



COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

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COLORADO COMMUNITY COLLEGE SYSTEM

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COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Report Summary

Year ended June 30, 2009

Purpose and Scope

The Office of the State Auditor of the State of Colorado engaged KPMG LLP (KPMG) to conduct a financial and compliance audit of the Colorado Community College System (CCCS or the System) for the year ended June 30, 2009. 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 2009 to December 2009.

The purpose and scope of our audit was to:

- Express an opinion on the basic financial statements of CCCS as of and for the year ended June 30, 2009. This includes a report on internal control over financial reporting 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 the statement of appropriations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance Programs of CCCS for the year ended June 30, 2009.
- Evaluate progress in implementing prior audit findings and recommendations.

CCCS' schedule of expenditures of federal awards and applicable opinions thereon, issued by the Office of the State Auditor, are included in the June 30, 2009 Statewide Single Audit Report issued under separate cover.

Audit Opinions and Reports

We expressed unqualified opinions on CCCS' 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, 2009.

Two audit adjustments were proposed and made to the basic financial statements. Eleven audit adjustments were not made to the basic financial statements with a net effect of approximately \$543 thousand, which is approximately 0.1% of current year ending net assets. These passed differences are not considered material to CCCS' basic financial statements.

We issued a report on CCCS' compliance and internal control over financial reporting 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 no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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Year ended June 30, 2009

Summary of Key Findings

Year-End Financial Reporting Process (significant deficiency in internal control)

CCCS' year-end financial reporting process requires the participation of multiple parties and completion of many actions to prepare its financial statements and provide necessary information through exhibits to the Office of the State Controller (OSC) for preparation of the state-wide financial statements. During our audit, we noted several colleges did not submit financial statements and exhibits to the OSC in accordance with the required timeline. Specifically, we noted Colorado Northwestern Community College (CNCC) and Community College of Denver (CCD) did not meet the OSC's deadline of August 31st. These colleges also needed to submit revised exhibits to correct errors during the course of the audit. Finally, several other colleges did not provide us state exhibits on the required date to complete our audit.

We also noted that CCD, CNCC, and Trinidad State Junior College (TSJC) revised the schedule of expenditures of federal awards, Exhibit K, based upon our review. Specifically, expenditures reported in the exhibit did not agree to the general ledger. In addition, these colleges, along with Pueblo Community College (PCC), had errors in the reconciliation provided to us of the Exhibit K, the general ledger, and the Fiscal Operations Report and Application to Participate (FISAP). The FISAP reports student financial aid information to the U.S. Department of Education, including expenditure and other data.

Finally, we noted several colleges experienced delays in providing information to the System Office for preparation of the system-wide financial statements as well as to us to support the financial and compliance audit and year-end test work. Specifically, Community College of Aurora (CCA), CCD, CNCC, Front Range Community College (FRCC), Red Rocks Community College (RRCC), and TSJC did not provide timely information to us during the course of the audit. As a result, the System Office was approximately two weeks late, based on agreed upon deadlines between us and CCCS in providing a draft set of financial statements, including management's discussion and analysis, and approximately six weeks late in providing the statement of cash flows to us for review. As a result, our completion of audit testwork was delayed by four weeks.

Reconciliations of the General Ledger and COFRS (significant deficiency in internal control)

On July 1, 2008, CCCS implemented the Finance Module of the Banner Enterprise Resource System (Banner). Consistent with many system implementations, it took time to obtain reports from Banner and staff resources were constrained during the year. As a result, certain reconciliations that typically occur on a monthly basis were not performed until year-end. Specifically, the reconciliations of COFRS to Banner, the Banner Student module to the Banner Finance module, and the new payroll cash accounts were not performed timely. At year-end, we noted all colleges, except for Colorado Northwestern Community College, had reconciled Banner to COFRS. We noted several schools did not begin to reconcile the Banner Student module to the Banner Finance module until the middle of the year and at year-end two colleges, Community College of Denver and Front Range Community College, had not reconciled the Banner Student Module to the Banner Finance Module. The three payroll cash accounts were reconciled at year-end.

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Report Summary

Year ended June 30, 2009

Recommendations and CCCS Responses

A summary of our recommendations and responses from CCCS can be found in the Recommendation Locator section of this report. CCCS' responses to the findings have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Summary of Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended June 30, 2008 included 14 recommendations. The disposition of these audit recommendations as of December 17, 2009 was as follows.

Implemented	10
Partially implemented	<u>4</u>
Total	<u><u>14</u></u>

The 2008 audit report included no recommendations that were reported as not implemented or partially implemented for the year ended June 30, 2007, or for previous years.

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Recommendation Locator

Year ended June 30, 2009

Rec. no.	Page no.	Recommendation summary	Agency addressed	Agency response	Implementation date
1	9	Ensure accounting and financial reporting processes are adequate to meet state reporting and audit requirements.	CCCS	Agree	June 2010
2	10	Ensure key reconciliations are completed on a regular basis and accurate and complete reports are available from Banner to facilitate such reconciliations.	CCCS	Agree	February 2010
3	12	Ensure all colleges follow system-wide policies and procedures to determine the allowance for doubtful accounts.	CCCS	Agree	January 2010
4	13	Ensure colleges consistently calculate leave accrued by employees and complete plan to automate the calculation of compensated absences.	CCCS	Agree	June 2011
5	13	Work with OJC to ensure proper segregation of duties over the payroll process.	CCCS	Agree	February 2010
6	14	Work with NJC to strengthen controls over the cash management process and establish segregation of duties.	CCCS	Agree	September 2009

COLORADO COMMUNITY COLLEGE SYSTEM

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Description of the Colorado Community College System

Year ended June 30, 2009

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 (LDCs) and Area Vocational Schools (AVSs).

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.

Colorado Community College System’s (CCCS’) operations and activities are funded primarily through tuition and fees, federal, state, and local grants, tuition revenue, the College Opportunity Fund stipends, a fee-for-service contract, and State Fiscal Stabilization Funding. In addition, the SBCCOE receives and distributes state appropriations for LDCs, AVSs, and school districts offering vocational programs.

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

<u>College</u>	<u>Main campus location</u>
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

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Description of the Colorado Community College System

Year ended June 30, 2009

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 2009 that is prepared for CCHE.

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

FTE Student Enrollment

	<u>Resident</u>	<u>Nonresident</u>	<u>Total</u>
Fiscal year:			
2008 – 2009	44,920	3,084	48,004
2007 – 2008	41,928	2,843	44,771
2006 – 2007	40,876	2,570	43,446

FTE Faculty and Staff

	<u>Faculty</u>	<u>Staff</u>	<u>Total</u>
Fiscal year:			
2008 – 2009	3,313	1,880	5,193
2007 – 2008	3,197	1,792	4,989
2006 – 2007	3,010	1,550	4,560

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Findings and Recommendations

Year ended June 30, 2009

We have audited the basic financial statements of the Colorado Community College System (CCCS or the System) as of and for the year ended June 30, 2009 and have issued our report thereon, dated December 17, 2009. In planning and performing our audit of the basic financial statements, we considered CCCS' internal control solely to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on 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 17, 2009 on our consideration of CCCS' 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 the date of this report. We did not audit the financial statements of certain discretely presented component units discussed in note 1 to the basic financial statements, which represent 99%, 98%, and 99% of the 2009 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.

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 to 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 U.S. 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. 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 was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting and its operation that we consider to be material weaknesses. We consider Recommendations No. 1 and 2 to be significant deficiencies in internal control.

CCCS' responses to the findings have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Year-End Financial Reporting Process (significant deficiency in internal control)

CCCS' year-end financial reporting process requires the participation of multiple parties and completion of many actions to prepare its financial statements and provide necessary information through exhibits to the Office of the State Controller (OSC) for preparation of the state-wide financial statements.

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Year ended June 30, 2009

In order for the Office of the State Controller (OSC) to meet its statutory deadline for issuing the basic financial statements, CCCS was required to close its accounting records in the Colorado Financial Reporting System (COFRS) by July 29, 2009. In addition, college and System Office financial statements, as defined in Colorado Revised Statute Section 24-30-204(1), were due to the State Controller by August 31, 2009. Finally, OSC exhibits, excluding the Exhibit K, which reports federal expenditures, were due to the State Controller on August 31, 2009.

During our audit, we noted several colleges did not submit financial statements and exhibits to the OSC in accordance with the required timeline. Specifically, we noted Colorado Northwestern Community College (CNCC) and Community College of Denver (CCD) did not meet the OSC's deadline of August 31st. These colleges also needed to submit revised exhibits to correct errors during the course of the audit. Finally, several other colleges did not provide us state exhibits on the required date to complete our audit.

An Exhibit H, *Proposed Financial Statement Postclosing Entry for Identified COFRS Errors*, is required by the OSC to report accounting errors or entries to balance COFRS to the internal accounting source records that exceed \$200,000, or is required to synchronize footnote detail regardless of the dollar amount, including proposed audit adjustments, on the final COFRS reports and ledgers after the close of COFRS. For fiscal year 2009, CCCS colleges and the System Office submitted a total of 69 Exhibit H adjustments to the OSC. Based upon our review, a majority of these adjustments should have been identified prior to closing COFRS on July 29th. For example, we noted the following transactions were recorded on an Exhibit H:

- Arapahoe Community College accrual for faculty payroll
- CCD corrections of revenue source codes and other misclassification errors
- CNCC summer deferred revenue, accrual for faculty payroll, and the reversal of accruals from the third quarter of fiscal year 2009
- Front Range Community College (FRCC) bad debt expense, accounts receivable and deferred revenue on grants, and adjustments to capital assets
- Northeastern Junior College (NJC) adjustments to capital assets and capital leases
- Lamar Community College (LCC) accrual for faculty payroll
- Pueblo Community College (PCC) accrual for faculty payroll
- Red Rocks Community College (RRCC) bad debt expense and various accruals

We also noted that CCD, CNCC, and Trinidad State Junior College (TSJC) revised the schedule of expenditures of federal awards, Exhibit K, based upon our review. Specifically, expenditures reported in the exhibit did not originally agree to the general ledger. In addition, these colleges, along with PCC, had errors in the reconciliation provided to us of the Exhibit K, the general ledger, and the Fiscal Operations Report and Application to Participate (FISAP). The FISAP reports student financial aid information to the U.S. Department of Education, including expenditure and other data.

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Finally, we noted several colleges experienced delays in providing information to the System Office for preparation of the system-wide financial statements as well as to us to support the financial and compliance audit and year-end testwork. Specifically, Community College of Aurora (CCA), CCD, CNCC, FRCC, RRCC, and TSJC did not provide timely information to us during the course of the audit. As a result, the System Office was approximately two weeks late, based on agreed-upon deadlines between us and CCCS in providing a draft set of financial statements, including management's discussion and analysis, and approximately six weeks late in providing the statement of cash flows to us for review. As a result, our completion of audit testwork was delayed by four weeks.

The deficiencies noted above were the result of inadequate planning for the year-end close process at several colleges. In addition, additional time was necessary to extract data under the new Banner Finance module and this impacted the colleges' ability to close their records in an accurate and timely manner.

Recommendation No. 1:

CCCS should ensure its accounting and financial reporting processes are adequate to meet financial reporting and deadlines as well as OSC and audit requirements. Specifically, CCCS should:

- a. Evaluate its accounting and financial reporting processes and identify areas to improve efficiencies during the close process.
- b. Ensure colleges adequately plan for the year-end close process in order to meet OSC and System Office reporting deadlines. Such planning should ensure entries are made to COFRS prior to its close, financial statements, notes, and exhibits are accurate and submitted to the System Office and OSC in a timely manner.
- c. Ensure adequate, skilled resources are available at the colleges to support System Office reporting and the financial and compliance audit process.

CCCS Response

Agree: During fiscal year 2010, the fiscal staffing patterns will be evaluated for adequacy to ensure FTE and appropriate skillsets are in place for recording financial data throughout the year and in place for year-end closing. Additional training will be provided throughout the year for all colleges through Controller and Business Officer meetings as well as on site by college staff. Consideration will be given regarding process changes that may be implemented to centralize some year-end closing procedures.

Reconciliations of the General Ledger and COFRS (significant deficiency in internal control)

On July 1, 2008, CCCS implemented the Finance module of the Banner Enterprise Resource System (Banner). Consistent with many system implementations, it took time to obtain reports from Banner and resources were constrained during the year due to the fact that resources were dedicated to the Banner implementation while the same resources were also responsible for daily operations. As a result, certain reconciliations that typically occur on a monthly basis were not performed until year-end. Specifically, the reconciliations of COFRS to Banner, the Banner Student module to the Banner Finance module, and the new payroll cash accounts were not performed timely. As a result, misstatements may have gone undetected during the fiscal year.

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CCCS uploads financial information to COFRS, at a minimum, on a monthly basis for purposes of state-wide financial reporting. In addition, cash for all colleges is deposited with the State Treasurer's pool. In order to ensure that information being reported to the state is complete and accurate and to ensure its cash balance is correct, CCCS should reconcile the information recorded in its general ledger system to COFRS on a monthly basis. The template for the COFRS reconciliation was not completed until the final quarter of the fiscal year due to the time needed to address the complexity of the interface with the Banner Finance module. As a result, as of May 31, 2009, all CCCS colleges had not reconciled Banner to COFRS. At year-end, however, we noted all colleges, except for CNCC, had reconciled Banner to COFRS. CNCC was unable to reconcile the two systems and reported to us that it was unable to explain all differences between the systems. For example, cash per Banner and COFRS was out of balance by \$62,000 and fund balance differed by approximately \$330,000.

CCCS records student accounts receivable and related revenue in the Banner Student module, which interfaces to the Banner Finance module. On a monthly basis, colleges reconcile the Banner Student module to the Banner Finance module to ensure balances are properly reported. We noted several schools did not begin reconciling the Banner Student module to the Banner Finance module until the middle of the year. At year-end, FRCC and CCD had not reconciled the Banner Student module to the Banner Finance module resulting in a difference between the two systems of \$329,000 for FRCC and \$158,000 for CCD.

Finally, in fiscal year 2009, CCCS began processing payroll in Banner. Prior to 2009, CCCS utilized the Colorado Payroll and Personnel System. As a result of this change, three cash accounts were opened to process liabilities, net pay, and imprest funds. These accounts are not intended to maintain cash balances but instead are used to fund payroll and related deductions. These payroll cash account balances were not reconciled on a regular basis during the year and the reconciliations were not completed in their entirety for all accounts until year-end. The total cash balance of the three accounts as of June 30, 2009 was \$50,000.

Recommendation No. 2

CCCS should ensure key reconciliations are completed on a regular basis. CCCS should also ensure accurate and complete reports are available from Banner to facilitate such reconciliations.

CCCS Response

CCD: Agree. CCD's reconciliation process was in place during fiscal year 2009; however, the necessary correction of conversion errors required significant time and resources. Upon correction of these errors, CCD hired three contractors and also devoted internal staff to reconciling Banner to COFRS, and was able to partially complete the reconciliation of Banner Student A/R to the Banner Finance Module at year-end. This reconciliation will be completed by January 31, 2010.

CNCC: Agree. The campus had turnover of the Controller position twice in the fiscal year. The campus has hired a Controller and Accounting Coordinator to aid in the COFRS reconciliation processes. The campus is now reconciling COFRS on a monthly basis. This was completed beginning September 2009.

FRCC: Agree. Reconciliation of the Banner Student Module to the Banner Finance Module will be reviewed and approved by the Controller on a monthly basis. Reconciling items through October 2009 will be resolved by the November close. Reconciling items will be resolved on a monthly basis thereafter.

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Year ended June 30, 2009

System Office: Agree. The System Office has developed the COFRS reconciliation process and will begin monitoring completion by each college beginning the second quarter of fiscal year 2010. The centralized payroll accounts will be reconciled on a quarterly basis, beginning the second quarter for fiscal year 2010.

Student Accounts Receivable and Allowance for Doubtful Accounts (deficiency in internal control)

As of June 30, 2009, CCCS reported gross student accounts receivable of \$32,371,000 and an allowance for doubtful accounts of \$12,924,000, for net student accounts receivable of \$19,447,000. Our audit noted certain colleges did not have adequate controls in place to determine the allowance for doubtful accounts. In addition, one college did not have adequate procedures in place to refer delinquent student account balances to the Department of Personnel and Administration State Central Collections (SCC), in accordance with State Fiscal rules and the System Accounting Procedures (SAP). Failure to implement adequate controls over the determination of the allowance for doubtful accounts and student accounts receivable increases the risk that the financial statements may be misstated.

Arapahoe Community College (ACC), Community College of Aurora (CCA), Front Range Community College (FRCC), Northeastern Junior College (NJC), and Red Rocks Community College (RRCC)

During our audit, we noted that some colleges did not consistently calculate the allowance for doubtful student accounts. Colleges utilize information from SCC to estimate the percentage of student accounts receivable that are uncollectible. A majority of colleges calculate the collectible percentage as the amount collected divided by the amount assigned to SCC less amount canceled. The difference is the uncollectible percentage, which is applied to student accounts receivable to record the allowance for doubtful accounts. CCA, NJC, and RRCC calculated the collectible percentage by dividing the amount collected by the amount assigned but excluded the amount canceled from their calculations. FRCC did not exclude accounts receivable from the summer session in its determination of the allowance for doubtful accounts. All other colleges exclude summer session balances in accordance with SAP because they are current receivables and should not be factored into the allowance. NJC also appropriately excluded certain accounts, such as summer session accounts receivable, third-party receivables and deposits from its calculation but did so twice, in error. As a result of these errors, the allowance for doubtful accounts was overstated system-wide by approximately \$650,000 for which the colleges have passed on recording an entry. In addition, ACC incorrectly calculated its uncollectible percentage based on SCC reports using an incorrect weighted average methodology. ACC originally understated its balance by approximately \$575,000 and a correcting entry was recorded.

