867	5,676	—	25,187	214,035	88,962
Reversions to state general fund	$	6,298	—	—	326	—	—	5,972

See accompanying independent auditors' report.

COMMUNITY COLLEGE OF DENVER

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2007

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	3,041,030	2,194,569	34,927	—	40,894	632,122	138,518
Supplementals		20,000	—	—	—	—	20,000	—
Transfers		—	—	—	—	—	—	—
Total appropriations		3,061,030	2,194,569	34,927	—	40,894	652,122	138,518
Less expenditures		3,061,030	2,194,569	34,927	—	40,894	652,122	138,518
Reversions to state general fund	$	—	—	—	—	—	—	—

See accompanying independent auditors' report.

COLORADO NORTHWESTERN COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2007

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	231,272	124,295	10,187	—	5,905	63,698	27,187
Supplementals		(14,066)	—	—	2,935	—	(17,001)	—
Transfers		—	—	—	—	—	—	—
Total appropriations		217,206	124,295	10,187	2,935	5,905	46,697	27,187
Less expenditures		213,511	124,295	10,187	—	5,905	46,697	26,427
Reversions to state general fund	$	3,695	—	—	2,935	—	—	760

See accompanying independent auditors' report.

FRONT RANGE COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2007

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	3,735,183	2,728,373	63,450	2,935	66,454	683,909	190,062
Supplementals		16,000	—	—	—	—	16,000	—
Transfers		—	—	—	—	—	—	—
Total appropriations		3,751,183	2,728,373	63,450	2,935	66,454	699,909	190,062
Less expenditures		3,725,939	2,728,373	63,450	—	66,454	699,909	167,753
Reversions to state general fund	$	25,244	—	—	2,935	—	—	22,309

See accompanying independent auditors' report.

LAMAR COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2007

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	391,963	197,094	6,840	—	5,767	96,423	85,839
Supplementals		15,885	—	—	—	—	20,000	(4,115)
Transfers		—	—	—	—	—	—	—
Total appropriations		407,848	197,094	6,840	—	5,767	116,423	81,724
Less expenditures		400,334	197,094	6,840	—	5,767	114,958	75,675
Reversions to state general fund	$	7,514	—	—	—	—	1,465	6,049

See accompanying independent auditors' report.

MORGAN COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2007

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	524,621	368,299	4,220	—	7,558	104,972	39,572
Supplementals		—	—	—	—	—	—	—
Transfers		—	—	—	—	—	—	—
Total appropriations		524,621	368,299	4,220	—	7,558	104,972	39,572
Less expenditures		476,550	368,299	4,220	—	7,558	75,000	21,473
Reversions to state general fund	$	48,071	—	—	—	—	29,972	18,099

See accompanying independent auditors' report.

NORTHEASTERN JUNIOR COLLEGE

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2007

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	549,473	318,685	8,441	—	14,681	140,858	66,808
Supplementals		7,499	—	—	2,283	—	—	5,216
Transfers		—	—	—	—	—	—	—
Total appropriations		556,972	318,685	8,441	2,283	14,681	140,858	72,024
Less expenditures		551,426	318,685	8,441	2,283	14,681	140,858	66,478
Reversions to state general fund	$	5,546	—	—	—	—	—	5,546

See accompanying independent auditors' report.

OTERO JUNIOR COLLEGE

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2007

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	699,799	427,185	13,534	—	9,269	173,311	76,500
Supplementals		(1,050)	—	—	—	—	—	(1,050)
Transfers		—	—	—	—	—	—	—
Total appropriations		698,749	427,185	13,534	—	9,269	173,311	75,450
Less expenditures		698,749	427,185	13,534	—	9,269	173,311	75,450
Reversions to state general fund	$	—	—	—	—	—	—	—

See accompanying independent auditors' report.

PUEBLO COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2007

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	3,241,080	2,491,301	43,804	—	26,889	548,645	130,441
Supplementals		978	—	—	978	—	—	—
Transfers		—	—	—	—	—	—	—
Total appropriations		3,242,058	2,491,301	43,804	978	26,889	548,645	130,441
Less expenditures		3,196,608	2,491,301	43,804	978	26,889	503,195	130,441
Reversions to state general fund	$	45,450	—	—	—	—	45,450	—

See accompanying independent auditors' report.

PIKES PEAK COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2007

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	3,786,262	2,516,623	68,835	—	49,015	710,685	441,104
Supplementals		56,778	50,000	—	—	—	15,000	(8,222)
Transfers		—	—	—	—	—	—	—
Total appropriations		3,843,040	2,566,623	68,835	—	49,015	725,685	432,882
Less expenditures		3,843,040	2,566,623	68,835	—	49,015	725,685	432,882
Reversions to state general fund	$	—	—	—	—	—	—	—

See accompanying independent auditors' report.

RED ROCKS COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2007

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	1,317,954	969,358	21,247	—	38,041	262,766	26,542
Supplementals		978	—	—	978	—	—	—
Transfers		—	—	—	—	—	—	—
Total appropriations		1,318,932	969,358	21,247	978	38,041	262,766	26,542
Less expenditures		1,318,932	969,358	21,247	978	38,041	262,766	26,542
Reversions to state general fund	$	—	—	—	—	—	—	—

See accompanying independent auditors' report.

TRINIDAD STATE JUNIOR COLLEGE

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2007

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	1,301,052	656,474	22,557	2,250	11,647	296,763	311,361
Supplementals		(94,000)	—	—	—	—	—	(94,000)
Transfers		—	—	—	—	—	—	—
Total appropriations		1,207,052	656,474	22,557	2,250	11,647	296,763	217,361
Less expenditures		1,190,421	656,474	22,557	2,250	11,647	280,132	217,361
Reversions to state general fund	$	16,631	—	—	—	—	16,631	—

See accompanying independent auditors' report.

The electronic version of this report is available on the Web site of the
Office of the State Auditor
www.state.co.us/auditor

A bound report may be obtained by calling the
Office of the State Auditor
303-869-2800

Please refer to the Report Control Number below when requesting the report.

Report Control Number 1852