Community College of Aurora

The Department of Personnel and Administration has issued an Administrative Rule for Accounts Receivable Collections. Section 1.37 of this Rule, *Debts Referred to State Controller*, states “a state agency shall refer all debts to the State Controller (specifically the SCC) for collection when the debt is thirty (30) days past due. The State Controller may grant an extension to the requirement based upon a documented and justified need provided by the state agency. Extension shall be considered on an individual basis and granted only if the State Controller determines it to be in the best interest of the State.”

During our audit, we noted that CCA had not submitted to the SCC delinquent student accounts receivable since 2007. CCA has approximately \$4,100,000 of gross accounts receivable outstanding as of June 30, 2009, with approximately \$3,700,000 of this balance related to student accounts established prior to July 1, 2008. We did

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Year ended June 30, 2009

note that CCCS received an “Extension Request of 30-Day Requirement” under Section 1.37 from the State Controller on December 4, 2007, which expires December 31, 2010. This grants an extension for student accounts receivable, student loan receivables, and nongovernment-sponsored programs. Student accounts receivable were granted an extension of the past due date to the census date of the subsequent regular term. Student loan receivables were granted an extension from 30 days to 120 days. Nongovernment-sponsored programs were granted a one-year extension. As a significant portion of CCA’s student accounts receivable were over two years past due and had not been sent to SCC, the College was not in compliance with the extension requirements and was not properly following up on collection.

Recommendation No. 3

CCCS should:

- a. Ensure all colleges consistently follow system-wide policies and procedures to determine the allowance for doubtful accounts on student accounts receivable. These procedures should ensure the allowance calculation is reviewed by someone other than the preparer.
- b. Ensure CCA submits student accounts receivable to SCC in accordance with state requirements.

CCCS Response

ACC, CCA, NJC, FRCC, and RRCC: Agree. The colleges will use the methodology dictated by the State Fiscal rules and SAP and consistent with colleges system-wide to calculate the allowance for doubtful accounts beginning January 2010. The calculations will be prepared by the Controller and reviewed by someone other than the preparer.

CCA: On or about October 15, 2009, CCA designated two personnel to process delinquent student accounts. Plans have been enacted to send six semesters, Fall Term Fiscal Year 2007 – Spring Term Fiscal Year 2008, of outstanding student accounts to SCC. CCA will send the delinquent student accounts receivable to CCS by the end of January 2010.

Compensated Absences (deficiency in internal control)

In the prior year, our audit noted that colleges did not properly accrue compensated absences. Specifically, payout policies for sick leave and vacation were not applied in accordance with policy. In order to gain consistency and improve accuracy, the System Office developed a template to assist the colleges in completing their estimate. Internal Audit performed testwork over the calculations and we utilized this work to support our opinion on CCCS’ financial statements. During its testwork, Internal Audit noted several errors in compensated absences at certain colleges:

- Beginning hours balance for sick and annual leave were carried forward at gross rather than net amounts. Specifically, beginning hours balance were carried forward based on the prior year capped amounts, which had been incorrectly calculated.
- Full-Time Employee (FTE) or Fund, Organization, Account, and Program (FOAP) percentages did not properly reflect the staffing pattern. For example, in one instance, an FTE allocated to multiple FOAPs summed to more than one FTE.

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Findings and Recommendations

Year ended June 30, 2009

- In some instances the worksheet template was not completed in accordance with the instructions, and therefore, the calculation was incorrect. For example, employees who had terminated during the year were not included in the worksheets prepared by certain colleges.
- There were also significant variances from the prior year ending balance to the current year beginning balance primarily due to varying interpretations of the policy in the prior year.

The conditions noted above resulted in \$241,000 of differences between the amount recorded in the financial statements and the amount calculated by the colleges. The errors noted above could have been detected if a more thorough review had been conducted by the colleges of their own calculations.

Recommendation No. 4

CCCS should ensure that colleges consistently apply Board policy to the calculation of leave accrued by employees to be paid upon termination or retirement. CCCS should also complete its plan to automate the calculation of compensated absences in Banner so as to ensure the leave pay-out thresholds are properly applied, the calculations are accurate, and are properly reviewed.

CCCS Response

CCD, CNCC, OJC, PCC, and PPCC: Agree. The colleges have a better understanding of the appropriate process for completing the data spreadsheet and will implement a comprehensive process to ensure the calculation is performed correctly for the year ending June 30, 2010, including the proper allocation for the current and long-term liabilities. The automated calculation will be in place for the fiscal year 2011 close once the system-wide leave program is in place and fully operational.

Payroll Process – Segregation of Duties (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 ensuring no single individual has control over all phases of a transaction. Segregation of duties should be further supported by access controls within information systems, which limit an individual's access to perform only his/her assigned duties. During our audit, we noted that Otero Junior College (OJC) did not properly segregate duties between the human resources and payroll functions. Specifically, at OJC, one person has the ability to establish new employees, set pay rates, and pay employees.

Lack of proper segregation of duties between the human resources and payroll functions increases the risk of errors or potential fraud going undetected.

Recommendation No. 5

CCCS should work with OJC, as appropriate, to strengthen controls over the payroll process ensuring proper segregation of duties is established so that no one person has the ability to set up new employees, change pay rates, pay employees, and make changes to wage garnishments.

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2009

CCCS Response:

OJC: Agree. In order to facilitate resolution of this issue, OJC will separate HR and Payroll duties no later than February 28, 2010.

Segregation of Duties over Drawdown of Federal Student Financial Aid

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 ensuring no single individual has control over two or more phases of a transaction or operation.

Northeastern Junior College (NJC) draws funds, including federal student financial aid, via the U.S. Department of Education's G5 System creating a payment request through the Internet. During fiscal year 2009, NJC received \$4.3 million in federal student financial aid support, including loan programs.

During our audit, we noted that NJC did not properly segregate duties between activities related to the drawdown of student financial aid funds. Specifically, the calculation of amounts to request, submission of the request to the U.S. Department of Education and preparation of the associated journal entry, and authorization of the related journal entry are all performed by one individual without sufficient review by someone other than the preparer to detect or prevent errors or noncompliance with federal cash management requirements.

Recommendation No. 6

CCCS should work with NJC to strengthen controls over the cash management process and establish segregation of duties so that no one person has the ability to calculate the amount to request for reimbursement and submit for reimbursement and approve the request and associated journal entry.

CCCS Response

NJC: Agree. As of September 2009, NJC implemented a new procedure for federal financial student aid draws. The Financial Aid Office now approves all draws via e-mail before the Finance Office initiates the draw. There will now also be reconciliation between the financial statement records and the financial aid student records before draws are initiated.

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2009

Following are the audit recommendations made for the year ended June 30, 2008 and their disposition as of December 17, 2009:

Recommendation	Disposition
<p>Recommendation No. 1</p> <p>CCCS should work with CCD, CNCC, TSJC, and the System Office, as appropriate, to strengthen controls over the payroll process by:</p> <ul style="list-style-type: none"> a. Ensuring proper segregation of duties is established so that no one person has the ability to set up new employees, change pay rates, and pay employees. b. Establishing access controls between the payroll system and human resources system to further support proper segregation of duties. c. Ensuring rate changes for all employees are properly approved and documented in personnel files. d. Implementing end-user controls to ensure payroll processed by CPPS is complete and accurate and properly posted to the general ledger. 	<p>Implemented.</p>
<p>Recommendation No. 2</p> <p>CCCS should continue to implement the corrective action plan established to address the material weakness identified in fiscal year 2007. CCCS should ensure this plan addresses each weakness noted in the current year and prior year audits and provides specific remedial and corrective actions that will be taken by CCD management, including time frames for completion. Such actions taken by CCD management should continue to be subject to ongoing oversight from CCCS personnel and the Internal Audit Department.</p>	<p>Partially implemented. See Recommendations Nos. 1 and 2.</p>

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2009

Recommendation	Disposition
<p>Recommendation No. 3</p> <p>CCCS should consider the identified control deficiencies in the implementation of its remaining modules of the Banner system and improve information technology general controls by:</p> <ul style="list-style-type: none"> a. Ensuring policies and procedures for removing employees from Banner are appropriately adhered to by removing terminated users on a timely basis. b. Ensuring Banner password policies require expirations (90 days is leading industry practice) and requiring each be at least six characters in length. Such policies should be appropriately enforced. c. Requiring privileged access to be appropriately restricted. Each administrator should have a unique account and password in order to demonstrate individual accountability for performing activities within Banner. d. Creating proper segregation of duties over program change management by ensuring program developers do not have access to implement changes into production. 	<p>Implemented. During 2009, we evaluated information technology general controls over the Banner Finance and Human Resources modules. Our audit revealed that the prior year control deficiencies had been addressed and we noted no current year control deficiencies resulting from our testwork.</p>
<p>Recommendation No. 4</p> <p>CCCS should work with ACC, CCA, and CCD to strengthen controls over the general ledger to COFRS reconciliation process by:</p> <ul style="list-style-type: none"> a. Ensuring each college performs the general ledger to COFRS reconciliation effectively on a monthly basis. b. Ensuring cash balances reported on the general ledger are reconciled to the balance reported by the State Treasurer. c. Ensuring reconciling items are properly investigated and resolved, and the resolution to such reconciling 	<p>Partially implemented. See Recommendation No. 2.</p>

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2009

Recommendation	Disposition
<p>items are documented.</p> <p>d. Ensuring reconciliations are reviewed by someone at least one level higher than the preparer.</p>	
<p>Recommendation No. 5</p> <p>CCCS should ensure accounts payable and accrued liabilities balances are properly stated by:</p> <p>a. Performing proper cut-off procedures after year-end. These cut-off procedures should include reviewing cash disbursements made after year-end to determine whether the related expense applies to the previous fiscal year and should be accrued.</p> <p>b. Considering a materiality threshold for cut-off procedures, in which the review in a. above would need to be performed. In order to establish this threshold, the System Office would need to perform an analysis to determine at what threshold the risk of material misstatement would be remote. This analysis should be documented and reevaluated each year to ensure the threshold is still reasonable.</p>	<p>Implemented.</p>
<p>Recommendation No. 6</p> <p>CCCS should ensure capital asset balances are properly stated by:</p> <p>a. Performing proper cut-off procedures near or after year-end to ensure capital assets are capitalized in the proper fiscal year.</p> <p>b. Communicating the capitalization policy to accounting personnel on a routine basis.</p>	<p>Implemented.</p>

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2009

Recommendation	Disposition
<p>Recommendation No. 7</p> <p>CCCS should work with CCA, CCD, PCC, and OJC to ensure revenue is properly recorded in the period earned by:</p> <ul style="list-style-type: none"> a. Performing cut-off procedures by reviewing cash receipts received subsequent to year-end to ensure the related revenue is recognized in the proper fiscal year. b. Reviewing and retaining documentation to support when the revenue has been earned. During this review, colleges should review supporting documentation for cash receipts to determine whether the cash received relates to a previously established account receivable balance. c. Reviewing and retaining documentation to determine whether the assets received are a right of the college or a third party. During this review, colleges and the System Office should note that moneys restricted for a specific purpose of CCCS should be recorded as revenue, with a corresponding presentation of restricted net assets. 	<p>Implemented.</p>
<p>Recommendation No. 8</p> <p>CCCS should work with CCA, CCD, CNCC, and TSJC to strengthen controls over the accounts receivable subledger reconciliation process by:</p> <ul style="list-style-type: none"> a. Ensuring each college performs effective monthly reconciliations between Banner and the general ledger, and, when applicable, between BRS and the general ledger. b. Ensuring reconciling items are properly investigated and resolved and the resolution to such reconciling items is documented. c. Ensuring these reconciliations are reviewed by someone at least one level higher than the preparer. 	<p>Partially implemented. See Recommendation No. 2.</p>

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2009

Recommendation	Disposition
<p>Recommendation No. 9</p> <p>CCCS should ensure that the colleges properly record leave accrued by employees to be paid upon termination or retirement by:</p> <ul style="list-style-type: none"> a. Reclarifying the leave pay-out thresholds to accounting personnel for all colleges near each fiscal year-end. b. Ensuring someone at each college reviews the compensated absences calculation. This review should be performed by someone familiar with the leave policy and should be separate from the preparer. 	<p>Partially implemented. See Recommendation No. 4.</p>
<p>Recommendation No. 10</p> <p>CCCS should work with PCC to ensure an individual other than the preparer review the deferred revenue calculation prior to recording the adjustment in the general ledger. This review should be performed by someone knowledgeable of the deferred tuition calculation. The reviewer should ensure the percentage of revenue to be deferred was calculated correctly and that the percentage calculated was applied to the correct revenue accounts.</p>	<p>Implemented.</p>
<p>Recommendation No. 11</p> <p>CCCS should work with CCA to ensure controls over approval of purchases are in place by:</p> <ul style="list-style-type: none"> a. Ensuring purchases are not made without first obtaining the proper approvals in accordance with CCCS policy. b. Ensuring those responsible for processing payments do not disburse funds without proper evidence of such approval. c. Ensuring those approving charges obtain and review adequate documentation prior to granting approval of the purchase. 	<p>Implemented.</p>

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2009

Recommendation	Disposition
<p>Recommendation No. 12</p> <p>CCCS should work with CNCC and TSJC to enhance procedures to comply with return of Title IV requirements by:</p> <ul style="list-style-type: none">a. Ensuring all students who are subject to a postwithdrawal disbursement receive notification within the required time frame of 30 days.b. Requiring reviews of return of Title IV calculations. These reviews should be performed by someone separate from the preparer and the review should ensure the proper enrollment period was used.c. Establishing procedures to ensure that withdrawal dates of students are determined timely and the return is made no later than 45 days after the date of this determination.	<p>Implemented.</p>
<p>Recommendation No. 13</p> <p>CCCS should work with CCD, CNCC, and TSJC to 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.</p>	<p>Implemented.</p>

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2009

Recommendation	Disposition
<p>Recommendation No. 14</p> <p>CCCS should improve its subrecipient monitoring for the Perkins program by implementing policies, procedures, and controls to ensure compliance with OMB Circular A-133. Specifically, CCCS should:</p> <ul style="list-style-type: none">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 – d below.b. Perform periodic site visits based upon the risk-based approach 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 initiated in a timely manner. CCCS’ review of the audit reports and monitoring of corrective active measures should be documented.d. Provide adequate oversight and supervisory review of the Perkins monitoring process.	<p>Implemented.</p>



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, 2009 and 2008, which collectively comprise CCCS' basic financial statements as listed in the table of contents. These financial statements are the responsibility of CCCS 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, which represent 99%, 98%, and 99% and 99%, 98%, and 99% of the 2009 and 2008 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 opinions, insofar as they relate to the amounts included for the discretely presented component units, are 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' 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 previously 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, 2009 and 2008, 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 22, CCCS restated the 2009 and 2008 financial statements of the aggregate discretely presented component units.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2009, on our consideration of CCCS' 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 read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 24 to 39 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 17, 2009

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2009 and 2008

The following discussion and analysis provides management's view of the financial position and results of operations for the Colorado Community College System (CCCS or the System) as of June 30, 2009 and 2008 (fiscal years 2009 and 2008, respectively), with comparative information presented for fiscal year 2007. This analysis should be read in conjunction with CCCS' financial statements and notes to the basic financial statements. This analysis is intended to make CCCS' 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' primary financial reporting entity, but are included as discretely presented component units in CCCS' basic financial statements (note 1).

CCCS is Colorado's largest institution of higher education and served approximately 117,000 students (48,000 full-time students) during the fiscal year ended June 30, 2009. 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 (the Board) in exercising certain curriculum and funding authority over four Area Vocational Schools (AVSs), two Local District Colleges (LDCs), 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 State) 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 2009 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 2009, 2008, and 2007, the System received 2.8%, 2.6%, and 6.8%, respectively, in State support (notes 4 and 20). Beginning in fiscal year 2008, House Bill 08-1079 specifically excluded moneys transferred from the Colorado Department of Higher Education (CDHE) for career and technical education as state grants for the purpose of this calculation, including funding under the Colorado Vocational Act (CVA).

Beginning in fiscal year 2006, legislation provided for a change in the funding mechanism of higher education institutions. CCCS is funded through the College Opportunity Fund (COF) stipend program and a fee-for-service (FFS) contract with the CDHE, approved by the Colorado Commission on Higher Education (CCHE). 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 2009, 2008, and 2007, respectively, the COF stipend was \$68, \$89, and \$86, per credit hour, which students could use to pay for a portion of their tuition. COF supports the costs of up to 145 eligible undergraduate credits. The FFS contract is the purchase of educational services, by the State, from CCCS that are not part of the COF stipend program. In fiscal years 2009, 2008, and 2007, respectively, CDHE's contract with CCCS purchased credit hours for vestibule labs, reciprocal programs, and educational services in rural areas, career and technology, vocational, and other high cost, specialized instructional educational services (notes 3 and 4).

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2009 and 2008

On February 19, 2009, the American Recovery and Reinvestment Act (ARRA) of 2009 was signed into law, including billions of federal funds allocated to state governments. Portions of these federal funds were distributed through the CDHE as the fiscal agent under an award made from the Colorado Governor's Office to the institutions of higher education in the state via the State Fiscal Stabilization Fund (SFSF) Program. This education grant funding was used for activities allowable under the U.S. Department of Education's guidance to mitigate the impacts of state cuts during the recession. On June 30, 2009, the State distributed \$25.3 million in funds to CCCS as an offset to funding cuts in COF in the form of reduced student stipends and reduced FFS contracts. In accepting these funds, certain stipulations were placed on the use of the funds, including steps to mitigate tuition and fee increases for in-state students. This funding is expected to continue until the first quarter of fiscal year 2011. SFSF funding is provided as pass-through funds through the State without the Federal Government or State directly receiving goods and services and is recorded as nonoperating revenue.

On November 6, 2008, the State issued \$230,845,000 of certificates of participation (Certificates or COP) on behalf of several of its higher education institutions. These Certificates will be repaid from the State's resources and not resources of the benefiting institutions. As a result, this liability is recognized by the State and not included in the benefiting institutions' financial statements. The projects include Colorado North Western Community College's (CNCC) construction of a new 53,000 square foot academic building that will house classrooms, laboratories, offices, a learning resource center, and academic support functions, as well as expanded surface parking on the new site; Front Range Community College's (FRCC) construction of a new laboratory wing and renovations to existing space in the primary science building on the Larimer campus; and Morgan Community College's (MCC) construction will provide additional space and building improvements for the college's nursing, health technology, and science programs, as well as additional parking and reconfiguration of the main entrance loop.

The Certificates specifically related to CCCS are secured by the Westminster campus building at FRCC, and any unexpended lease proceeds. The Certificates have a weighted average maturity of 11.2 years. The State will allocate \$40,192,741 of the proceeds to CCCS. The State is responsible for making the annual lease payments to the trustee for the leased building. The lease payments will be counted as State support under TABOR as they are made.

CNCC, Northeastern Junior College (NJC), Trinidad State Junior College (TSJC), and the System office have recorded capital leases in conjunction with building improvements and equipment related to energy performance contracts. 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.

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2009 and 2008

Financial Highlights

At June 30, 2009, CCCS' assets of \$557,673,799 exceeded its liabilities of \$129,162,867 by \$428,510,932. At June 30, 2008, CCCS' assets of \$521,442,927 exceeded its liabilities of \$115,768,359 by \$405,674,568. The resulting net assets are summarized into the following categories:

		June 30		
		2009	2008	2007
Invested in capital assets, net of related debt	\$	268,076,704	263,147,395	261,343,334
Restricted, expendable		24,850,440	21,321,284	17,938,272
Unrestricted		135,583,788	121,205,889	100,580,700
Total net assets	\$	428,510,932	405,674,568	379,862,306

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 2009, the CCCS' total net assets increased by \$22,836,364. The increase in net assets is the result of increased tuition and fees revenue, exclusive of the decrease in COF, and an increase in grant and contract revenue, FFS state contract revenue, auxiliary revenue, and other nonoperating revenue offset, in part, by an increase in operating expenses.

During fiscal year 2008, the CCCS' total net assets increased by \$25,812,262. The increase in net assets is the result of increased tuition and fees revenue, including COF, and an increase in grant and contract revenue, FFS state contract revenue, auxiliary revenue, state appropriations, investment income, and other nonoperating revenue 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' assets and liabilities at a point in time (June 30, 2009 and 2008), 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' 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' net assets changed during the fiscal period (the fiscal years ended June 30, 2009 and 2008). 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

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2009 and 2008

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' 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.

The *Statement of Cash Flows* presents cash receipts and payments to and from CCCS for the reporting period (the fiscal years ended June 30, 2009 and 2008) 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' ability to generate net cash flows and meet its obligations 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 CCCS 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 CCCS' assets and liabilities, with the difference between the two reported as net assets.

The assets reported by CCCS exceeded liabilities at June 30, 2009 and 2008, resulting in net assets of \$428,510,932 and \$405,674,568, respectively. The majority (62.6% for 2009 and 64.9% for 2008) of CCCS' 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.

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2009 and 2008

The assets reported by CCCS exceeded liabilities at June 30, 2008 and 2007, resulting in net assets of \$405,674,568 and \$379,862,306, respectively. The majority (64.9% for 2008 and 68.8% for 2007) of CCCS' 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		
	2009	2008	2007
Current assets	\$ 252,960,168	225,566,344	188,263,887
Noncurrent assets, including capital assets of \$297,036,715, \$293,346,665, and \$293,181,194	<u>304,713,631</u>	<u>295,876,583</u>	<u>296,609,206</u>
Total assets	<u>557,673,799</u>	<u>521,442,927</u>	<u>484,873,093</u>
Current liabilities	81,452,207	76,909,923	64,214,026
Noncurrent liabilities	<u>47,710,660</u>	<u>38,858,436</u>	<u>40,796,761</u>
Total liabilities	<u>129,162,867</u>	<u>115,768,359</u>	<u>105,010,787</u>
Net assets:			
Invested in capital assets, net of related debt	268,076,704	263,147,395	261,343,334
Restricted – expendable	24,850,440	21,321,284	17,938,272
Unrestricted	<u>135,583,788</u>	<u>121,205,889</u>	<u>100,580,700</u>
Total net assets	<u>\$ 428,510,932</u>	<u>405,674,568</u>	<u>379,862,306</u>

Current assets increased as of June 30, 2009 compared with June 30, 2008 by approximately \$27.4 million or 12.1% as a result of a \$16.9 million increase in cash and cash equivalents and a \$9.4 million increase in accounts receivable. Increases in accounts receivable include approximately \$7.7 million in due from other governments resulting primarily from increased activity in COP receivables from the State Treasury and the Direct Lending Program, the Pell Program, and from a local coaching grant.

Current assets increased as of June 30, 2008 compared with June 30, 2007 by approximately \$37.3 million or 19.8% as a result of a \$33.9 million increase in cash and cash equivalents and a \$3.4 million increase in accounts receivable. Increases in accounts receivable include approximately \$1.6 million in increases in student accounts receivable corresponding to increased student tuition and fees due to increased enrollment. In addition, there was an increase of approximately \$1.6 million in due from other governments resulting primarily from increased activity in the federal PELL grant and state Student Financial Aid (SFA) programs.

Current liabilities increased as of June 30, 2009 compared with June 30, 2008 by approximately \$4.5 million or 5.9% due to normal timing differences in the payment of vendor accounts payable including energy performance contract payments new in fiscal year 2009 outstanding at year-end, coupled with an increase in deferred revenue for summer tuition.

Current liabilities increased as of June 30, 2008 compared with June 30, 2007 by approximately \$12.7 million or 19.8% due to normal timing differences in the payment of vendor accounts payable, increases in Perkins accrued expenditures, an increase in accrued salaries and benefits and an increase in deferred revenue for summer tuition.

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2009 and 2008

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, 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 (5.8% for 2009, 5.2% for 2008, and 4.7% for 2007 of total net assets, respectively) are primarily restricted for auxiliary programs, scholarships, loans, and community training programs.

Unrestricted net assets (31.6% for 2009, 29.9% for 2008, and 26.5% for 2007 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 2009 and 2008, the COF stipend program revenue is included in student tuition and fees and FFS 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. Correspondingly, SFSF funding is provided as pass-through funds through the State without the federal government or State directly receiving goods and services and is also considered nonoperating. For similar reasons, most gifts and investment income are also nonoperating revenue.

State appropriations, net of distributions to Local District Colleges (LDC) and Area Vocational Schools (AVS), represent approximately 5.4%, 5.7%, and 6.1%, student tuition and fees represent approximately 40.6%, 45.4%, and 47.5%, and FFS contracts represent approximately 5.7%, 5.5%, and 5.5% of CCCS' total revenue (less distributions to LDC and AVS) from all sources in fiscal years 2009, 2008, and 2007, 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 \$47.4 million loss from operations in fiscal year 2009 compared to an \$18.0 million loss from operations in fiscal year 2008 and a \$15.1 million loss from operations in fiscal year 2007. In fiscal year 2009, this operating loss was offset by net state appropriations of \$25.3 million plus SFSF of \$25.3 million. In fiscal year 2008, this operating loss was offset by net state appropriations of \$24.8 million. In fiscal year 2007, this operating loss was offset by net state appropriations of \$24.3 million.

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The overall increase in the operating loss over the three-year period presented is a result of an increase in operating expenses in excess of operating revenues due to services provided for increased enrollment over the three-year period.

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

	June 30		
	2009	2008	2007
Operating revenues:			
Tuition and fees, net	\$ 190,996,712	199,247,972	189,867,578
Grants and contracts	135,263,343	126,031,904	110,390,884
Fee-for-service state contract	26,900,272	24,133,792	21,944,607
Sales and services of educational activities	980,693	1,445,714	1,186,338
Auxiliary enterprises, net	37,519,433	36,760,125	32,850,354
Other	8,916,865	7,894,633	7,354,423
Total operating revenues	<u>400,577,318</u>	<u>395,514,140</u>	<u>363,594,184</u>
Operating expenses:			
Instruction	189,159,746	180,732,657	168,025,660
Public service	5,195,931	1,680,750	2,171,691
Academic support	29,819,335	30,467,507	25,822,680
Student services	44,403,132	36,284,691	33,587,244
Institutional support	67,032,786	61,984,434	51,250,283
Operation and maintenance of plant	47,220,476	40,756,257	40,638,061
Scholarships and fellowships	9,420,041	9,912,459	10,100,849
Auxiliary enterprises	38,267,673	35,154,434	31,170,986
Depreciation	17,456,132	16,550,716	15,928,724
Total operating expenses	<u>447,975,252</u>	<u>413,523,905</u>	<u>378,696,178</u>
Operating loss	<u>(47,397,934)</u>	<u>(18,009,765)</u>	<u>(15,101,994)</u>
Nonoperating revenues (expenses):			
State appropriations	46,404,956	50,106,478	47,564,897
State Fiscal Stabilization Funding	25,300,005	—	—
Distributions to Local District Colleges and Area Vocational Schools	(21,107,462)	(25,273,137)	(23,303,953)
Other nonoperating revenues, net	9,672,597	10,300,345	7,290,493
Net nonoperating revenues	<u>60,270,096</u>	<u>35,133,686</u>	<u>31,551,437</u>
Income before other revenues, expenses, gains, or losses	12,872,162	17,123,921	16,449,443
State capital contributions	9,140,719	8,545,653	4,595,569
Capital grants and gifts	823,483	142,688	114,989
Increase in net assets	<u>22,836,364</u>	<u>25,812,262</u>	<u>21,160,001</u>
Net assets:			
Beginning of year	<u>405,674,568</u>	<u>379,862,306</u>	<u>358,702,305</u>
End of year	<u>\$ 428,510,932</u>	<u>405,674,568</u>	<u>379,862,306</u>

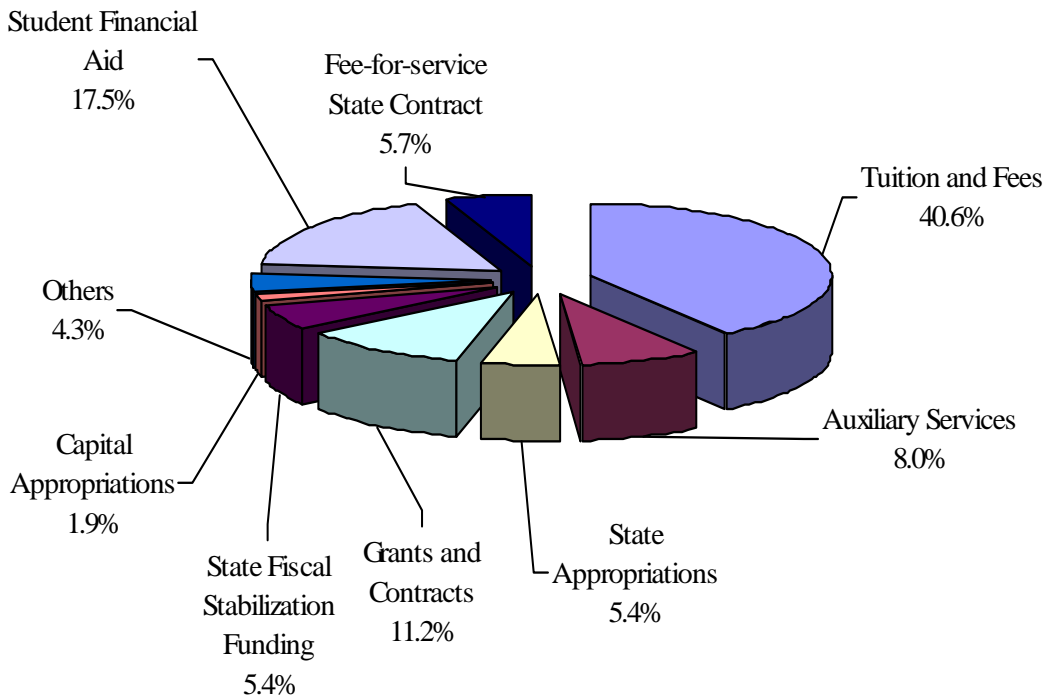
COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2009 and 2008

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 2009**

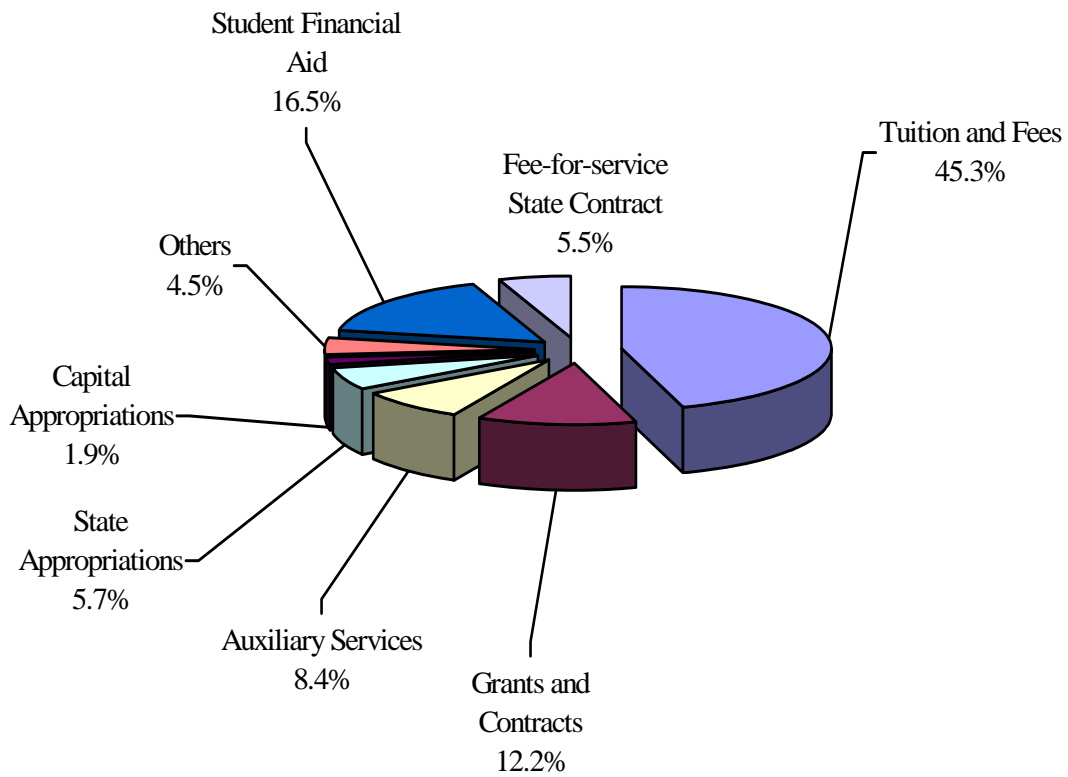


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**Sources of Revenue
Fiscal Year 2008**

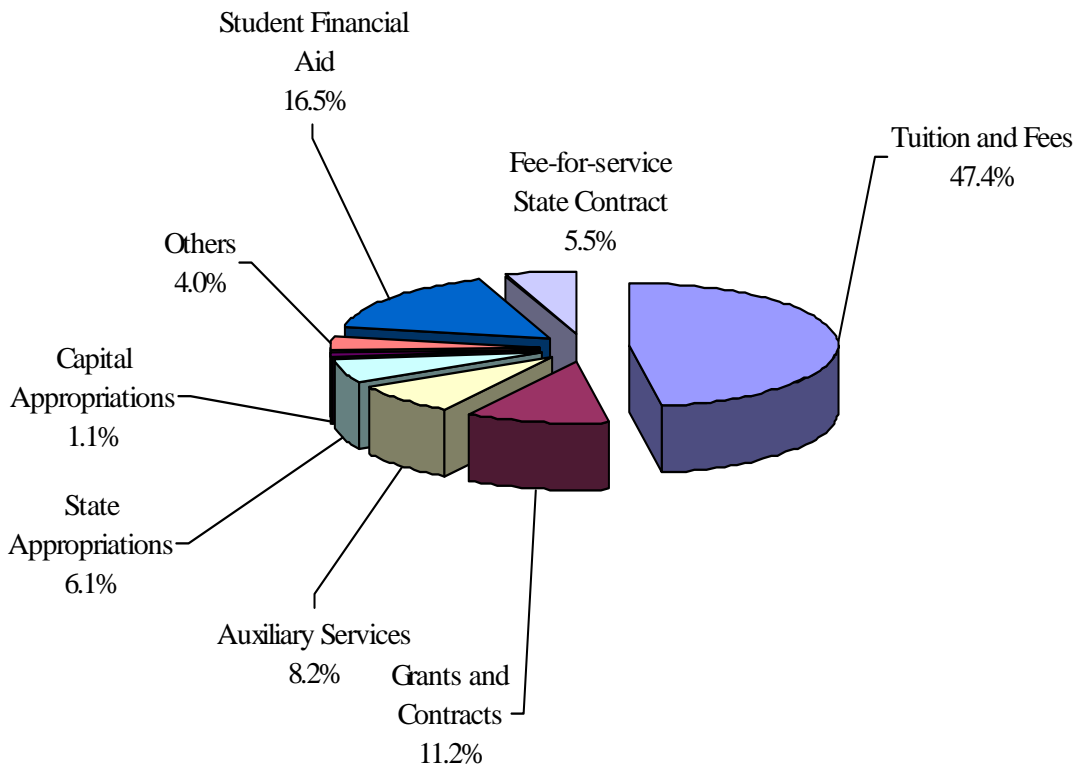


COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

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**Sources of Revenue
Fiscal Year 2007**



As the above charts demonstrate, student tuition and fees are the largest revenue source for CCCS in fiscal year 2009, 2008, and 2007. The operating loss of approximately \$47.4 million, \$18.0 million, and \$15.1 million in fiscal years 2009, 2008, and 2007, respectively, noted above, is the result of operating expenses exceeding operating revenues. During 2009, 2008, and 2007, CCCS supplemented operating revenues with State appropriations and Fiscal Stabilization Funding, which are classified as nonoperating revenues, to fund operations.

Revenue activity highlights for fiscal year 2009 include:

- Tuition and fee revenue decreased, net of the effect of scholarship allowances, by approximately \$8.3 million or 4.1%. This decrease was primarily due to the fact that there was an \$11.2 million or 17.8% increase in scholarship allowance in addition to a reduction in COF of \$18.1 million.

COLORADO COMMUNITY COLLEGE SYSTEM

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- Grants and contracts increased by \$9.2 million or 7.3%. This increase is primarily due to a \$10.1 million increase in Pell funding and State-funded student financial aid due to the overall increase in enrollment coupled with a \$421 increase in the amount granted per student for Pell.
- Auxiliary enterprises increased by \$0.8 million or 2.1%. In fiscal year 2009, approximately \$0.3 million of select agency accounts were determined by colleges to be properly reclassified as auxiliary accounts. There were also increases in programs of approximately \$0.3 million as the result of growth in enrollment.
- State capital contributions increased by \$0.6 million or 7.0% due to the spending of appropriations from the State's budget for capital appropriations (see Capital Asset and Debt Management in MD&A for detail of projects).

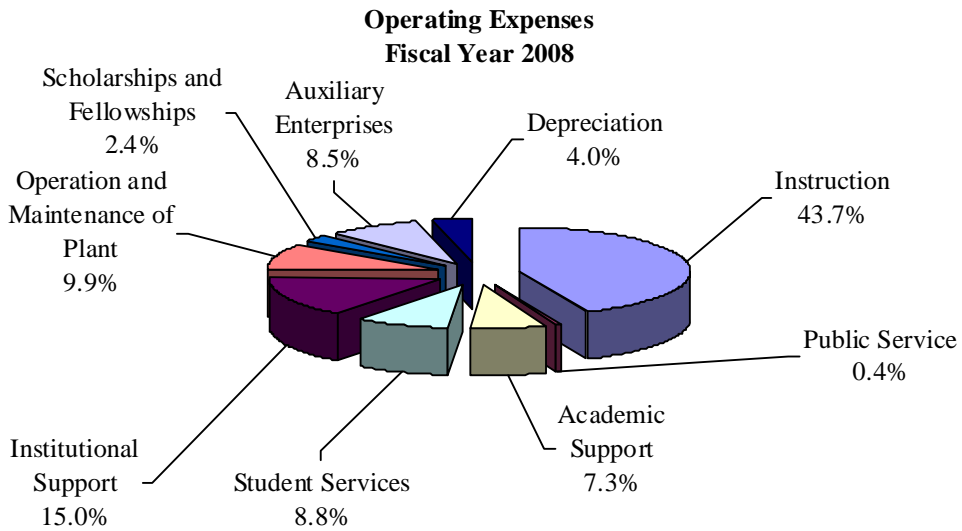
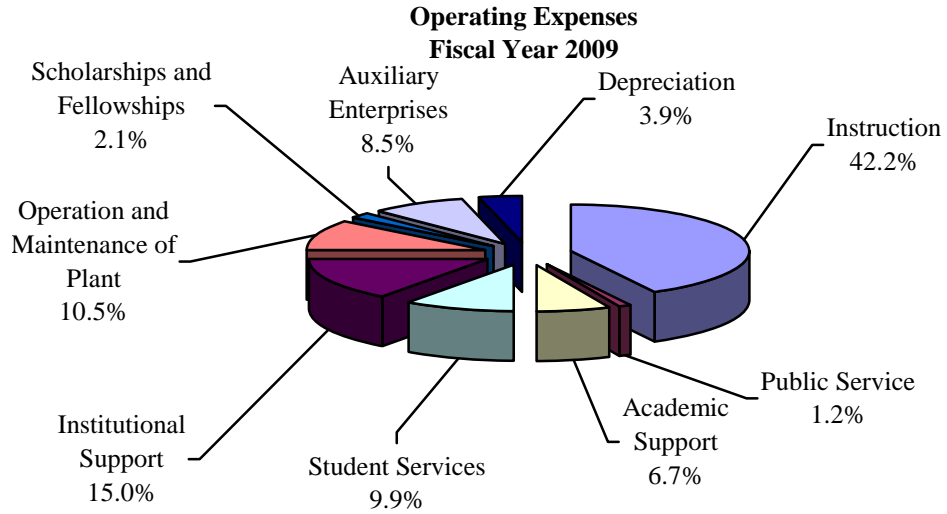
Revenue activity highlights for fiscal year 2008 include:

- Tuition and fee revenue increased, net of the effect of scholarship allowances, by approximately \$9.4 million or 4.9%. This increase was primarily due to the fact that there was a 3.5% increase in tuition rates in fiscal year 2008 and a 3% increase in enrollment (including a 2.5% increase in resident enrollment). Because of the increase in tuition (and therefore COF stipends), there was also an offsetting increase in the scholarship allowance, which nets against gross tuition and fees.
- Grants and contracts increased by \$15.6 million or 14.2%. This increase is primarily due to a \$5.1 million increase in PELL funding and State student financial aid due to the overall increase in enrollment coupled with a \$260 increase in the amount granted per student. Also, \$2.3 million of this increase was due to increased activity in the Perkins program, which increases current expenses and the corresponding recognition of grant revenue. There were various increases in programs totaling approximately \$1.2 million including Workforce Development, the Colorado Student Grant (CSG), and a Department of Local Affairs grant. Foundation grants at one college increased by \$325 thousand coupled with private or local grants totaling approximately \$1.1 million for Wired grant funding; a Shell Oil grant; and a grant for the Energy Production Industrial Construction (EPIC) program. In addition, the increase in enrollment resulted in increases across the board in state and federal student financial assistance.
- Auxiliary enterprises increased by \$3.9 million or 11.9%. In fiscal year 2008, approximately \$1.0 million of select agency accounts were determined by colleges to be properly reclassified as auxiliary accounts. There were increases in programs of approximately \$1.3 million for career and technical training and the high school diploma program, as well as an increase in bookstore sales of \$565 thousand.
- State capital contributions increased by \$4.0 million or 86.0% due to the spending of appropriations from the State's budget for capital appropriations.

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

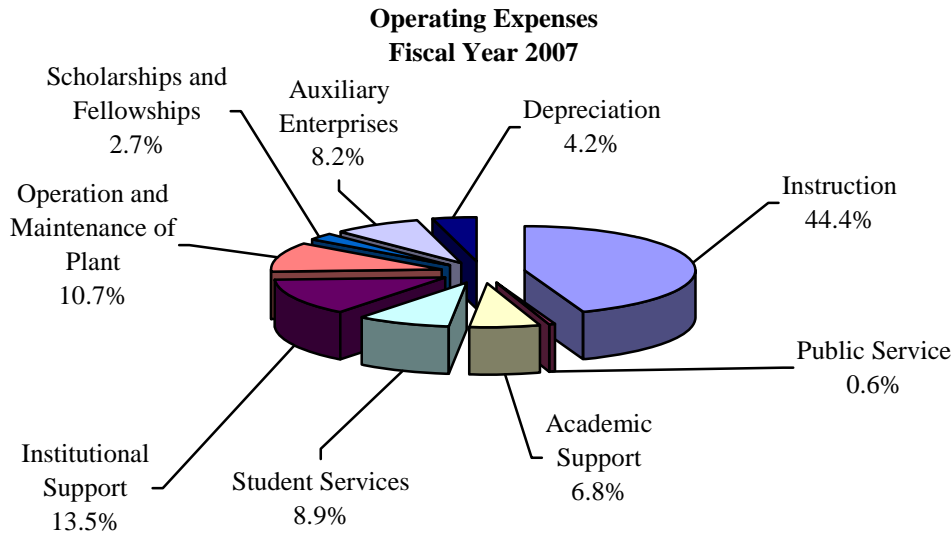
June 30, 2009 and 2008



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June 30, 2009 and 2008



Expense activity highlights for fiscal year 2009 include:

- Instruction expenses increased by \$8.4 million or 4.7%. Approximately \$5.5 million was the result of increases in instruction-related salary and benefits across the colleges due to increased enrollment. Also, \$1.0 million was due to reclassifications of expenses as the result of a reevaluation of programs within functional categories.
- Public service expenses increased by \$3.5 million or 209.1%. Approximately \$3.3 million was the result of new grant activity of federal pass-through dollars for a child care licensing fixed fee contract at one college, a coaching grant at another college, and a new Hispanic Servicing Institutions Education Grant at a rural college. Also, there was a \$0.3 million increase from reclassification entries between functional categories.
- Student services expenses increased by \$8.1 million or 22.4%. Approximately \$2.3 million was increased grant activity due to increased student enrollment and \$0.9 million in salary increases and the addition of new positions related to increased enrollment. Approximately \$3.8 million of programs were reclassified.
- Auxiliary enterprise expenses increased by \$3.1 million or 8.9%. This is primarily due to a \$1.3 million increase in inventory and costs of goods related to increases in student enrollment. Other increases in auxiliary activity include expenses of \$520 thousand on an event center and parking lot at a college, \$198 thousand on a child care center and coffee shop, \$495 thousand for a college center, Heating, Ventilation and Air Conditioning (HVAC) improvements, and preparation for catering services to be provided by a college. Approximately \$1.3 million of programs were reclassified.

Expense activity highlights for fiscal year 2008 include:

- Instruction expenses increased by \$12.7 million or 7.6%. Approximately \$7.7 million was the result of increases in instruction-related salary and benefits across the colleges. In addition, there were general instruction operating expenses increases of approximately \$1.6 million as a result of enrollment increases

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2009 and 2008

coupled with program increases totaling \$1.4 million. Approximately \$548 thousand in classroom wireless communications and other noncapital equipment purchases were made in fiscal year 2008. Increased insurance costs of \$225 thousand occurred along with a \$1.1 million increase for earlier payment of the Colorado Vocational Act disbursements.

- Academic support expenses increased by \$4.6 million or 18.0%. This was primarily due to a shift of CCCOnline noninstructional expenses of approximately \$2.7 million from auxiliary expenses in fiscal year 2007 to academic support expenses in fiscal year 2008. Also, colleges had an increase in salaries and benefits for new positions of approximately \$1.1 million.
- Institutional support expenses increased by \$10.7 million or 20.9%. Approximately \$3.0 million of the increase was due to an increase in annual Perkins expenses. In addition, during fiscal year 2008, there were increases of approximately \$1.2 million in salary and benefits and increases at the colleges with expense related to bad debt of approximately \$2.4 million. Marketing expenses at one college increased by \$142 thousand and noncapital equipment upgrades increased \$180 thousand. Finally, institutional charges previously passed on through indirect costs to auxiliary accounts totaling \$515 thousand did not occur in fiscal year 2008.
- Auxiliary enterprise expenses increased by \$4.0 million or 12.8%. This is primarily due to bookstore related charges, including inventory write-offs, inventory reductions, and costs of goods sold increased by approximately \$1.2 million. Program start-up costs for the Medication Accreditation Assessment Project coupled with increase salary and benefit expense for auxiliary funded employees were \$455 thousand and one college had a \$340 thousand increase in athletic program costs. Finally, approximately \$466 thousand in select agency accounts were determined by colleges to be properly reclassified as auxiliary activity.

Capital Asset and Debt Management

At June 30, 2009, CCCS had \$297,036,715 of capital assets, net of accumulated depreciation of \$228,574,326 and including current year depreciation of \$17,456,132. At June 30, 2008, CCCS had \$293,346,665 of capital assets, net of accumulated depreciation of \$213,135,388 and including current year depreciation of \$16,550,716. A breakdown of assets by category, net of accumulated depreciation is provided below:

	June 30		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Land	\$ 20,073,667	20,073,667	20,073,667
Land improvements	9,932,087	9,587,862	10,257,999
Buildings and improvements	208,819,299	215,809,453	223,088,891
Leasehold improvements	1,644,052	2,114,024	2,553,899
Construction in progress	15,959,594	28,051,998	20,518,489
Equipment	35,532,308	12,556,888	11,435,358
Library materials	4,454,882	4,531,947	4,632,065
Collections	620,826	620,826	620,826
Total capital assets	<u>\$ 297,036,715</u>	<u>293,346,665</u>	<u>293,181,194</u>

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2009 and 2008

Major capital additions completed during fiscal year 2009 are as follows:

<u>College</u>	<u>Project</u>	<u>Cost (in millions)</u>	<u>Source of funding</u>
Arapahoe Community College	Boiler Replacement	\$ 0.5	State Funded
	HVAC	0.4	State Funded
Community College System	HVAC Equipment & Updates	0.5	State Funded
Community College of Denver	Science Building Improvements	1.8	Internal Reserves
Colorado Northwestern Community College	Academic Building	0.6	State/Internal/Grant
	Energy Performance Contract	3.8	State/Internal/Grant
	Striegel Remodel	0.2	Foundation Funded
Front Range Community College	Internet Protocol Telephony	0.3	State/Internal Funded
	Brighton Site Construction	0.5	Internal Reserves
	Campus Center Renovation	0.2	Internal Reserves
	Bookstore Remodel	0.2	Internal Reserves
	CAM Security System	0.3	Internal Reserves
	Science Building	0.5	State Funded
Lamar Community College	Horse Training and Management (HTM) Facility	1.7	State Funded
Morgan Community College	Information Technology	1.0	State Funded
	Nursing, Health & Science Bldg	0.2	State Funded
Northeastern Junior College	Energy Performance Contract	0.5	Internal Reserves
Otero Junior College	Science Lab Remodel	0.1	Internal Reserves
	Dormitory	0.2	Internal Reserves
Pueblo Community College	Wireless Installation	0.2	Internal Reserves
Trinidad State Junior College	Davis Computer Room	0.1	Internal Reserves
	Energy Performance Contract	0.1	State Funded
	Roof Repair	0.3	State Funded

The System has \$32.7 million in commitments for various upcoming capital construction and controlled maintenance projects as of June 30, 2009.

CCCS had \$36,636,889 and \$30,405,986 in debt outstanding at June 30, 2009 and 2008, respectively.

In April 2009, Standard and Poor's affirmed the rating of A on the \$1.865 million of CCCS' Systemwide outstanding 1997 Revenue Bonds.

The breakdown of the debt follows:

	<u>June 30</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Auxiliary revenue bonds	\$ 15,121,278	16,249,621	17,342,965
Capital lease obligations	21,515,611	14,156,365	14,719,230
Total debt	\$ 36,636,889	30,405,986	32,062,195

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2009 and 2008

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 FFS contracts from CDHE for the provision of other educational services. For fiscal year 2010, CCCS is authorized to receive \$21.9 million in fee for service revenue and \$91.5 million in student stipends. This support totaling \$113.4 million of anticipated fiscal year 2010 FFS revenue and the student stipend represents a 20.3% decrease in state support from the \$142.3 million that was provided in 2009. In addition, CCCS anticipates receiving \$25.7 million of additional funding under the SFSF Program in fiscal year 2010.

In November of 2008, voters passed Amendment 50, which expanded limited stakes gaming in three Colorado mountain towns. Beginning in September 2010, CCCS will receive a share of the additional gaming tax proceeds generated from Amendment 50, per the implementation language contained in H.B. 09-1272. While this will generate additional revenue for CCCS, it is too early to project the amount of these gaming proceeds.

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

Enrollment: As the economy changes, enrollment in community colleges typically changes inversely. CCCS 2009 resident enrollment of 44,920 increased by 7.1% from fiscal year 2008 as the economy weakened. Increases in enrollment were considered in the fiscal year 2009 budget as the economy continued to continue to weaken, as was the fiscal 2010 budget. Nonresident enrollment of 3,084 increased over the same period by 8.5%, resulting in a total net enrollment increase of 7.2%.

Tuition Rates: In an effort to mitigate increased costs and decreased state support overall during the previous three years, the Board raised tuition by 9.0% in fiscal year 2010.

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activity

Statements of Net Assets

June 30, 2009 and 2008

Assets	2009	2008
Current assets:		
Cash and cash equivalents	\$ 187,835,181	170,942,899
Restricted cash and cash equivalents	4,858,345	4,394,651
Accounts receivable, net	55,842,485	46,460,631
Inventories	3,738,478	2,721,348
Prepaid expenses	685,679	1,046,815
Total current assets	<u>252,960,168</u>	<u>225,566,344</u>
Noncurrent assets:		
Restricted cash and cash equivalents	—	443,093
Restricted investments	7,596,626	1,880,114
Other assets	80,290	206,711
Capital assets, net	297,036,715	293,346,665
Total noncurrent assets	<u>304,713,631</u>	<u>295,876,583</u>
Total assets	<u>\$ 557,673,799</u>	<u>521,442,927</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 13,774,669	13,636,268
Accrued liabilities	31,035,767	28,642,751
Deferred revenue	20,895,631	18,421,896
Deposits held for others	11,814,173	12,552,138
Bonds payable, current portion	1,220,000	1,160,000
Capital leases payable, current portion	488,981	465,220
Other long-term liabilities, current portion	1,051,840	384,474
Compensated absences liability, current portion	1,171,146	1,647,176
Total current liabilities	<u>81,452,207</u>	<u>76,909,923</u>
Noncurrent liabilities:		
Bonds payable	13,901,278	15,089,621
Capital leases payable	21,026,630	13,691,145
Other long-term liabilities	398,385	402,378
Compensated absences liability	12,384,367	9,675,292
Total noncurrent liabilities	<u>47,710,660</u>	<u>38,858,436</u>
Total liabilities	<u>129,162,867</u>	<u>115,768,359</u>
Net assets:		
Invested in capital assets, net of related debt	268,076,704	263,147,395
Restricted for expendable purposes:		
Auxiliary pledged revenue	16,624,969	16,136,569
Scholarships/fellowships	419,944	420,326
Loans	1,370,403	1,329,167
Capital projects	—	201,058
Training programs	1,626,647	1,287,341
Other	4,808,477	1,946,823
Total restricted for expendable purposes	<u>24,850,440</u>	<u>21,321,284</u>
Unrestricted	135,583,788	121,205,889
Total net assets	<u>428,510,932</u>	<u>405,674,568</u>
Total liabilities and net assets	<u>\$ 557,673,799</u>	<u>521,442,927</u>

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Discretely Presented Component Units

Discretely Presented Component Units – Statements of Financial Position

June 30, 2009 and 2008

Assets	(Restated) 2009	(Restated) 2008
Cash and cash equivalents	\$ 7,299,404	6,212,078
Accounts and pledges receivable	953,420	548,855
Due from primary government	270,000	200,000
Investments	20,755,469	23,281,739
Investment in direct financing leases	12,685,000	12,892,188
Beneficial interest in charitable remainder trust	421,700	557,638
Other assets	177,748	417,591
Capital assets, net	<u>12,447,265</u>	<u>12,164,551</u>
Total assets	\$ <u><u>55,010,006</u></u>	<u><u>56,274,640</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 222,029	505,498
Due to primary government	602,549	522,894
Accrued liabilities	108,768	148,565
Deferred revenue	909,806	918,318
Bonds payable	6,764,833	7,514,686
Other liabilities	<u>13,301,167</u>	<u>13,486,110</u>
Total liabilities	<u>21,909,152</u>	<u>23,096,071</u>
Net assets:		
Unrestricted	9,405,740	9,733,739
Temporarily restricted	17,549,031	17,233,169
Permanently restricted	<u>6,146,083</u>	<u>6,211,661</u>
Total net assets	<u>33,100,854</u>	<u>33,178,569</u>
Total liabilities and net assets	\$ <u><u>55,010,006</u></u>	<u><u>56,274,640</u></u>

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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Student tuition and fees, net of scholarship allowances of \$74,004,363 in 2009 and \$62,834,002 in 2008; including revenues pledged for bonds of \$7,461,884 in 2009 and \$3,867,768 in 2008	\$ 190,996,712	199,247,972
Grants and contracts	135,263,343	126,031,904
Fee-for-service state contract	26,900,272	24,133,792
Sales and services of educational activities	980,693	1,445,714
Auxiliary enterprises, net of scholarship allowances of \$3,405,493 in 2009 and \$2,670,761 in 2008; including revenues pledged for bonds of \$31,233,304 in 2009 and \$32,303,941 in 2008	37,519,433	36,760,125
Other operating revenues and gifts, including revenues pledged for bonds of \$0 in 2009 and \$71,979 in 2008	8,916,865	7,894,633
Total operating revenues	<u>400,577,318</u>	<u>395,514,140</u>
Operating expenses:		
Instruction	189,159,746	180,732,657
Public service	5,195,931	1,680,750
Academic support	29,819,335	30,467,507
Student services	44,403,132	36,284,691
Institutional support	67,032,786	61,984,434
Operation and maintenance of plant	47,220,476	40,756,257
Scholarships and fellowships	9,420,041	9,912,459
Auxiliary enterprises	38,267,673	35,154,434
Depreciation	17,456,132	16,550,716
Total operating expenses	<u>447,975,252</u>	<u>413,523,905</u>
Operating loss	<u>(47,397,934)</u>	<u>(18,009,765)</u>
Nonoperating revenues (expenses):		
State appropriations	46,404,956	50,106,478
State Fiscal Stabilization Funding	25,300,005	—
Distributions to Local District College and Area Vocation Schools	(21,107,462)	(25,273,137)
Gifts	961,445	1,504,279
Investment income	7,496,900	9,038,845
Interest expense on capital debt	(1,336,927)	(1,481,155)
Other nonoperating revenues, including gain (loss) on disposal of assets	2,551,179	1,238,376
Net nonoperating revenues	<u>60,270,096</u>	<u>35,133,686</u>
Income before other revenues, expenses, gains, or losses	12,872,162	17,123,921
Other revenues, expenses, gains, or losses:		
State capital contributions	9,140,719	8,545,653
Capital grants	764,083	27,811
Capital gifts	59,400	114,877
Increase in net assets	<u>22,836,364</u>	<u>25,812,262</u>
Net assets, beginning of year	<u>405,674,568</u>	<u>379,862,306</u>
Net assets, end of year	<u>\$ 428,510,932</u>	<u>405,674,568</u>

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Discretely Presented Component Units

Discretely Presented Component Units – Statement of Activities

Year ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues:				
Contributions	\$ 1,258,822	7,295,600	129,509	8,683,931
Grants	—	339,653	—	339,653
Investment income (loss), net	(134,309)	(2,898,350)	(157,121)	(3,189,780)
Rental income	1,973,448	18,307	—	1,991,755
Special events	186,263	233,836	—	420,099
Net assets released from restrictions	4,357,491	(4,357,491)	—	—
Other income (loss)	196,319	102,012	(37,965)	260,366
	<u>7,838,034</u>	<u>733,567</u>	<u>(65,577)</u>	<u>8,506,024</u>
Expenses:				
Program services	6,981,551	—	—	6,981,551
Fund-raising services	662,369	—	—	662,369
Administrative services	939,819	—	—	939,819
	<u>8,583,739</u>	<u>—</u>	<u>—</u>	<u>8,583,739</u>
Change in net assets	(745,705)	733,567	(65,577)	(77,715)
Net assets, beginning of year as restated (note 22)	<u>10,151,445</u>	<u>16,815,464</u>	<u>6,211,660</u>	<u>33,178,569</u>
Net assets, end of year	\$ <u>9,405,740</u>	<u>17,549,031</u>	<u>6,146,083</u>	<u>33,100,854</u>

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Discretely Presented Component Units

Discretely Presented Component Units – Statement of Activities

Year ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues:				
Contributions	\$ 978,184	2,874,773	234,098	4,087,055
Grants	—	616,038	—	616,038
Investment income	971,003	161,946	68,826	1,201,775
Rental income	2,047,436	61,646	—	2,109,082
Special events	132,316	241,945	—	374,261
Net assets released from restrictions	4,496,169	(4,496,169)	—	—
Other income (loss)	198,273	(14,823)	54,199	237,649
	<u>8,823,381</u>	<u>(554,644)</u>	<u>357,123</u>	<u>8,625,860</u>
Total revenues				
Expenses:				
Program services	7,777,972	—	—	7,777,972
Fund-raising services	597,087	—	—	597,087
Administrative services	950,491	—	—	950,491
	<u>9,325,550</u>	<u>—</u>	<u>—</u>	<u>9,325,550</u>
Total expenses				
Change in net assets	(502,169)	(554,644)	357,123	(699,690)
Net assets, beginning of year as restated (note 22)	<u>10,235,908</u>	<u>17,787,813</u>	<u>5,854,538</u>	<u>33,878,259</u>
Net assets, end of year	\$ <u>9,733,739</u>	<u>17,233,169</u>	<u>6,211,661</u>	<u>33,178,569</u>

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activity

Statements of Cash Flows

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash received:		
Tuition and fees	\$ 191,176,616	200,774,527
Student loans collected	132,599	1,026,062
Sales of products and services	38,520,213	37,381,347
Grants, contracts, and gifts	160,623,656	149,551,925
Other operating receipts	11,750,580	7,992,030
Cash payments:		
Scholarships disbursed	(9,578,831)	(14,809,276)
Student loans disbursed	(188,766)	(1,042,347)
Payments for employees	(261,910,058)	(240,535,401)
Payments to suppliers	<u>(154,771,614)</u>	<u>(135,506,017)</u>
Net cash provided by (used in) operating activities	<u>(24,245,605)</u>	<u>4,832,850</u>
Cash flows from noncapital financing activities:		
State appropriations – noncapital	46,404,956	50,106,478
State Fiscal Stabilization Funding	25,300,005	—
Distributions to Local District Colleges and Area Vocation Schools	(21,107,462)	(25,273,137)
COF settlement	—	197,800
Gifts and grants for other than capital purposes	961,445	1,363,811
Agency (inflows)	134,759,910	75,110,347
Agency (outflows)	(140,692,600)	(72,715,450)
Other noncapital financing activities	<u>2,608,499</u>	<u>877,113</u>
Net cash provided by noncapital financing activities	<u>48,234,753</u>	<u>29,666,962</u>
Cash flows from capital and related financing activities:		
State appropriations – capital	—	4,857,498
Capital grants, contracts, and gifts	1,444,119	132,811
Proceeds from capital debt	7,849,414	—
Proceeds from sale of capital assets	—	116,516
Acquisition and construction of capital assets	(11,597,406)	(12,150,189)
State certificates of participation cash match	(2,901,049)	—
Principal paid on capital debt	(2,034,645)	(2,055,720)
Interest on capital debt	<u>(1,331,745)</u>	<u>(1,450,282)</u>
Net cash used in capital and related financing activities	<u>(8,571,312)</u>	<u>(10,549,366)</u>
Cash flows from investing activities:		
Investment earnings	7,496,900	9,041,645
Proceeds from sale of investments	6,408,739	1,581,873
Purchase of investments	<u>(12,410,592)</u>	<u>(631,556)</u>
Net cash provided by investing activities	<u>1,495,047</u>	<u>9,991,962</u>
Net increase in cash and cash equivalents	16,912,883	33,942,408
Cash and cash equivalents, beginning of the year	<u>175,780,643</u>	<u>141,838,235</u>
Cash and cash equivalents, end of the year	\$ <u><u>192,693,526</u></u>	\$ <u><u>175,780,643</u></u>

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activity

Statements of Cash Flows

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$ (47,397,934)	(18,009,765)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	17,491,767	16,550,716
Increase in other nonoperating assets	1,273,124	12,074
Decrease (increase) in assets:		
Receivables, net	(1,063,926)	1,978,430
Inventory and prepaids	(690,436)	8,142
Other assets	—	(72,823)
Increase (decrease) in liabilities:		
Accounts payable	(2,383,488)	(1,027,280)
Accrued liabilities	2,959,715	3,364,159
Deferred revenues	2,470,154	2,019,794
Deposits held for others	(166,226)	(271,788)
Compensated absences liability	2,233,045	281,191
Other liabilities	1,028,600	—
Net cash provided by (used in) operating activities	\$ <u>(24,245,605)</u>	<u>4,832,850</u>
Noncash investing, capital, and noncapital financing activities:		
State funding for acquisitions of capital assets	\$ 8,491,384	3,688,155
Federally funded acquisition of capital assets	—	—
Equipment donations and capital gifts	30,400	255,362
Gain (loss) on disposal of capital assets	(73,005)	64,158
Amortization of bond premium/discount, issuance costs, and gain or loss on refunding	(158,083)	(49,276)

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2009 and 2008

(1) Governance and Reporting Entity

The Colorado Community College System (CCCS or the System) 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 (LDCs), legislated Area Vocational Schools (AVSs), and school districts offering vocational programs.

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' operations and activities are funded primarily through tuition and fees, federal, state, and local grants, tuition revenue, the College Opportunity Fund (COF) stipends, a fee-for-service (FFS) contract, and Fiscal Stabilization Funding. 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 LDCs, AVSs, 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)

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2009 and 2008

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 material tax liability related to income generated from activities unrelated to CCCS' exempt purpose as of June 30, 2009 and 2008.

(a) *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.

(b) *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' 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.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2009 and 2008

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
Finance and Administration Department
9101 E. Lowry Blvd.
Denver, CO 80230

(c) Joint Venture

CCCS has an association with the following organization for which it neither is financially accountable nor has primary access to the resources. Accordingly, it has not been included in CCCS' 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 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 GASB 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' 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.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2009 and 2008

(a) Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, cash in checking accounts, demand deposits, certificates of deposit with original maturities of three months or less with financial institutions, pooled cash with the State Treasurer, and all highly liquid investments with an original maturity of three months or less. Earnings from pooled cash are distributed monthly based on average daily cash balances at each institution.

(b) Accounts Receivable

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

(c) Restricted Cash, Cash Equivalents, Investments, and Restricted Investments

Restricted cash and cash equivalents and restricted investments primarily represent moneys restricted for Benefit Trust benefits and investments held in escrow for capital leases related to energy performance contracts. Investments are reported at fair value, which is determined based on quoted market prices as of June 30, 2009 and 2008.

(d) Inventories

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

(e) 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 \$50,000 for buildings and improvements other than buildings, and \$5,000 for all other capital assets and estimated useful lives in accordance with the *State Fiscal Procedures Manual*. CCCS' 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 – 15 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, 2009, the construction-in-progress includes capital construction projects in process but not substantially complete. As of June 30, 2008, the balance also included software in development.

(f) Deposits Held for Others

Deposits held for others include balances representing the net assets owed to the individual or organization for which CCCS is acting as custodian.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2009 and 2008

(g) *Accrued Liabilities*

Accrued liabilities primarily represent accrued payroll, benefits payable, and other payroll-related liabilities at June 30, 2009 and 2008.

(h) *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 associated with the personnel systems at CCCS. Employees accrue and vest in vacation and sick leave earnings based on their hire 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. 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.

(i) *Deferred Revenue*

Deferred revenue consists of amounts received from the provision of educational goods and services that have not yet been earned. 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. To the extent revenues are earned after June 30, such amounts are recorded in deferred revenue.

(j) *Capital Leases*

Capital leases consist of various lease-purchase contracts, energy performance 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.

(k) *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

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2009 and 2008

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.

(l) *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 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 FFS contract from the State for delivery of educational services by CCCS that are not part of the COF stipend program. In fiscal years 2009 and 2008, FFS purchased credit hours included vestibule labs, reciprocal programs, educational services in rural areas, and career and technology, vocational, and other high cost, specialized instructional education services.
- Nonoperating revenues and expenses are those that do not meet the definition of operating revenues or capital revenues. In fiscal years 2009 and 2008, nonoperating revenues include Colorado Vocational Act state appropriations, state training program grants, occupational education funds, gifts, investment income, and insurance recoveries. In fiscal year 2009, it also includes Fiscal Stabilization Funding. Nonoperating expense includes interest expense and distributions to AVSs and LDCs.
- Other revenues, expenses, gains, and losses include state capital construction contributions and controlled maintenance appropriations, gifts, and grants restricted for capital purposes.

(m) *Application of Restricted and Unrestricted Resources*

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

(n) *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 allowance in the accompanying basic financial statements. Certain grants from external governmental and private programs are recorded as either operating or nonoperating revenues in the accompanying basic financial statements. To the extent that such grant revenues are used to satisfy tuition and fees and other student charges, CCCS records

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2009 and 2008

scholarship allowances. Any excess grant revenues are recorded as student aid operating expense. CCCS calculates scholarship allowances on a student-by-student basis.

(o) State Fiscal Stabilization Funding

On February 19, 2009, the American Recovery and Reinvestment Act (ARRA) of 2009 was signed into law. These federal funds were allocated to state governments via the State Fiscal Stabilization Fund (SFSF) Program. This education grant funding was used for activities allowable under the U.S. Department of Education's guidance. The Colorado Department of Higher Education is the fiscal agent under this award made from the Colorado Governor's Office to the institutions of higher education in the state. On June 30, 2009, the funds were distributed to CCCS as an offset to funding cuts in the COF in the form of reduced student stipends and reduced FFS contracts. In accepting these funds, certain stipulations were placed on the use of the funds, including steps to mitigate tuition and fee increases for in-state students. This funding is expected to continue until the first quarter of fiscal year 2011. SFSF funding is provided as pass-through funds through the State without the federal government or State directly receiving goods and services and is recorded as nonoperating revenue.

(p) Use of Estimates

The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles (GAAP) 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.

(q) 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 FFS 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, 2009 and 2008, appropriated expenditures were within the authorized spending authority. CCCS received a total general fund appropriation of \$46,404,956 and \$50,106,478, respectively, for 2009 and 2008. Included in the general fund appropriations for both 2009 and 2008 are \$21,107,462 and \$25,273,137, respectively, of State appropriations specified to be passed through to two LDCs and four AVSs: \$12,601,934 and \$14,823,001 for 2009 and 2008, respectively, for LDCs and \$8,505,528 and \$10,450,136 for 2009 and 2008, respectively, for AVSs. Also included in general fund appropriations were capital contributions of \$9,140,719 in 2009 and \$8,545,653 in 2008. During 2009, CCCS received FFS contract revenue in the amount of \$26,900,272 and COF stipends in the amount of

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2009 and 2008

\$90,120,506. During 2008, CCCS received FFS contract revenue in the amount of \$24,133,792 and COF stipends in the amount of \$108,195,901.

(5) Tuition, Fees, and Auxiliary Revenue

Tuition, fees, and auxiliary revenue and the related scholarship allowance for the year ended June 30, 2009 were as follows:

	<u>Tuition and fees</u>	<u>Auxiliary revenue</u>	<u>Total</u>
Gross revenue	\$ 265,001,075	40,924,926	305,926,001
Scholarship allowances:			
Federal	(49,782,505)	(2,200,602)	(51,983,107)
State	(16,778,291)	(733,249)	(17,511,540)
Private	(2,617,553)	(100,601)	(2,718,154)
Institutional	(4,826,014)	(371,041)	(5,197,055)
Total scholarship allowances	<u>(74,004,363)</u>	<u>(3,405,493)</u>	<u>(77,409,856)</u>
Net revenue	\$ <u>190,996,712</u>	<u>37,519,433</u>	<u>228,516,145</u>

Tuition, fees, and auxiliary revenue and the related scholarship allowance for the year ended June 30, 2008 were as follows:

	<u>Tuition and fees</u>	<u>Auxiliary revenue</u>	<u>Total</u>
Gross revenue	\$ 262,081,974	39,430,886	301,512,860
Scholarship allowances:			
Federal	(40,491,360)	(1,696,475)	(42,187,835)
State	(16,487,603)	(702,727)	(17,190,330)
Private	(2,071,973)	(109,148)	(2,181,121)
Institutional	(3,783,066)	(162,411)	(3,945,477)
Total scholarship allowances	<u>(62,834,002)</u>	<u>(2,670,761)</u>	<u>(65,504,763)</u>
Net revenue	\$ <u>199,247,972</u>	<u>36,760,125</u>	<u>236,008,097</u>

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2009 and 2008

(6) Cash and Cash Equivalents and Investments

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

	<u>2009</u>	<u>2008</u>
Cash on hand and change funds	\$ 1,611,598	115,702
Deposits with financial institutions	<u>6,814,614</u>	<u>6,214,841</u>
Total	<u>\$ 8,426,212</u>	<u>6,330,543</u>

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:

	<u>Carrying amount</u>	
	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Footnote amounts:		
Deposits	\$ 8,426,212	6,330,543
Deposits held with State Treasurer	184,267,314	169,450,100
Restricted investments	<u>7,596,626</u>	<u>1,880,114</u>
Total	<u>\$ 200,290,152</u>	<u>177,660,757</u>
Financial statement amounts:		
Net cash and cash equivalents	\$ 187,835,181	170,942,899
Current restricted cash and cash equivalents	4,858,345	4,394,651
Noncurrent restricted cash and cash equivalents	<u>—</u>	<u>443,093</u>
Subtotal cash and cash equivalents	192,693,526	175,780,643
Restricted investments	<u>7,596,626</u>	<u>1,880,114</u>
	<u>\$ 200,290,152</u>	<u>177,660,757</u>

CCCS deposits its cash with the Colorado State Treasurer (the 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, 2009 and 2008, CCCS had cash on deposit with the State Treasurer of \$184,267,314 and \$169,450,100, respectively, which represented approximately

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3.2% of the total of \$5,742.1 million and 2.7% of the total of \$6,304.1 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' 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' deposits with the State Treasury, the net unrealized gain for fiscal year 2009 was \$1,737,785 and the net unrealized gain for fiscal year 2008 was \$1,741,854. These unrealized gains and losses are included in cash and cash equivalents on the statements of net assets.

(a) 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. State securities must be held by the Treasurer or by a third-party custodian evidenced by a safekeeping receipt. As of June 30, 2009 and 2008, none of the investments in the Treasurer's Pool is subject to custodial credit risk. The Benefit trust does not have a documented risk policy for its investments for custodial credit risk.

(b) 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. The State requires two ratings with the rating level set by the investment portfolio and investment type. Based on these parameters, as of June 30, 2009 and 2008, approximately 92.6% and 91.5%, respectively, of investments in the Treasurer's Pool are subject to credit quality risk reporting. Except for \$46,976,250 and \$14,782,450 in 2009 and 2008, respectively, of corporate bonds rated lower-medium, and \$38,237,320 of corporate bonds rated as speculative, 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, 2009, there was \$98 thousand, or 6.6% 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 \$47.0 thousand, which was rated high default risk. As of June 30, 2008, there was \$246.0 thousand, or 13.1% 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 \$43.1 thousand, which was rated speculative. The Benefit Trust does not have a documented risk policy on its investments for credit quality risk.

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(c) 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 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, 2009, the WAM of investments in the Treasurer's Pool is 0.08 years for commercial paper (1.8% of the Pool), 0.01 years for money market funds (7.1% of the Pool), 1.14 years for U.S. government securities (67.2% of the Pool), 1.55 years for asset-backed securities (16.7% of the Pool), and 2.01 years for corporate bonds (7.2% of the Pool). As of June 30, 2008, the WAM of investments in the Treasurer's Pool is 0.10 years for commercial paper (16.6% of the Pool), 0.10 years for money market funds (6.2% of the Pool), 0.97 years for U.S. government securities (50.8% of the Pool), 1.90 years for asset-backed securities (18.6% of the Pool), and 2.10 years for corporate bonds (7.8% of the Pool).

As of June 30, 2009, the Benefit Trust had the following investments:

Type	Fair value	Weighted average maturity (years)
Corporate bonds	\$ 97,971	0.80
Mutual funds	36,237	
Common stock	1,351,721	
Total trust investments	\$ 1,485,929	

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As of June 30, 2008, the Benefit Trust had the following investments:

<u>Type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>
U.S. agency securities (TVA)	\$ 100,581	0.38
Corporate bonds	246,017	0.98
Mutual funds	38,258	
Common stock	1,495,258	
Total trust investments	<u>\$ 1,880,114</u>	

The Benefit Trust does not have a documented risk policy on its investments.

(d) 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, 2009, the fair value of Benefit Trust investments greater than 5% of total plan net assets is as follows:

<u>Issuer</u>	<u>Fair value</u>	<u>Percentage of total assets</u>
Celgene Corp	\$ 191,360	14.16%

As of June 30, 2008, the fair value of Benefit Trust investments greater than 5% of total plan net assets is as follows:

<u>Issuer</u>	<u>Fair value</u>	<u>Percentage of total assets</u>
Caterpillar, Inc.	\$ 169,786	11.35%
Celgene Corp	255,480	17.08

CCCS management does not believe that possible future losses resulting from this Benefit Trust investment would have a material adverse effect on CCCS' financial condition or operations. The Benefit Trust does not have a documented risk policy on its investments for concentration of credit risk.

The State has established maximum holding percentages for investments. The Treasurer's Pool was not subject to concentration of credit risk in fiscal year 2009 or 2008.

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(e) Foreign Currency Risk

The State does not allow foreign currency investments. The Benefit Trust does not have a documented risk policy on its investments relative to foreign currency risk. The Treasurer's Pool and the Benefit Trust were not subject to foreign currency risk in fiscal year 2009 or 2008.

Additional information on investments of the Treasurer's Pool may be obtained in the state's comprehensive annual financial report for the year ended June 30, 2009.

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

Accounts receivable at June 30, 2009 are as follows:

	Gross receivables	Allowance for uncollectible accounts	Net receivables
Student accounts receivable	\$ 32,371,156	(12,923,858)	19,447,298
Due from other governments	28,694,691	—	28,694,691
Other receivables	8,395,069	(694,573)	7,700,496
Total receivables	<u>\$ 69,460,916</u>	<u>(13,618,431)</u>	<u>55,842,485</u>

Accounts receivable at June 30, 2008 are as follows:

	Gross receivables	Allowance for uncollectible accounts	Net receivables
Student accounts receivable	\$ 33,536,146	(11,062,635)	22,473,511
Due from other governments	20,958,546	—	20,958,546
Other receivables	3,550,004	(521,430)	3,028,574
Total receivables	<u>\$ 58,044,696</u>	<u>(11,584,065)</u>	<u>46,460,631</u>

Accounts payable and accrued liabilities at June 30, 2009 and 2008 are as follows:

	2009	2008
Amounts owed to vendors	\$ 13,054,654	12,606,295
Salaries and benefits payable	31,035,767	28,515,941
Accrued interest payable	132,025	136,713
Other payables	587,990	1,020,070
Total accounts payable and accrued liabilities	<u>\$ 44,810,436</u>	<u>42,279,019</u>

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(8) Capital Assets

The following table presents changes in capital assets and accumulated depreciation for the year ended June 30, 2009:

	Balance June 30, 2008	Additions	Deletions	Transfers	Adjustments	Balance June 30, 2009
Nondepreciable capital assets:						
Land and land improvements \$	20,073,667	—	—	—	—	20,073,667
Construction in progress	28,051,998	15,086,822	(250,655)	(26,931,571)	3,000	15,959,594
Collections	620,826	—	—	—	—	620,826
Total nondepreciable capital assets	48,746,491	15,086,822	(250,655)	(26,931,571)	3,000	36,654,087
Depreciable capital assets:						
Land improvements	16,267,445	184,697	(22,296)	839,577	—	17,269,423
Buildings and improvements	387,754,380	1,340,214	—	3,597,635	(3,000)	392,689,229
Leasehold improvements	4,347,570	—	—	—	—	4,347,570
Equipment and software	36,789,306	4,227,299	(1,537,368)	22,494,359	—	61,973,596
Library materials	12,576,861	613,770	(513,495)	—	—	12,677,136
Total depreciable capital assets	457,735,562	6,365,980	(2,073,159)	26,931,571	(3,000)	488,956,954
Less accumulated depreciation:						
Land improvements	6,679,583	657,753	—	—	—	7,337,336
Buildings and improvements	171,944,927	11,971,818	(46,815)	—	—	183,869,930
Leasehold improvements	2,233,546	469,972	—	—	—	2,703,518
Equipment and software	24,232,418	3,692,870	(1,484,000)	—	—	26,441,288
Library materials	8,044,914	663,719	(486,379)	—	—	8,222,254
Total accumulated depreciation	213,135,388	17,456,132	(2,017,194)	—	—	228,574,326
Net depreciable capital assets	244,600,174	(11,090,152)	(55,965)	26,931,571	(3,000)	260,382,628
Total capital assets, net	\$ 293,346,665	3,996,670	(306,620)	—	—	297,036,715

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The following table presents changes in capital assets and accumulated depreciation for the year ended June 30, 2008:

	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2008</u>
Nondepreciable capital assets:					
Land and land improvements	\$ 20,073,667	—	—	—	20,073,667
Construction in progress	20,518,489	10,789,918	(81,429)	(3,174,980)	28,051,998
Collections	620,826	—	—	—	620,826
Total nondepreciable capital assets	<u>41,212,982</u>	<u>10,789,918</u>	<u>(81,429)</u>	<u>(3,174,980)</u>	<u>48,746,491</u>
Depreciable capital assets:					
Land improvements	16,267,445	—	—	—	16,267,445
Buildings and improvements	383,111,431	1,507,783	(39,814)	3,174,980	387,754,380
Leasehold improvements	4,347,570	—	—	—	4,347,570
Equipment	33,663,451	4,077,598	(951,743)	—	36,789,306
Library materials	13,069,495	552,652	(1,045,286)	—	12,576,861
Total depreciable capital assets	<u>450,459,392</u>	<u>6,138,033</u>	<u>(2,036,843)</u>	<u>3,174,980</u>	<u>457,735,562</u>
Less accumulated depreciation:					
Land improvements	6,009,446	670,137	—	—	6,679,583
Buildings and improvements	160,022,540	11,922,387	—	—	171,944,927
Leasehold improvements	1,793,671	439,875	—	—	2,233,546
Equipment	22,228,093	2,871,961	(867,636)	—	24,232,418
Library materials	8,437,430	646,356	(1,038,872)	—	8,044,914
Total accumulated depreciation	<u>198,491,180</u>	<u>16,550,716</u>	<u>(1,906,508)</u>	<u>—</u>	<u>213,135,388</u>
Net depreciable capital assets	<u>251,968,212</u>	<u>(10,412,683)</u>	<u>(130,335)</u>	<u>3,174,980</u>	<u>244,600,174</u>
Total capital assets, net	<u>\$ 293,181,194</u>	<u>377,235</u>	<u>(211,764)</u>	<u>—</u>	<u>293,346,665</u>

(9) Long-Term Liabilities

The following presents changes in long-term liabilities at June 30, 2009:

	<u>Balance, June 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2009</u>	<u>Current portion</u>
Bonds payable	\$ 16,249,621	—	(1,128,343)	15,121,278	1,220,000
Capital leases payable	14,156,365	7,824,466	(465,220)	21,515,611	488,981
Other long-term liabilities	786,852	1,028,327	(364,954)	1,450,225	1,051,840
Compensated absences liability	11,322,468	15,440,645	(13,207,600)	13,555,513	1,171,146

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The following presents changes in long-term liabilities at June 30, 2008:

	<u>Balance, June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2008</u>	<u>Current portion</u>
Bonds payable	\$ 17,342,965	—	(1,093,344)	16,249,621	1,160,000
Capital leases payable	14,719,230	—	(562,865)	14,156,365	465,220
Other long-term liabilities	1,159,419	—	(372,567)	786,852	384,474
Compensated absences liability	11,041,276	2,297,456	(2,016,264)	11,322,468	1,647,176

(10) Bonds Payable

(a) Systemwide Revenue Bonds

The State's Department of Higher Education, through the SBCCOE, issued revenue bonds in 1996, 1997, 1998, 1999, 2003, and 2004 known as Systemwide Revenue Bonds. 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	<u>1,045,000</u>
	<u>\$ 2,880,000</u>

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	<u>1,050,000</u>
	<u>\$ 1,630,000</u>

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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		<u>3,260,000</u>
	\$	<u><u>6,750,000</u></u>

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 advance 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.

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. 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.

For both June 30, 2009 and 2008, \$11,025,000 outstanding is considered advance-refunded and not included in the accompanying basic financial statements.

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(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 moneys 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 the Board's discretion, any grants, appropriations, or other donations from the U.S. government 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; 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 \$38,695,188 and \$36,243,688 for fiscal year 2009 and 2008, respectively. These amounts consisted of \$7,461,884 and \$3,867,768 of student tuition and fees, \$31,233,304 and \$32,303,941 of auxiliary enterprise revenue, and \$0 and \$71,979 of other revenues for fiscal year 2009 and 2008, 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.

(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' 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.

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(h) Long-Term Bond Principal Maturities

Bond principal payments to be made during fiscal years through 2014 are enumerated in the following table:

Bond issue	Principal maturing in next five years by year				
	FY10	FY11	FY12	FY13	FY14
Series 1997:					
Community College of Aurora	\$ 55,000	60,000	60,000	65,000	70,000
Northeastern Junior College	110,000	115,000	120,000	130,000	135,000
Trinidad State Junior College	55,000	55,000	60,000	60,000	65,000
Series 1998:					
Morgan Community College	30,000	30,000	30,000	35,000	35,000
Northeastern Junior College	50,000	50,000	55,000	60,000	60,000
Series 1999:					
Pueblo Community College	200,000	210,000	215,000	225,000	235,000
Red Rocks Community College	150,000	155,000	165,000	170,000	175,000
Series 2003:					
Pikes Peak Community College	145,000	145,000	150,000	155,000	160,000
Series 2004:					
Front Range Community College	425,000	440,000	450,000	470,000	485,000
Total revenue bonds payable	1,220,000	1,260,000	1,305,000	1,370,000	1,420,000
Interest	621,072	573,820	522,719	468,292	410,386
Total annual debt service	\$ 1,841,072	1,833,820	1,827,719	1,838,292	1,830,386

Bond debt service payments from 2014 to maturity are:

	Principal	Interest	Total
2015 – 2019	\$ 5,730,000	1,192,763	6,922,763
2020 – 2024	1,580,000	420,032	2,000,032
2025 – 2029	1,305,000	169,647	1,474,647
2030 – 2031	150,000	6,188	156,188

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Remaining debt service by bond issuance is as follows:

	<u>Revenue bonds outstanding* June 30, 2009</u>	<u>Interest rate</u>	<u>Maximum annual principal</u>	<u>Callable</u>	<u>Call premium</u>	<u>Final payment</u>
State Board for Community Colleges and Occupational Education Systemwide Revenue Bonds:						
Series 1997:						
Northeastern Junior College	\$ 1,255,000	3.75% to 5.5%	150,000	Yes	None	11/1/2022
Community College of Aurora	805,000	4.6% to 5.125%	95,000	Yes	None	11/1/2019
Northeastern Junior College	340,000	3.85% to 5.125%	40,000	Yes	None	11/1/2019
Trinidad Junior College	590,000	3.85% to 5.125%	80,000	Yes	None	11/1/2019
Series 1998:						
Morgan Community College	360,000	3.9% to 5.0%	45,000	Yes	None	11/1/2018
Northeastern Junior College	625,000	3.9% to 5.0%	75,000	Yes	None	11/1/2018
Series 1999:						
Pueblo Community College	1,850,000	3.2% to 4.5%	265,000	Yes	None	11/1/2019
Red Rocks Community College	2,065,000	2.0% to 4.125%	235,000	Yes	None	11/1/2019
Series 2003:						
Pikes Peak Community College [‡]	4,045,377	2.08% to 4.125%	285,000	Yes	None	11/1/2031
Series 2004:						
Front Range Community College	<u>3,185,901</u>	3.08% to 3.65%	525,000	Yes	None	11/1/2016
	<u>\$ 15,121,278</u>					

* Includes deferred loss on refunding and unamortized bond premium and discount of \$(218,722).

(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, ACC has recorded capital leases with GE Capital Public Finance and JP Morgan, and PPCC has recorded a capital lease with the Colorado Educational and Cultural Facilities Authority. Stated and/or implicit interest rates on these leases range from 0% to 22.5% interest.

CNCC, NJC, TSJC, and CCCS have recorded capital leases in conjunction with building improvements and equipment related to energy performance contracts. 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 \$15,964,360 in 2009 and \$14,419,313 in 2008 with amortization expense of \$327,499 at June 30, 2009 and \$548,422 at June 30, 2008, respectively. The interest rate on the capital leases range from 4.75% to 5.4%.

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Notes to Basic Financial Statements

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 488,981	1,127,831	1,616,812
2011	783,690	1,047,727	1,831,417
2012	823,196	1,010,432	1,833,628
2013	870,326	969,717	1,840,043
2014	918,319	925,517	1,843,836
2015 – 2019	5,327,612	3,861,797	9,189,409
2020 – 2024	5,795,046	2,398,778	8,193,824
2025 – 2029	4,613,441	1,003,643	5,617,084
2030 – 2034	1,895,000	163,315	2,058,315
Total	\$ <u>21,515,611</u>	<u>12,508,757</u>	<u>34,024,368</u>

CCCS also has building and equipment operating leases. One of these leases is by and between CCA and a discretely presented component unit, CCA Foundation. Total rent expense for all operating leases for the years ended June 30, 2009 and 2008 was \$4,025,262 and \$4,348,859, respectively. Future minimum rental payments, exclusive of real estate taxes and other expenses, under operating leases are as follows:

Year ending June 30:	
2010	\$ 3,243,205
2011	1,932,893
2012	1,785,263
2013	1,559,192
2014	1,189,658
2015 – 2019	3,725,732

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.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2009 and 2008

(12) Other Long-Term Liabilities

Other long-term liabilities consist primarily of a note payable from the system office to Lowry Redevelopment Authority. The system office note payable was incurred related to infrastructure improvements to the roadways surrounding the Lowry property. The remaining portion is related to expired warrants that are unclaimed at year-end. The combined payment schedule is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 1,051,840	18,155	1,069,995
2011	—	—	—
2012	—	—	—
2013	—	—	—
2014	398,385	—	398,385
Total	\$ <u>1,450,225</u>	<u>18,155</u>	<u>1,468,380</u>

(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, 2009 and 2008 is \$13,555,513 and \$11,322,468, 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, 2009 and 2008, the Public Employees' Retirement Association of Colorado (PERA) estimated that 56% and 56.1%, 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' 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. 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, CO 80217, or by calling PERA at 1-800-759-PERA (7372), or by visiting <http://www.copera.org>.

Beginning on July 1, 2009, the administration of the State's defined contribution retirement plan will be transferred to PERA. Existing plan members will become participants in the PERA defined contribution plan and retain their current vesting schedule on employer contributions.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2009 and 2008

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. Currently, higher education employees, except for the community college employees, are required to participate in their institution's optional plan, if available, unless they are active or inactive members of PERA with at least one year of service credit. In that case they may elect either PERA or their institution's optional plan. Community college employees hired after January 1, 2008 are required to become members of PERA and must elect either PERA's defined benefit or defined contribution plan within 60 days, unless they had been a PERA member within the prior 12 months. In that case they are required to remain in the PERA plan in which they participated previously.

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.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2009 and 2008

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 salaries contributed by employers for employees hired on or after January 1, 2007.)

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, 2008 through December 31, 2008, CCCS contributed 12.05%. From January 1, 2009 through June 30, 2009, CCCS contributed 12.95% of the employee's salary. During all of fiscal year 2008 – 2009, 1.02% of the employees' total salary was allocated to the Health Care Trust Fund.

Per CRS, an amortization period of 30 years is deemed actuarially sound. At December 31, 2008, 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 0.5% of salary beginning January 1, 2006, another 0.5% of salary in 2007, and subsequent year increases of 0.4% 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

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2009 and 2008

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' contributions to PERA and/or the Defined Benefit Plan and Health Care Trust Fund for the fiscal years ended June 30, 2009, 2008, and 2007 were \$25,574,877, \$22,423,299, and \$18,922,712, 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 and beginning July 1, 2009, will administer the 457 deferred compensation plan previously administered by the State.

(16) Postretirement Healthcare and Life Insurance Benefits

(a) Healthcare Program

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the program was converted to a trust fund in 1999. The plan is a cost-sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for healthcare coverage. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its Comprehensive Annual Financial Report, which may be obtained by writing PERA at PO Box 5800, Denver, CO 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting <http://www.copera.org>.

After the PERA subsidy, the benefit recipient pays the balance of the premium through an automatic deduction from the monthly retirement benefit. Monthly premium costs for participants depend on the healthcare plan selected, the PERA subsidy amount, Medicare eligibility, and the number of persons covered. 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.

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed above in note 14. Beginning July 1, 2004, state agencies/institutions are required to contribute 1.02% of gross covered of gross wages to the Health Care Trust Fund. CCCS' contribution is disclosed above in conjunction with contributions for the State defined contribution plan. In each year, the amount contributed was 100% of the required contribution.

COLORADO COMMUNITY COLLEGE SYSTEM

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The Health Care Trust Fund offers two general types of plans: fully insured plans offered through healthcare organizations and self-insured plans administered for PERA by third-party vendors. As of December 31, 2008, there were 45,888 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2008, the Health Care Trust Fund has an unfunded actuarial accrued liability of \$1.11 billion, a funded ratio of 18.7%, and a 39-year amortization period.

(b) 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.

CCCS' principal employee pension plan is PERA (note 14). Pursuant to SBCCOE Board Policy BP3-60 (Retirement), employees hired prior to 1989 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. This actuarially determined liability related to this plan is considered immaterial to CCCS' financial statements. Consequently, no provision has been made in the accompanying basic financial statements for this liability.

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

(17) Employee Benefit Trust Fund

The Benefit Trust provides long-term disability benefits to all employees participating in the Employee Choice Flexible Benefit Plan sponsored by the SBCCOE. For fiscal years 2009 and 2008, CCCS made contributions to the Benefit Trust of approximately \$259,315 and \$241,217, 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, neither did reduction occur 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 \$32.7 million in commitments for various capital construction and controlled maintenance projects as of June 30, 2009.

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

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

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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.

(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 CCCS in its annual Appropriations Long Bill. Beginning 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 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 2009 and 2008, the System received 2.8% and 2.6%, respectively, in State support. Effective in fiscal year 2008, House Bill 08-1079 specifically excluded moneys transferred from the state Department of Education for career and technical education as state grants for the purpose of this calculation, including funding under the CVA.

(21) State of Colorado Certificates of Participation

On October 23, 2008, the State issued State of Colorado Higher Education Capital Construction Lease Purchase Financing Program Certificates of Participation, Series 2008 with an approximate par value of \$230,845,000 and a premium of \$1,883,800 and a discount of \$1,702,900. The certificates have interest rates ranging from 3.00% to 5.50% and mature in November 2019. Annual lease payments are made by the State and are subject to annual appropriations by the Legislature. As a result, this liability is recognized by the State and not included in CCCS' financial statements.

The certificates are secured by the buildings or equipment acquired with the lease proceeds and any unexpended lease proceeds. The proceeds are being used to finance various capital projects for the benefit of certain State-supported institutions of higher education in Colorado including CNCC, FRCC, and MCC. The projects include CNCC's construction of a new 53,000 academic building that will house classrooms, laboratories, offices, a learning resource center, and academic support functions, as well as expanded

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

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surface parking on the new site; FRCC's construction of a new laboratory wing and renovate existing space in the primary science building on the Larimer campus; and MCC's construction will provide additional space and building improvements for the college's nursing, health technology, and science programs, as well as additional parking and reconfiguration of the main entrance loop. The underlying capitalized assets are contributed to CCCS from the State. As of June 30, 2009, CCCS has recognized capital contributions from the State and related capital assets of approximately \$1,053,021.

(22) Restatement

As of July 1, 2009, FRCC Foundations' and PCC Foundations' net assets were restated to correct errors and the presentation of 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	\$ 9,733,739	17,233,169	6,211,661	33,178,569
Restatement	417,706	(417,705)	(1)	—
Net assets, beginning of year, as restated	\$ 10,151,445	16,815,464	6,211,660	33,178,569

As of July 1, 2008, 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	\$ 10,235,908	17,309,109	6,333,242	33,878,259
Restatement	—	478,704	(478,704)	—
Net assets, beginning of year, as restated	\$ 10,235,908	17,787,813	5,854,538	33,878,259

(23) Related-Party Transactions

Approximately \$3,827,000 and \$4,419,000 was transferred to the colleges from the foundations for the years ended June 30, 2009 and 2008, respectively, in pursuit of providing financial support for instructional programs, facilities, equipment, student scholarship programs, and cultural activities.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2009 and 2008

(24) Subsequent Event

Effective July 1, 2009, the State statutorily merged the San Juan Basin Area Vocation Schools with PCC to form the Southwest Colorado Community College, a division of PCC. The merger plan was supported by the SBCCOE and the school districts of Cortez, Dolores, and Mancos. Appropriations to the Department of Higher Education made in the annual general appropriation act for fiscal year 2010 will be adjusted accordingly for COF and FFS and federal funds anticipated to be received from the SFSF will also be redirected to PCC. Audited financial statements for the San Juan Basin Area Vocational School for fiscal year 2009 are available by writing to:

Pueblo Community College
Vice President of Administration and Finance
900 W. Orman
Pueblo, CO 81004



KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' 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 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, 2009 and 2008, and have issued our report thereon dated December 17, 2009. Our report was modified to include a reference to other auditors and included an explanatory paragraph addressing CCCS' restatement of the 2009 and 2008 financial statements of its aggregate discretely presented component units.

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. The financial statements of the discretely presented component units were audited by other auditors and not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered CCCS' 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' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CCCS' internal control over financial reporting.

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, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider 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 Recommendations No. 1 and 2 described in the Findings and Recommendations section of this report 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 the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CCCS' 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

CCCS' responses to the findings identified are described in the Findings and Recommendations section of this report. We did not audit CCCS' 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' management, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 17, 2009



KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

December 17, 2009

Members of the Legislative Audit Committee:

We have audited the 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 years ended June 30, 2009 and 2008, and have issued our report thereon, dated December 17, 2009, which included a reference to the reports of other auditors. Under our professional standards, we are providing you with the following information related to the conduct of our audits.

Our Responsibility under Professional Standards

We are responsible for forming and expressing an opinion about whether the basic financial statements, which have been prepared by management with the oversight of the State Board for Community Colleges and Occupational Education (SBCCOE), are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. 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. Our audit does not relieve management and the SBCCOE of their responsibilities.

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' internal control. Accordingly, we do not express an opinion on the effectiveness of CCCS' internal control. Our required communications to you in writing, under professional standards, of all deficiencies in internal control identified during our audit are included in the Findings and Recommendations section of this report.

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of the SBCCOE in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing CCCS' 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. We have, however, read the other information included in CCCS' 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.

Accounting Policies and Alternative Treatments

Significant Accounting Policies

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

The Governmental Accounting Standards Board's (GASB) *Implementation Guide* issued in 2008 clarified that Pell grants should be recorded as nonoperating revenues since they are nonexchange revenues and entities generally have only administrative requirements for these funds. Historically, CCCS has recorded Pell grant activity as operating revenue as have many similar institutions across the country. The Colorado State Controller's Office also recommended that public institutions in the state continue to reflect Pell grant activity as operating revenue. Since the *Implementation Guide* and industry practice are both level D in the U.S. generally accepted accounting principles (GAAP) hierarchy, CCCS has decided to continue reporting Pell grant activity as operating revenue in its basic financial statements.

Unusual Transactions

We noted no unusual transactions entered into by CCCS, which were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance.

Qualitative Aspects of Accounting Practices

We have discussed with the SBCCOE and management our judgments about the quality, not just the acceptability, of CCCS' accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of CCCS' accounting policies and their application, and the understandability and completeness of CCCS' basic financial statements, which include related disclosures.

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 reporting period. Accounting estimates are an integral part of the basic financial statements prepared by management and are based upon management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The significant accounting estimates included in CCCS' basic financial statements are the allowance for uncollectible receivables, the period to depreciate capital assets owned by CCCS, grant-accrued expenses, scholarship allowances, 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.

Uncorrected and Corrected Misstatements

In connection with our audit of CCCS' basic financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in CCCS' books and records as of and for the year ended June 30, 2009. We have reported such misstatements to management on a Summary of Audit Differences and have received written representations from management that management believes that the effects of the uncorrected financial statement misstatements are immaterial, both

individually and in the aggregate, to the basic financial statements taken as a whole. Page 82 includes a copy of the summary that has been provided to, and discussed with, management.

There were two financial statement misstatements identified by us that were discussed with and corrected by CCCS. Page 83 includes a summary of those entries.

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' basic financial statements.

Management's 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 year ended June 30, 2009.

Significant Issues Discussed, or Subject to Correspondence, with Management

Major Issues Discussed with the SBCCOE and Management prior to Retention

We generally discuss a variety of matters with the SBCCOE and management each year prior to our retention as CCCS' auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

Material Written Communications

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

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

Significant Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit except for the delays in receipt of information from several colleges. During our audit, CCA, CCD, CNCC, FRCC, RRCC, and TSJC were unable to provide requested information for both the financial and compliance audit in a timely manner.

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 17, 2009, 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' 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 Audit Differences

Year ended June 30, 2009

Adj No.	Description	Adjustments on financial statement captions			Statement of net assets		
		Change in net assets			Net assets	Assets	Liabilities
		Unadjusted audit differences arising in					
		Current period	Prior period	Total			
1	Allowance for doubtful accounts	\$ —	—	—	—	648,070	—
	Bad debt expense	(648,070)	—	(648,070)	(648,070)	—	—
	<i>To adjust the allowance based on the prescribed methodology at CCA, FRCC, NJC, and RRCC.</i>						
2	Tuition and auxiliary revenue	4,731,376	—	4,731,376	4,731,376	—	—
	Bad debt expense	(4,731,376)	—	(4,731,376)	(4,731,376)	—	—
	<i>To report revenues net of bad debt expense.</i>						
3	Tuition and fees scholarship allowance	293,169	—	293,169	293,169	—	—
	Tuition and fees scholarship allowance offset	(293,169)	—	(293,169)	(293,169)	—	—
	<i>To adjust the scholarship allowance based on the prescribed methodology at LCC, OJC, PCC, and TSJC.</i>						
4	Auxiliary revenue scholarship allowance offset	355,698	—	355,698	355,698	—	—
	Auxiliary revenue scholarship allowance	(355,698)	—	(355,698)	(355,698)	—	—
	<i>To adjust the allowance based on the prescribed methodology at LCC, OJC, PCC, and TSJC.</i>						
5	Deferred revenue	—	—	—	—	—	392,226
	Beginning net assets	—	392,226	392,226	392,226	—	—
	<i>To adjust for the balance in deferred revenues that related to the prior fiscal year at CCD.</i>						
6	Student tuition revenue	158,257	—	158,257	158,257	—	—
	Accounts receivable	—	—	—	—	(158,257)	—
	<i>To adjust accounts receivable to agree to the aging report at CCD.</i>						
7	Accounts receivable	—	—	—	—	329,311	—
	Student tuition revenue	(329,311)	—	(329,311)	(329,311)	—	—
	<i>To correct accounts receivable for adjustments made after reconciliation of the account at FRCC.</i>						
8	Grant revenue	636,892	—	636,892	636,892	—	—
	Accounts payable	—	—	—	—	—	(636,892)
	<i>To correct grant funds advanced that were not earned during the grant term at CCD.</i>						
9	Institutional support expense	434,585	—	434,585	434,585	—	—
	Auxiliary expense	(434,585)	—	(434,585)	(434,585)	—	—
	<i>To reclassify institutional expense at OJC.</i>						
10	Net assets	725,093	—	725,093	725,093	—	—
	Revenue	—	—	—	—	(725,093)	—
	<i>To reduce state capital contribution revenue at FRCC for an asset not received until fiscal year 2009.</i>						
11	Auxiliary revenue	300,000	—	300,000	300,000	—	—
	Beginning net assets	(300,000)	—	(300,000)	(300,000)	—	—
	<i>To property reclassify current year revenue</i>						
	Total	\$ 542,861	392,226	935,087	935,087	94,031	(244,666)

COLORADO COMMUNITY COLLEGE SYSTEM

Summary of Adjusted Audit Differences

Year ended June 30, 2009

Adj No.	Description	Adjustments on financial statement captions			Statement of net assets		
		Change in net assets			Net assets	Assets	Liabilities
		Unadjusted audit differences arising in					
Current period	Prior period	Total					
1	Bad debt expense	\$ 574,917	—	574,917	574,917	—	—
	Allowance for doubtful accounts	—	—	—	—	(574,917)	—
	<i>To adjust the allowance based on prescribed methodology at ACC.</i>						
2	State grants revenue	2,172,271	—	2,172,271	2,172,271	—	—
	Private grants and contracts revenue	77,942	—	77,942	77,942	—	—
	Other accounts receivable	—	—	—	—	(2,250,213)	—
	<i>To reverse the third quarter accrual at CNCC.</i>						
	Total	\$ 2,825,130	—	2,825,130	2,825,130	(2,825,130)	—

COLORADO COMMUNITY COLLEGE SYSTEM

State-Funded Student Financial Assistance Programs

Introduction

Year ended June 30, 2009

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 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, 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, 2009 was directed toward the objectives and criteria set forth in the Colorado Commission on Higher Education's (CCHE) Financial Aid Policy. The state-funded student financial assistance programs were examined simultaneously with the federal financial aid programs for the year ended June 30, 2009.

CCCS' 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)
- Academic Competitiveness Grant
- Colorado Merit Scholarships (or merit-based awards) – Colorado Undergraduate Merit Award Program
- Colorado Work-Study Program
- Governor's Opportunity Scholarships

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-funded 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.

The total state-funded student financial assistance expenditures made by CCCS were approximately \$24.0 million during the year ended June 30, 2009.

Authorizations and expenditures for state-funded student financial assistance programs are detailed by program in the accompanying statement of appropriations, expenditures, transfers, and reversions for the year ended June 30, 2009. CCCS also obtained authorizations for federal student financial aid funds as follows:

- Supplemental Educational Opportunity Grant of approximately \$1.2 million
- College Work Study of approximately \$1.5 million

COLORADO COMMUNITY COLLEGE SYSTEM

State-Funded Student Financial Assistance Programs

Introduction

Year ended June 30, 2009

In addition to these programs, CCCS also received funding through the Pell Grant Program in the amount of approximately \$57.1 million. Authorizations were not applicable for these programs given the Pell Grant and Direct Loans are available to any eligible student.



KPMG LLP
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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, 2009. The statement is the responsibility of CCCS' 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' 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 Statement was prepared in the format set forth in the Colorado Department of Higher Education (CDHE) *Audit Guide*, and in conformity with the provisions of the Colorado Commission on Higher Education (CCHE) *Financial Aid Policy*. The Statement is a summary of cash activity of the SFSFA programs, with the exception of the College Work-Study Program, and does not present certain transactions that would be included in the Statement if it was presented on the accrual basis of accounting, as prescribed by U.S. generally accepted accounting principles. Accordingly, the 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. As 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, or cash flows, of CCCS in conformity with U.S. generally accepted accounting principles.

In our opinion, the Statement referred to above presents fairly the appropriations, expenditures, transfers, and reversions of the SFSFA programs of CCCS for the year ended June 30, 2009, in accordance with the format set forth in the CDHE *Audit Guide*, and in conformity with the provisions of the CCHE *Financial Aid Policy*, as described in note 1 to the Statement.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2009 on our consideration of CCCS' 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 read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the Statement in accordance with the format set forth in the *CDHE Audit Guide*, and in conformity with the provisions of the *CCHE Financial Aid Policy*. 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' management, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 17, 2009

COLORADO COMMUNITY COLLEGE SYSTEM
 State-Funded Student Financial Assistance Programs
 Statement of Appropriations, Expenditures, Transfers, and Reversions
 Year ended June 30, 2009

	<u>Total Colorado Financial Aid</u>	<u>Colorado Student Grants</u>	<u>CLEAP</u>	<u>Academic Competitiveness Grant</u>	<u>Colorado Undergraduate Merit Scholarships</u>	<u>Colorado Work- Study</u>	<u>Governor's Opportunity Scholarship</u>
Appropriations:							
Original	\$ 24,206,219	18,172,094	336,462	77,229	337,207	4,549,293	733,934
Supplementals	(80,181)	205,000	347	—	—	26,002	(311,530)
Transfers	(20,365)	—	—	(1,181)	—	—	(19,184)
Total appropriations	<u>24,105,673</u>	<u>18,377,094</u>	<u>336,809</u>	<u>76,048</u>	<u>337,207</u>	<u>4,575,295</u>	<u>403,220</u>
Less expenditures	<u>23,953,696</u>	<u>18,377,094</u>	<u>336,809</u>	<u>63,640</u>	<u>337,207</u>	<u>4,546,323</u>	<u>292,623</u>
Reversions to state general fund	<u>\$ 151,977</u>	<u>—</u>	<u>—</u>	<u>12,408</u>	<u>—</u>	<u>28,972</u>	<u>110,597</u>

See accompanying independent auditors' report.

COLORADO COMMUNITY COLLEGE SYSTEM

State-Funded Student Financial Assistance Programs

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

Year ended June 30, 2009

(1) Basis of Presentation

The Colorado Community College System (CCCS) is governed by the State Board for Community College and Occupational Education. CCCS comprises 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 as prescribed by the Colorado Department of Higher Education (CDHE) *Audit Guide*, and in conformity with the provisions of the Colorado Commission on Higher Education (CCH) *Financial Aid Policy*. The purpose of the Statement is to present, in summary form, the state-funded student financial assistance (SFSFA) activities of CCCS' 13 campuses for the year ended June 30, 2009.

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 Colorado Work-Study Program. Colorado Work-Study wages are recorded on the accrual basis recognizing expenses when the services are performed.

COLORADO COMMUNITY COLLEGE SYSTEM

State-Funded Student Financial Assistance Programs

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

Year ended June 30, 2009

The Colorado Leveraging Educational Assistance Partnership (CLEAP) and Supplemental Leveraging Assistance Partnership (SLEAP) consist of state and federal funds. The amount shown in the Statement is the combined total.

ARAPAHOE COMMUNITY COLLEGE
 State-Funded Student Financial Assistance Programs
 Schedule of Appropriations, Expenditures, Transfers, and Reversions
 Year ended June 30, 2009

	<u>Total Colorado Financial Aid</u>	<u>Colorado Student Grants</u>	<u>CLEAP</u>	<u>Academic Competitiveness Grant</u>	<u>Colorado Undergraduate Merit Scholarships</u>	<u>Colorado Work- Study</u>	<u>Governor's Opportunity Scholarship</u>
Appropriations:							
Original	\$ 1,638,978	1,286,080	32,744	5,904	35,899	275,602	2,749
Supplementals	—	—	—	—	—	—	—
Transfers	—	—	—	—	—	—	—
Total appropriations	<u>1,638,978</u>	<u>1,286,080</u>	<u>32,744</u>	<u>5,904</u>	<u>35,899</u>	<u>275,602</u>	<u>2,749</u>
Less expenditures	<u>1,629,673</u>	<u>1,286,080</u>	<u>32,744</u>	<u>5,304</u>	<u>35,899</u>	<u>266,897</u>	<u>2,749</u>
Reversions to state general fund	<u>\$ 9,305</u>	<u>—</u>	<u>—</u>	<u>600</u>	<u>—</u>	<u>8,705</u>	<u>—</u>

See accompanying independent auditors' report.

COMMUNITY COLLEGE OF AURORA
 State-Funded Student Financial Assistance Programs
 Schedule of Appropriations, Expenditures, Transfers, and Reversions
 Year ended June 30, 2009

	<u>Total Colorado Financial Aid</u>	<u>Colorado Student Grants</u>	<u>CLEAP</u>	<u>Academic Competitiveness Grant</u>	<u>Colorado Undergraduate Merit Scholarships</u>	<u>Colorado Work- Study</u>	<u>Governor's Opportunity Scholarship</u>
Appropriations:							
Original	\$ 1,633,873	1,297,522	5,676	2,362	25,187	233,126	70,000
Supplementals	12,000	20,000	—	—	—	—	(8,000)
Transfers	—	—	—	—	—	—	—
Total appropriations	<u>1,645,873</u>	<u>1,317,522</u>	<u>5,676</u>	<u>2,362</u>	<u>25,187</u>	<u>233,126</u>	<u>62,000</u>
Less expenditures	<u>1,619,015</u>	<u>1,317,522</u>	<u>5,676</u>	<u>2,362</u>	<u>25,187</u>	<u>233,126</u>	<u>35,142</u>
Reversions to state general fund	<u>\$ 26,858</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>26,858</u>

See accompanying independent auditors' report.

COMMUNITY COLLEGE OF DENVER
 State-Funded Student Financial Assistance Programs
 Schedule of Appropriations, Expenditures, Transfers, and Reversions
 Year ended June 30, 2009

	<u>Total Colorado Financial Aid</u>	<u>Colorado Student Grants</u>	<u>CLEAP</u>	<u>Academic Competitiveness Grant</u>	<u>Colorado Undergraduate Merit Scholarships</u>	<u>Colorado Work- Study</u>	<u>Governor's Opportunity Scholarship</u>
Appropriations:							
Original	\$ 3,345,155	2,471,649	34,927	1,181	40,894	688,504	108,000
Supplementals	(39,399)	25,000	—	—	—	—	(64,399)
Transfers	—	—	—	—	—	—	—
Total appropriations	<u>3,305,756</u>	<u>2,496,649</u>	<u>34,927</u>	<u>1,181</u>	<u>40,894</u>	<u>688,504</u>	<u>43,601</u>
Less expenditures	<u>3,305,756</u>	<u>2,496,649</u>	<u>34,927</u>	<u>1,181</u>	<u>40,894</u>	<u>688,504</u>	<u>43,601</u>
Reversions to state general fund	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

COLORADO NORTHWESTERN COMMUNITY COLLEGE
 State-Funded Student Financial Assistance Programs
 Schedule of Appropriations, Expenditures, Transfers, and Reversions
 Year ended June 30, 2009

	<u>Total Colorado Financial Aid</u>	<u>Colorado Student Grants</u>	<u>CLEAP</u>	<u>Academic Competitiveness Grant</u>	<u>Colorado Undergraduate Merit Scholarships</u>	<u>Colorado Work- Study</u>	<u>Governor's Opportunity Scholarship</u>
Appropriations:							
Original	\$ 277,308	195,355	10,187	476	5,905	60,385	5,000
Supplementals	—	—	—	—	—	—	—
Transfers	—	—	—	—	—	—	—
Total appropriations	<u>277,308</u>	<u>195,355</u>	<u>10,187</u>	<u>476</u>	<u>5,905</u>	<u>60,385</u>	<u>5,000</u>
Less expenditures	<u>277,308</u>	<u>195,355</u>	<u>10,187</u>	<u>476</u>	<u>5,905</u>	<u>60,385</u>	<u>5,000</u>
Reversions to state general fund	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

FRONT RANGE COMMUNITY COLLEGE
 State-Funded Student Financial Assistance Programs
 Schedule of Appropriations, Expenditures, Transfers, and Reversions
 Year ended June 30, 2009

	<u>Total Colorado Financial Aid</u>	<u>Colorado Student Grants</u>	<u>CLEAP</u>	<u>Academic Competitiveness Grant</u>	<u>Colorado Undergraduate Merit Scholarships</u>	<u>Colorado Work- Study</u>	<u>Governor's Opportunity Scholarship</u>
Appropriations:							
Original	\$ 4,072,273	3,181,097	63,450	2,362	66,454	744,910	14,000
Supplementals	—	—	—	—	—	—	—
Transfers	—	—	—	—	—	—	—
Total appropriations	<u>4,072,273</u>	<u>3,181,097</u>	<u>63,450</u>	<u>2,362</u>	<u>66,454</u>	<u>744,910</u>	<u>14,000</u>
Less expenditures	<u>4,072,273</u>	<u>3,181,097</u>	<u>63,450</u>	<u>2,362</u>	<u>66,454</u>	<u>744,910</u>	<u>14,000</u>
Reversions to state general fund	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

LAMAR COMMUNITY COLLEGE
 State-Funded Student Financial Assistance Programs
 Schedule of Appropriations, Expenditures, Transfers, and Reversions
 Year ended June 30, 2009

	<u>Total Colorado Financial Aid</u>	<u>Colorado Student Grants</u>	<u>CLEAP</u>	<u>Academic Competitiveness Grant</u>	<u>Colorado Undergraduate Merit Scholarships</u>	<u>Colorado Work- Study</u>	<u>Governor's Opportunity Scholarship</u>
Appropriations:							
Original	\$ 525,703	346,501	6,840	9,446	5,767	109,149	48,000
Supplementals	—	—	—	—	—	—	—
Transfers	—	—	—	—	—	—	—
Total appropriations	<u>525,703</u>	<u>346,501</u>	<u>6,840</u>	<u>9,446</u>	<u>5,767</u>	<u>109,149</u>	<u>48,000</u>
Less expenditures	<u>475,491</u>	<u>346,501</u>	<u>6,840</u>	<u>9,446</u>	<u>5,767</u>	<u>93,869</u>	<u>13,068</u>
Reversions to state general fund	<u>\$ 50,212</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>15,280</u>	<u>34,932</u>

See accompanying independent auditors' report.

MORGAN COMMUNITY COLLEGE
 State-Funded Student Financial Assistance Programs
 Schedule of Appropriations, Expenditures, Transfers, and Reversions
 Year ended June 30, 2009

	<u>Total Colorado Financial Aid</u>	<u>Colorado Student Grants</u>	<u>CLEAP</u>	<u>Academic Competitiveness Grant</u>	<u>Colorado Undergraduate Merit Scholarships</u>	<u>Colorado Work- Study</u>	<u>Governor's Opportunity Scholarship</u>
Appropriations:							
Original	\$ 551,992	412,975	4,220	5,904	7,558	114,335	7,000
Supplementals	1,464	—	—	—	—	—	1,464
Transfers	—	—	—	—	—	—	—
Total appropriations	<u>553,456</u>	<u>412,975</u>	<u>4,220</u>	<u>5,904</u>	<u>7,558</u>	<u>114,335</u>	<u>8,464</u>
Less expenditures	<u>544,237</u>	<u>412,975</u>	<u>4,220</u>	<u>5,904</u>	<u>7,558</u>	<u>109,348</u>	<u>4,232</u>
Reversions to state general fund	<u>\$ 9,219</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,987</u>	<u>4,232</u>

See accompanying independent auditors' report.

COLORADO NORTHEASTERN JUNIOR COLLEGE
 State-Funded Student Financial Assistance Programs
 Schedule of Appropriations, Expenditures, Transfers, and Reversions
 Year ended June 30, 2009

	<u>Total Colorado Financial Aid</u>	<u>Colorado Student Grants</u>	<u>CLEAP</u>	<u>Academic Competitiveness Grant</u>	<u>Colorado Undergraduate Merit Scholarships</u>	<u>Colorado Work- Study</u>	<u>Governor's Opportunity Scholarship</u>
Appropriations:							
Original	\$ 683,531	473,999	8,441	12,989	14,681	153,421	20,000
Supplementals	55,000	30,000	—	—	—	25,000	—
Transfers	—	—	—	—	—	—	—
Total appropriations	<u>738,531</u>	<u>503,999</u>	<u>8,441</u>	<u>12,989</u>	<u>14,681</u>	<u>178,421</u>	<u>20,000</u>
Less expenditures	<u>722,557</u>	<u>503,999</u>	<u>8,441</u>	<u>12,989</u>	<u>14,681</u>	<u>178,421</u>	<u>4,026</u>
Reversions to state general fund	<u>\$ 15,974</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>15,974</u>

See accompanying independent auditors' report.

OTERO JUNIOR COLLEGE
 State-Funded Student Financial Assistance Programs
 Schedule of Appropriations, Expenditures, Transfers, and Reversions
 Year ended June 30, 2009

	<u>Total Colorado Financial Aid</u>	<u>Colorado Student Grants</u>	<u>CLEAP</u>	<u>Academic Competitiveness Grant</u>	<u>Colorado Undergraduate Merit Scholarships</u>	<u>Colorado Work- Study</u>	<u>Governor's Opportunity Scholarship</u>
Appropriations:							
Original	\$ 997,677	746,382	13,534	4,723	9,269	188,769	35,000
Supplementals	—	—	—	—	—	—	—
Transfers	—	—	—	—	—	—	—
Total appropriations	<u>997,677</u>	<u>746,382</u>	<u>13,534</u>	<u>4,723</u>	<u>9,269</u>	<u>188,769</u>	<u>35,000</u>
Less expenditures	<u>976,374</u>	<u>746,382</u>	<u>13,534</u>	<u>4,723</u>	<u>9,269</u>	<u>188,769</u>	<u>13,697</u>
Reversions to state general fund	<u>\$ 21,303</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>21,303</u>

See accompanying independent auditors' report.

PUEBLO COMMUNITY COLLEGE
 State-Funded Student Financial Assistance Programs
 Schedule of Appropriations, Expenditures, Transfers, and Reversions
 Year ended June 30, 2009

	<u>Total Colorado Financial Aid</u>	<u>Colorado Student Grants</u>	<u>CLEAP</u>	<u>Academic Competitiveness Grant</u>	<u>Colorado Undergraduate Merit Scholarships</u>	<u>Colorado Work- Study</u>	<u>Governor's Opportunity Scholarship</u>
Appropriations:							
Original	\$ 3,499,566	2,722,110	43,804	1,181	26,890	597,581	108,000
Supplementals	(17,965)	—	—	(1,181)	—	—	(16,784)
Transfers	—	—	—	—	—	—	—
Total appropriations	<u>3,481,601</u>	<u>2,722,110</u>	<u>43,804</u>	<u>—</u>	<u>26,890</u>	<u>597,581</u>	<u>91,216</u>
Less expenditures	<u>3,481,601</u>	<u>2,722,110</u>	<u>43,804</u>	<u>—</u>	<u>26,890</u>	<u>597,581</u>	<u>91,216</u>
Reversions to state general fund	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

PIKES PEAK COMMUNITY COLLEGE
 State-Funded Student Financial Assistance Programs
 Schedule of Appropriations, Expenditures, Transfers, and Reversions
 Year ended June 30, 2009

	<u>Total Colorado Financial Aid</u>	<u>Colorado Student Grants</u>	<u>CLEAP</u>	<u>Academic Competitiveness Grant</u>	<u>Colorado Undergraduate Merit Scholarships</u>	<u>Colorado Work- Study</u>	<u>Governor's Opportunity Scholarship</u>
Appropriations:							
Original	\$ 4,173,658	2,969,960	68,835	12,989	49,015	774,074	298,785
Supplementals	(125,595)	115,000	—	—	—	—	(240,595)
Transfers	—	—	—	—	—	—	—
Total appropriations	<u>4,048,063</u>	<u>3,084,960</u>	<u>68,835</u>	<u>12,989</u>	<u>49,015</u>	<u>774,074</u>	<u>58,190</u>
Less expenditures	<u>4,043,765</u>	<u>3,084,960</u>	<u>68,835</u>	<u>12,989</u>	<u>49,015</u>	<u>774,074</u>	<u>53,892</u>
Reversions to state general fund	<u>\$ 4,298</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,298</u>

See accompanying independent auditors' report.

RED ROCKS COMMUNITY COLLEGE
 State-Funded Student Financial Assistance Programs
 Schedule of Appropriations, Expenditures, Transfers, and Reversions
 Year ended June 30, 2009

	<u>Total Colorado Financial Aid</u>	<u>Colorado Student Grants</u>	<u>CLEAP</u>	<u>Academic Competitiveness Grant</u>	<u>Colorado Undergraduate Merit Scholarships</u>	<u>Colorado Work- Study</u>	<u>Governor's Opportunity Scholarship</u>
Appropriations:							
Original	\$ 1,546,218	1,192,422	21,247	5,904	38,041	286,204	2,400
Supplementals	15,000	15,000	—	—	—	—	—
Transfers	—	—	—	—	—	—	—
Total appropriations	<u>1,561,218</u>	<u>1,207,422</u>	<u>21,247</u>	<u>5,904</u>	<u>38,041</u>	<u>286,204</u>	<u>2,400</u>
Less expenditures	<u>1,558,818</u>	<u>1,207,422</u>	<u>21,247</u>	<u>5,904</u>	<u>38,041</u>	<u>286,204</u>	<u>—</u>
Reversions to state general fund	<u>\$ 2,400</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,400</u>

See accompanying independent auditors' report.

TRINIDAD STATE JUNIOR COLLEGE
 State-Funded Student Financial Assistance Programs
 Schedule of Appropriations, Expenditures, Transfers, and Reversions
 Year ended June 30, 2009

	<u>Total Colorado Financial Aid</u>	<u>Colorado Student Grants</u>	<u>CLEAP</u>	<u>Academic Competitiveness Grant</u>	<u>Colorado Undergraduate Merit Scholarships</u>	<u>Colorado Work- Study</u>	<u>Governor's Opportunity Scholarship</u>
Appropriations:							
Original	\$ 1,260,287	876,042	22,557	11,808	11,647	323,233	15,000
Supplementals	1,349	—	347	—	—	1,002	—
Transfers	—	—	—	—	—	—	—
Total appropriations	<u>1,261,636</u>	<u>876,042</u>	<u>22,904</u>	<u>11,808</u>	<u>11,647</u>	<u>324,235</u>	<u>15,000</u>
Less expenditures	<u>1,246,828</u>	<u>876,042</u>	<u>22,904</u>	<u>—</u>	<u>11,647</u>	<u>324,235</u>	<u>12,000</u>
Reversions to state general fund	<u>\$ 14,808</u>	<u>—</u>	<u>—</u>	<u>11,808</u>	<u>—</u>	<u>—</u>	<u>3,000</u>

See accompanying independent auditors' report.

COLORADO COMMUNITY COLLEGE SYSTEM

State-Funded Student Financial Assistance Programs

Audit Comments and Recommendations

Year ended June 30, 2009

There are no audit comments and recommendations related to the state-funded student financial assistance programs.

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